Close Brothers Group plc

Pillar 3 disclosures for the year ended 31 July 2022

Contents

1 Executive Summary

3 Annex I: Key metrics and overview of risk-weighted exposure amounts
- 3 UK OV1 – Overview of risk-weighted exposure amounts
- 3 UK KM1 – Key metrics
- 4 IFRS 9 / Article 468 – IFRS 9 transitional arrangements disclosure
- 4 UK KM2 – Key metrics – MREL
- 5 UK INS1 – Insurance participation
- 5 UK INS2 – Financial conglomerates information on own funds and capital adequacy ratio
- 5 UK OVC – ICAAP information

6 Annex III: Risk management policies and objectives
- 6 UK OVA – Risk management approach
- 11 UK OVB – Governance arrangements

13 Annex V: Scope of application
- 13 UK LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (2022)
- 14 UK LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements (2022)
- 14 UK LI3 – Outline of the differences in the scopes of consolidation – entity by entity (2022)
- 14 UK LIA – Explanations of differences between accounting and regulatory exposure amounts
- 15 UK LIB – Other qualitative information on the scope of application
- 15 UK PV1 – Prudent valuation adjustments (2022)

16 Annex VII: Own funds
- 16 UK CC1 – Composition of regulatory own funds (2022)
- 18 UK CC2 – Reconciliation of regulatory own funds to balance sheet in the audited financial statements (2022)
- 19 UK CCA – Main features of regulatory own funds instruments and eligible liabilities instruments (2022)
- 20 Regulatory Capital
- 21 Reconciliation between equity and CET1 capital
- 21 Movement in CET1 capital

22 Annex IX: Countercyclical capital buffers
- 22 UK CCyB1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer (2022)
- 22 UK CCyB2 – Amount of institution-specific countercyclical capital buffer (2022)

23 Annex XI: Leverage ratio
- 23 UK LR1 – LRSum: Summary reconciliation of accounting assets and leverage ratio exposures (2022)
- 23 UK LR2 – LRCom: Leverage ratio common disclosure (2022)
- 25 UK LR3 – LRSpl: Split-up of on balance sheet exposures (2022)
- 25 UK LRA – Disclosure of LR qualitative information

26 Annex XIII: Liquidity requirements
- 26 UK LIQA – Liquidity risk management
- 28 UK LIQ1 – Quantitative information of LCR
- 29 UK LIQB – Quantitative information on LCR, which compliments template UK LIQ1
- 29 UK LIQ2 – Net Stable Funding Ratio (NSFR)

30 Annex XV: Credit risk quality
- 30 UK CRA – General qualitative information about credit risk
- 31 UK CRB – Additional information related to the credit quality of assets
- 32 UK CR1 – Performing and non-performing exposures and related provisions (2022)
- 33 UK CR1-A – Maturity of exposures (2022)
- 33 UK CR2 – Changes in the stock of non-performing loans and advances (2022)
- 33 UK CR2-A – Changes in the stock of non-performing loans and advances and related net accumulated recoveries (2022)
- 33 UK CQ1 – Credit quality of forborne exposures (2022)

34 UK CQ2 – Quality of forbearance (2022)
34 UK CQ3 – Credit quality of performing and non-performing exposures by past due days (2022)
35 UK CQ4 – Quality of non-performing exposures by geography
35 UK CQ5 – Credit quality of loans and advances to non-financial corporations by industry (2022)
36 UK CQ6 – Collateral valuation - loans and advances
36 UK CQ7 – Collateral obtained by taking possession and execution processes
36 UK CQ8 – Collateral obtained by taking possession and execution processes – vintage breakdown
37 Annex XVII: Credit risk mitigation (CRM) techniques
37 UK CRC – Information related to CRM techniques
37 UK CR3 – CRM techniques overview: Use of credit risk mitigation techniques (2022)
38 Annex XIX: Standardised approach
38 UK CRD – Information related to standardised model
39 UK CR4 – standardised approach – Credit risk exposure and CRM effects (2022)
40 UK CR5 – standardised approach
41 Annex XXI: IRB approach to credit risk
41 Annex XXIII: Specialised lending
41 Annex XXV: Counterparty credit risk
41 UK CCRA – Information related to CCR
41 UK CCR1 – Analysis of CCR exposure by approach (2022)
42 UK CCR2 – Transactions subject to own funds requirements for CVA risk (2022)
42 UK CCR3 – Standardised approach – CCR exposures by regulatory exposure class and risk weights (2022)
42 UK CCR4 – IRB approach – CCR exposures by exposure class and PD scale (2022)
43 UK CCR5 – Composition of collateral for CCR exposures (2022)
43 UK CCR6 – Credit derivative exposures
43 UK CCR7 – RWEA flow statements of CCR exposures under the IMM
43 UK CCR7 – Exposures to CCPs
43 Annex XXVII: Securitisation positions
44 Annex XXIX: Standardised approach and internal model for market risk
44 UK MRA – Information related to market risk
46 UK MR1 – Market risk under the standardised approach (2022)
46 UK MRB – Information on the internal Market Risk Models
46 UK MR2-A – Market Risk under the Internal Model Approach (IMA)
46 UK MR2-B – RWA flow statements of market risk exposures under the IMA
46 UK MR3 – IMA values for trading portfolios
46 UK MR4 – Composition of VaR estimates with gains/losses
47 Annex XXXI: Operational risk
47 UK ORA – Information on operational risk
48 UK OR1 – Operational risk own funds requirements and risk-weighted exposure amounts (2022)
49 Annex XXXIII: Remuneration policy
49 UK REMA – Remuneration policy
54 UK REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (2022)
55 Annex XXXV: Encumbered and unencumbered assets
55 UK AE1 – Encumbered and unencumbered assets (2022)
56 UK AE2 – Collateral received and own debt securities issued (2022)
56 UK AE3 – Sources of encumbrance (2022)
56 UK AE4 – Accompanying narrative information
57 Annex XXXVII: Interest rate risk in the banking book (IRRBB)
57 UK IRRBBA – IRRBB risk management objectives and policies
60 UK IRRBB1 – Quantitative information on IRRBB (2022)

Should you have any queries please e-mail: pillar3@closebrothers.com

Executive Summary

Background

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. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess key pieces of information on that firm's capital, risk exposures and risk assessment process. The disclosures contained in this document cover the qualitative and quantitative disclosure requirements of Pillar 3, set out in the Capital Requirements Regulation as implemented in the PRA Rulebook CRR Instrument and the PRA Rulebook CRR Firms: Leverage Instrument (collectively known as "CRR"), and are based on data at 31 July 2022 with comparative figures for 31 July 2021 and 31 January 2022 where relevant. Within this document are references to the Close Brothers Group plc's Annual Report which can be found at:

www.closebrothers.com/investor-relations/investor-information/results-reports-and-presentations

Scope

The Prudential Regulation Authority ("PRA") supervises Close Brothers Group plc ("CBG" or "the group") on a consolidated basis and receives information on the capital adequacy of, and sets capital requirements for, the group as a whole. In addition, a number of subsidiaries are regulated for prudential purposes by either the PRA or the Financial Conduct Authority ("FCA"). Close Brothers Limited ("CBL") is regulated under CRR. Close Asset Management Limited and Winterflood Securities Limited are regulated under the Prudential sourcebook for Investment Firms (IFPRU). Details of the group's principal subsidiaries are included in note 30 of the group's Annual Report.

Summary of Key Metrics

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 group holds two classes of own funds, comprising common equity tier 1 ("CET1") and Tier 2 debt. The main features of these instruments are provided in template UK CCA. Composition of, and regulatory adjustments to, CET1 are provided in table CC1.

Over FY22, the CET1 capital ratio reduced from 15.8% to 14.6%, mainly driven by a change in the regulatory treatment of software assets (c.45bps), the impact of the transitional IFRS 9 add-back (c.30bps) and an increase in risk weighted assets ("RWAs") (c.80bps), partly offset by retained earnings (c.75bps). CET1 capital decreased 3% to £1,396.7 million (31 July 2021: £1,439.3 million), reflecting the regulatory change in the treatment of software assets, which increased the intangible assets deducted from CET1 capital by £50.2 million, a decrease in the transitional IFRS 9 add-back to capital of £34.8 million and the regulatory deduction of dividends paid and foreseen of £98.4 million. This was partially offset by the capital generation through profit of £165.2 million.

Total capital decreased 4% to £1,596.7 million (31 July 2021: £1,662.7 million), also reflecting the regulatory change in the treatment of software assets and a small repayment of subordinated debt.
RWAs increased 5% to £9.6 billion (31 July 2021: £9.1 billion), mainly driven by an increase in the loan book and RWAs related to derivatives held for hedging purposes, partly offset by the regulatory change in treatment of software assets.

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

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

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

The leverage ratio, which is a transparent measure of capital strength not affected by risk weightings, remains strong at 12.0% (31 July 2021: 11.8%). The ratio at 31 July 2022 reflects a change in calculation under the UK leverage framework to exclude central bank reserves.

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

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

CBL's capital position

At 31 July 2022, CBL's CET1 capital ratio was 13.5% (31 July 2021: 14.6%).

CET1 capital decreased to £1,194.4 million (31 July 2021: £1,224.9 million) reflecting the regulatory change in the treatment of software assets and a decrease in IFRS 9 transitional arrangements.

RWAs increased to £8,847.6 million (31 July 2021: £8,387.4 million) mainly driven by an increase in loan book and RWAs related to derivatives held for hedging purposes, partly offset by the regulatory change in treatment of software assets.

Regulatory Developments

On 1 January 2022, regulatory measures implementing the final elements of Basel 3 standards, not previously accelerated by the EU, came into effect in the UK as set out in CRR.

The key deviation of CRR from EU CRR II, and the main impact on CBG's capital ratios, was the reversal of the EU's regulatory treatment on software intangible assets,effective on 1 January 2022. This benefit was unwound from CBG's capital ratios as at 31 July 2022 with the benefit still existing as at 31 July 2021. The main impact of CRR on CBG's risk weighted assets ("RWA") was an increase from the revised counterparty credit risk and credit valuation rules. The remaining elements of CRR did not have a material impact on CBG's capital position.

The net stable funding ratio ("NSFR") became binding under CRR with a minimum requirement of 100%. The NSFR aims to ensure that long term assets are adequately met with a diverse set of funding instruments that are stable under both normal and stressed conditions and is expressed as a ratio of available stable funding against required stable funding over a one year horizon.

The Financial Planning Committee ("FPC") and the PRA published their final rules on the UK Leverage Ratio Framework which came into effect on 1 January 2022, implementing the rules via the aforementioned CRR Leverage Instrument. CBG remains out of scope of the framework, however, the PRA has indicated that firms outside the framework are still expected to maintain leverage ratios above the minimum set out in that framework.

The PRA announced in March 2022 they intend to publish a consultation on the remaining elements of the Basel standards (known as Basel 3.1) in Q4 2022 with proposed implementation of the final rules on 1 January 2025, aligning to the delayed implementation date in the EU. The Basel Committee published its final reforms to the Basel III framework in December 2017. The proposals include amendments to the standardised approaches to credit and operational risk, risk parameter floors under the IRB approach to credit risk and introduction of an RWA output floor. Basel 3.1 is not expected to have a material impact on CBG's capital position; however, that impact will be subject to the PRA's final rules and CBG's asset size and profile at the time of implementation.

In December 2021 the FPC had noted that vulnerabilities that can amplify economic shocks had returned to pre-pandemic levels and announced its intention to set the UK Countercyclical Buffer ("CCyB") rate to 2% in 2022 Q2. In the July 2022 Financial Stability Report, the FPC noted that, while the global and UK economic outlook had deteriorated significantly since December 2021, the domestic vulnerabilities that can amplify economic shocks had remained broadly at the same level. As such, the FPC confirmed that the UK CCyB will be set at 2% coming into effect from 5 July 2023. This follows on from the previously announced increase in CCyB to 1% coming into effect from 13 December 2022.

The Bank of England published a policy statement in December 2021 finalising its approach for MREL reform. The proposals set an in-scope threshold of total assets within a £15bn – £25bn range and provides for a two-step or three-step glide path to full implementation. CBG will continue to monitor forecasts for the in-scope threshold from which a three year notice period begins before a transitional implementation period of minimum six years. CBG currently has no additional MREL requirements.

Pillar 3 Policy and approval

These disclosures have been prepared, verified and approved under the group's Pillar 3 and regulatory reporting standards, which set out the internal processes and controls to verify that the disclosures are appropriate and in compliance with the requirements set out in CRR.

Full disclosures are issued as a minimum on an annual basis, with key metrics disclosed on a semi-annual basis, and are published on the group's website. These disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the group's Annual Report. The group's Pillar 3 disclosures have been subject to senior Line 1 and Line 2 review, prior to review and endorsement by the Capital Adequacy Committee ("CAC"), the Asset and Liability Management Committee ("ALCO") and the Remuneration Committee ("RemCo") as appropriate. Approval was given by the CBG board ("the board") on 26 September 2022.

"I attest that, to the best of my knowledge, these disclosures have been prepared in accordance with the group's formal policies and internal processes, systems and controls"

Mike Morgan, Group Finance Director

Annex I: Key metrics and overview of risk-weighted exposure amounts

UK OV1 – Overview of risk-weighted exposure amounts

		a	b	c
		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
£m		**31 Jul 2022**	31 Jul 2021	**31 Jul 2022**
1	Credit risk (excluding CCR)	**8,118.2**	7,886.6	**649.5**
2	Of which the standardised approach	**8,118.2**	7,886.6	**649.5**
3	Of which the foundation IRB (FIRB) approach	**—**	—	**—**
4	Of which slotting approach	**—**	—	**—**
UK 4a	Of which equities under the simple risk weighted approach	**—**	—	**—**
5	Of which the advanced IRB (AIRB) approach	**—**	—	**—**
6	Counterparty credit risk - CCR[1]	**259.1**	51.9	**20.7**
7	Of which the standardised approach	**—**	—	**—**
8	Of which internal model method (IMM)	**—**	—	**—**
UK 8a	Of which exposures to a CCP	**—**	—	**—**
UK 8b	Of which credit valuation adjustment - CVA	**135.8**	25.9	**10.9**
9	Of which other CCR	**123.3**	26.1	**9.9**
15	Settlement risk	**11.7**	7.2	**0.9**
16	Securitisation exposures in the non-trading book (after the cap)	**—**	—	**—**
17	Of which SEC-IRBA approach	**—**	—	**—**
18	Of which SEC-ERBA (including IAA)	**—**	—	**—**
19	Of which SEC-SA approach	**—**	—	**—**
UK 19a	Of which 1250%/ deduction	**—**	—	**—**
20	Position, foreign exchange and commodities risks (Market risk)	**116.5**	121.0	**9.3**
21	Of which the standardised approach	**116.5**	121.0	**9.3**
22	Of which IMA	**—**	—	**—**
UK 22a	Large exposures	**—**	—	**—**
23	Operational risk	**1,085.8**	1,038.5	**86.9**
UK 23a	Of which basic indicator approach	**—**	—	**—**
UK 23b	Of which standardised approach	**1,085.8**	1,038.5	**86.9**
UK 23c	Of which advanced measurement approach	**—**	—	**—**
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	**—**	—	**—**
29	**Total[2]**	**9,591.3**	**9,105.3**	**767.3**

1 As at 31 July 2021, Close Brothers calculated derivative exposure amounts under the mark-to-market ("MTM") method with a change of calculation to the original exposure method under CRR rules effective 1st January 2022.

2 For more information on movements in RWAs and the CET1 capital ratio, see template 'Regulatory capital' in Annex VII.

UK KM1 – Key metrics

		a[5]	c	e
£m		**31 Jul 2022**	31 Jan 2022	31 Jul 2021
	Available own funds (amounts)[1]			
1	Common equity tier 1 ("CET1") capital	**1,396.7**	1,405.7	1,439.3
2	Tier 1 capital	**1,396.7**	1,405.7	1,439.3
3	Total capital	**1,596.7**	1,605.7	1,662.7
	Risk-weighted exposure amounts[1]			
4	Total risk-weighted exposure amount	**9,591.3**	9,306.3	9,105.3
	Capital ratios (as a percentage of risk-weighted exposure amount)[1]			
5	Common equity tier 1 ratio (%)	**14.6**	15.1	15.8
6	Tier 1 ratio (%)	**14.6**	15.1	15.8
7	Total capital ratio (%)	**16.6**	17.3	18.3
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)			
UK 7a	Additional CET1 SREP requirements (%)	**0.6**	0.6	0.6
UK 7b	Additional AT1 SREP requirements (%)	**0.2**	0.2	0.2
UK 7c	Additional T2 SREP requirements (%)	**0.3**	0.3	0.3
UK 7d	Total SREP own funds requirements (%)	**9.0**	9.0	9.0

£m		a[5] 31 Jul 2022	c 31 Jan 2022	e 31 Jul 2021
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer (%)	**2.5**	2.5	2.5
9	Institution specific countercyclical capital buffer (%)	**0.0**	0.0	0.0
11	Combined buffer requirement (%)	**2.5**	2.5	2.5
UK 11a	Overall capital requirements (%)	**11.5**	11.5	11.5
12	CET1 available after meeting total SREP own funds requirements (%)	**7.8**	8.3	9.0
	Leverage ratio[2,6]			
13	Total exposure measure excluding claims on central banks	**11,626.6**	11,539.4	12,208.6
14	Leverage ratio excluding claims on central banks (%)	**12.0**	12.2	11.8
	Liquidity coverage ratio[3]			
15	Total high-quality liquid assets ("HQLA") (Weighted value - average)	**1,259.9**	1,425.9	1,614.2
UK 16a	Cash outflows - Total weighted value	**545.1**	604.6	643.8
UK 16b	Cash inflows - Total weighted value	**938.7**	903.7	957.1
16	Total net cash outflows (adjusted value)	**136.3**	151.1	161.0
17	Liquidity coverage ratio (%)	**924.5**	943.4	1,002.9
	Net stable funding ratio[4]			
18	Total available stable funding	**8,814.8**	8,913.2	
19	Total required stable funding	**7,462.6**	7,601.0	
20	Net stable funding ratio (%)	**118.1**	117.3	

1 For more information on the movements in CET1 capital, RWAs and capital ratios, see templates 'Regulatory capital' and 'Movements in CET1 capital' in Annex VII.
2 For more information on leverage and factors that had an impact on the ratio during the period, see Annex XI.
3 For more information on the LCR and the main driver and changes in the results over the period, see Annex XIII.
4 NSFR information disclosed for the first time in 31 January 2022 disclosures and therefore no information presented for 31 July 2021.
5 Columns b and d have been removed as only required to disclose information on a semi-annual basis.
6 Rows 14a-14e have been removed as only LREQ firms are required to disclose this information.

IFRS 9 transitional arrangements disclosure

£m		a 31 Jul 2022	b 31 Jul 2021
	Available capital		
1	CET1 capital	**1,396.7**	1,439.3
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied	**1,313.7**	1,321.5
3	Tier 1 capital	**1,396.7**	1,439.3
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**1,313.7**	1,321.5
5	Total capital	**1,596.7**	1,662.7
6	Total capital as if IFRS 9 transitional arrangements had not been applied	**1,513.7**	1,544.9
	Risk-weighted assets		
7	Total risk-weighted assets	**9,591.3**	9,105.3
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	**9,508.3**	9,001.1
	Capital ratios (%)		
9	CET1 ratio	**14.6**	15.8
10	CET1 ratio as if IFRS 9 transitional arrangements had not been applied	**13.8**	14.7
11	Tier 1 ratio	**14.6**	15.8
12	Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied	**13.8**	14.7
13	Total capital ratio	**16.6**	18.3
14	Total capital ratio as if IFRS 9 transitional arrangements had not been applied	**15.9**	17.2
	Leverage ratio		
15	Leverage ratio total exposure measure	**11,626.6**	12,209.0
15a	Leverage ratio total exposure measure as if IFRS 9 transitional arrangements had not been applied	**11,543.6**	12,096.6
16	Leverage ratio (%)	**12.0**	11.8
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)	**11.4**	10.9

UK KM2 – Key metrics – MREL

Close Brothers does not have any additional MREL requirements as laid down in CRR articles 92a or 92b so this template has not been presented.

UK INS1 – Insurance participation

Close Brothers has no own funds held in insurance or reinsurance firms so this template has not been presented.

UK INS2 – Financial conglomerates information on own funds and capital adequacy ratio

Close Brothers does not qualify as a financial conglomerate so this template has not been presented.

UK OVC – ICAAP information

(a) Approach to assessing the adequacy of the internal capital (Article 438(a) CRR)

The group undertakes a group-wide internal capital adequacy assessment annually which is an integral part of the group's risk management processes. The main outputs from the process are an assessment of all material capital risks faced by the group, determination of the level of capital required to be held against each major source of risk and an analysis of a number of severe stress tests over a three-year time horizon, which is the group's standard business planning timescale. Management at all levels within the group are involved in carrying out risk assessments for their business units, having input into stress testing and scenario analysis and where necessary approving inputs into the process. The ICAAP is subject to detailed review and challenge by both the CAC and the Group Risk and Compliance Committee ("GRCC") and by the Risk Committee, before approval by the board.

The group conducts capital planning and stress testing on a regular basis. This process takes into account the perspectives of all key stakeholders, including the board, our shareholders and the regulators.

(b) Result of Close Brothers' internal capital adequacy assessment process (Article 438(a) CRR)

The group ordinarily is subject to the PRA's Supervisory Review and Evaluation Process on a regular basis and this is next expected in 2023. Subsequent to the most recent SREP, the group was set a Total Capital Requirement of 9.0% of which 5.1% must be met with CET1 capital.

Annex III: Risk management policies and objectives

UK OVA – Risk management approach

(a) Risk statement approved by the management body (Point (f) of Article 435(1) CRR)

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 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:

i. adhering to our established and proven business model, as outlined on pages 10 to 13 of the group's Annual Report;
ii. implementing an integrated risk management approach based on the concept of "three lines of defence"; and
iii. setting and operating within clearly defined risk appetites, monitored with defined metrics and limits.

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

The framework is founded on a "three lines of defence" model and details the core risk management components and structures used across the firm, and defines a consistent and measurable approach to identifying, assessing, controlling and mitigating, reviewing and monitoring, and reporting risk – the risk process lifecycle. 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.

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

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

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

Principal risks relating to Pillar 1 minimum capital requirements

The following table sets out the principal risks in relation to the group's Pillar 1 minimum capital requirements that may impact the group's ability to deliver its strategy, the frameworks in place to mitigate them, and relevant key developments, both over the last year and anticipated for the next financial year. A full list of the principal risks that the group faces can be found on pages 78 to 89 of the group's Annual Report covering business risk; capital risk; conduct risk; credit risk; funding and liquidity risk; market risk; operational risk; and reputational risk. Please refer to Annex XIII, liquidity requirements, for further detail on the risk management of the group's liquidity.

Risk	Mitigation
Capital risk	The group is required to hold sufficient regulatory capital (including equity and other loss-absorbing debt instruments) to enable it to operate effectively. This includes meeting minimum regulatory requirements, operating within risk appetites set by the board and supporting its strategic goals. Capital risk is measured using CET1, tier 1 and total capital ratios, determined in line with regulatory capital adequacy requirements. These ratios, and associated metrics, are actively monitored, and reported quarterly to the regulator. These are also disclosed in the group's Annual Report as well as in these Pillar 3 disclosures – see Annex I. Both actual and forecast capital adequacy is reported through the group's governance framework with oversight from the Capital Adequacy Committee. Annually, as part of the ICAAP, the group also undertakes its own assessment of its capital requirements against its principal risks (Pillar 2a) together with an assessment of how capital adequacy could be impacted in a range of stress scenarios (Pillar 2b). Under both assessments, the group ensures that it maintains sufficient levels of capital adequacy. The group retains a range of capital risk mitigants, the most notable being its strong capital generating capacity, arising from its track record of sustained profitability. The group also maintains access to capital markets and during the last year successfully renewed and increased its tier 2 capital instruments.
Credit risk	As a lender to businesses and individuals, the bank is exposed to credit losses if customers are unable to repay loans and outstanding interest and fees. The group also has exposure to counterparties with which it places deposits or trades, and also has in place a small number of derivative contracts to hedge interest rate and foreign exchange exposures. We seek to minimise our exposure to credit losses from our lending by: • applying strict lending criteria when testing the credit quality and covenant of the borrower; • maintaining consistent and conservative loan to value ratios with low average loan size and short-term tenors; • lending on a predominantly secured or structurally protected basis against identifiable and accessible assets; • maintaining rigorous and timely collections and arrears management processes; and • operating strong control and governance both within our lending businesses and with oversight by a central credit risk team.

Risk	Mitigation
Credit risk (continued)	Our exposure to counterparties are mitigated by: • continuous monitoring of the credit quality of our counterparties within approved set limits; and • Winterflood's trading relating to exchange traded cash securities being settled on a delivery versus payment basis. Counterparty exposure and settlement failure monitoring controls are also in place.
Market risk	Market risk is defined as the risk that a change in the value of an underlying market variable will give rise to an adverse movement in the value of the group's assets. Market volatility impacting equity and fixed income exposures, and/or changes in interest and exchange rates, have the potential to impact the group's performance. To support the management of market risk, the group distinguishes between traded market risk and non-traded market risk as set out in Annex XXIX, standardised approach and internal model for market risk. **Traded Market Risk** - Traded market risk in the group only arises in Winterflood Securities, whose core business is to provide liquidity and interact with the market on a principal basis, holding positions in financial instruments as a result of its client facilitation activity. Winterflood is a market maker providing liquidity to its clients in equity and fixed income instruments. Trading is predominantly short term, with most transactions settling within two days. Trading positions are monitored on a real time basis. **Non-Traded Market Risk** - Our policy is to minimise interest rate risk by matching fixed and variable interest rate assets and liabilities, and using swaps where appropriate. The capital and reserves of the group do not have interest rate liabilities and as such are not hedged. When measuring interest rate risk in the Banking book the following components are considered: • repricing risk: the risk presented by assets and liabilities that reprice at different times and rates; • embedded optionality risk: the risk presented by contract terms embedded in certain assets and liabilities; and • basis risk: the risk presented when yields on assets, and costs on liabilities, are based on two different bases. Two core measures are subsequently monitored on a monthly basis: Earnings at Risk ("EaR") and Economic Value ("EV"). Foreign exchange exposures are generally hedged using foreign exchange forwards or currency swaps with exposures monitored daily against approved limits.
Operational risk	The group is exposed to various operational risks through its day-to-day operations, all of which have the potential to result in financial loss or adverse impact. Losses typically crystallise as a result of inadequate or failed internal processes, people, models and systems, or as a result of external factors. Impacts to the business, customers, third parties and the markets in which we operate are considered within a maturing framework for resilient delivery of important business services. Legal and regulatory risks are also considered as part of operational risk. Failure to comply with existing legal or regulatory requirements, or to adapt to changes to these requirements in a timely fashion, may have negative consequences for the group. Similarly, changes to regulation can impact our financial performance, capital, liquidity and the markets in which we operate. The group seeks to maintain its operational resilience through effective management of operational risks, including by: • sustaining robust operational risk management processes, governance and management information; • identifying key systems, third party relationships, processes and staff, informing investment decisions; • investing in technology to provide reliable and contemporary customer service offerings and effective model outputs; • attracting, retaining and developing high quality staff through the operation of competitive remuneration and benefit structures and an inclusive environment that embraces diversity and recognises behaviours aligned to our cultural attributes; • investing in cyber security including expertise, tools and staff engagement; • maintaining focus on personal data protection; • adopting fraud prevention and detection capabilities aligned with our risk profile; and • planning and rehearsing strategic and operational responses to severe but plausible stress scenarios. Legal and regulatory risks are mitigated by: • responding in an appropriate, risk-based and proportionate manner to any changes to the legal and regulatory environment as well as those driven by strategic initiatives; • implementing appropriate and proportionate policies, standards and procedures designed to capture relevant regulatory and legal requirements; • providing clear advice on legal and regulatory requirements, including in relation to the scope of regulatory permissions and perimeter guidance; • delivering relevant training to all staff, including anti-money laundering, anti-bribery and corruption, conduct risk, data protection and information security. This is augmented by tailored training to relevant employees in key areas; • deploying a risk-based monitoring programme designed to assess the extent to which compliant practices are embedded within the business; • maintaining, where possible, constructive and positive relationships and dialogue with regulatory bodies and authorities; and • maintaining a prudent capital position with headroom above minimum capital requirements.

(b) Information on the risk governance structure for each type of risk (Point (b) of Article 435(1) CRR)

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

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

The group closely monitors its risk profile to ensure that it continues to align with its strategic objectives as documented on page 32 of the group's Annual Report. The board considers that the group's current risk profile remains consistent with its strategic objectives.

Risk Governance

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

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

The key principles underlying this approach are that:

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

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

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.

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

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

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

Risk Committee Roles and Responsibilities

The Risk Committee's key roles and responsibilities are to:

- oversee the maintenance and development of a supportive culture in relation to the management of risk;
- review and set risk appetite, being the level of risk the group is willing to take in pursuit of its strategic objectives;
- monitor the group's risk profile against the prescribed appetite;
- review the effectiveness of the risk management framework to ensure that the key risks are identified and appropriately managed; and
- provide input from a risk perspective into the alignment of remuneration with performance against risk appetite (through the Remuneration Committee).

The Risk Committee undertakes a robust assessment of both the principal and emerging risks facing the group over the course of the year and reviews reports from the risk function on the processes that support the management and mitigation of those risks.

(c) Declaration approved by the management body on the adequacy of the risk management arrangements (Point (e) of Article 435(1) CRR)

Throughout the year, the board, assisted by the Risk Committee and the Audit Committee, monitors the group's risk management and internal control systems and reviews their effectiveness. This covers all material controls, including financial, operational and compliance controls. The board also reviews the effectiveness of both committees on an annual basis. Based on its assessment throughout the year, and its review of the committees' effectiveness, the board considers that, overall, the group has in place adequate systems and controls with regard to its profile and strategy.

As described in more detail on page 111 of the group's Annual Report, an evaluation of the effectiveness of the board and its committees was undertaken during the year in line with the requirements of the UK Corporate Governance Code. The results confirm that the Risk Committee is operating effectively. The Risk Committee considers that during the year it continued to have access to sufficient resources to enable it to carry out its duties and has continued to perform effectively.

(d) Disclosure on the scope and nature of risk disclosure and/or measurement systems (Point (c) of Article 435(1) CRR)

The statement set out above in UK OVA (c) is reviewed and approved by the Risk Committee, in accordance with the committee's terms of reference. Alongside this, an annual assessment of the effectiveness of the ERMF is performance and recommendations presented to both the Group Risk and Compliance Committee and the Risk Committee.

(e) Disclose information on the main features of risk disclosure and measurement systems (Point (c) of Article 435(1) CRR)

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 throughout the year. The assessment is informed through various sources of information, both internal and external and may include but is not limited to:

- Outputs from the previous year assessment and progress in completing any recommendations / actions identified;
- Benchmarking against peers;
- Insights into the appropriateness and effectiveness of internal controls through reviews performed by internal audit;
- Management information and reports from the risk and compliance functions.

(f) Strategies and processes to manage risks for each separate category of risk (Point (a) of Article 435(1) CRR)

The ERMF details the core risk management components and structures used across the firm. The framework 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. For more information on the ERMF see the Risk Report on pages 74 to 92 in the group's Annual Report.

Stress Testing

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

Internal Control System

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

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

The accounting policies form part of a broader policy framework, overseen by the board, that supports the foundation of a strong risk management structure.

Group policies are supported by group standards, divisional/business-level policies and procedures which, together, outline the way in which policy is implemented and detail the process controls in place to ensure compliance. Policies and Standards relating to the group's principal risks are fully covered within the framework, and include specific documents relating to financial crime compliance (e.g. anti-money laundering/anti-bribery and corruption) and whistleblowing.

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

Risk Culture and Awareness

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

The risk culture:

- supports the group and its directors to meet their legal and regulatory obligations, particularly with respect to the identification and management of risks and the need for a robust control environment;
- underpins the group's purpose, strategy, cultural attributes and divisional values;
- provides enhanced awareness of risk in business operations by highlighting strengths and weaknesses and their materiality to the business and, in turn, facilitating informed decision-making;

- optimises business performance by facilitating challenge of ineffective controls and improving the allocation of resources;
- ensures allocation of capital for operational risk is proportionate for the risks identified;
- improves the group's control environment; and
- assists in the planning and prioritisation of key projects and initiatives.

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

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

Group Risk Management operates independently of the business, providing oversight and advice on the operation of the risk framework, and assurance that agreed processes operate effectively and that a risk and conduct culture is embedded within the business.

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

For further information on our approach to remuneration for the group's directors see pages 123 to 143 of the group's Annual Report.

(g) Information on the strategies and processes to manage, hedge and mitigate risks (Point (a) and (d) of Article 435(1) CRR)

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

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

In addition to day-to-day management of its principal risks, the group utilises an established framework to monitor its portfolio for emerging risks, consider broader market uncertainties, and support its organisational readiness to respond. A full list of emerging risks and uncertainties that the group faces can be found on pages 90 to 92 of the group's Annual Report covering economic uncertainty; geopolitical uncertainty; financial loss resulting from the physical or transitional impacts of climate change; legal and regulatory changes; evolving working practices; technological change and new business models; supply chain risk; and future pandemics and our ability to respond.

While the group constantly monitors the portfolio for emerging risks, the group's activities, business model and strategy remain unchanged. As a result, the principal risks that the group face and our approach to mitigating them remain broadly consistent with prior years. This consistency has underpinned the group's track record of trading successfully and supporting our clients over many years.

For more information on principal risks, and the frameworks in place to mitigate them, see the table in UK OVA (a) above.

UK OVB – Governance arrangements

(a) The number of directorships held by members of the management body (Point (a) of Article 435(2) CRR)

In addition to their roles within the group, the number of external directorships held by members of the management body are detailed in the table below. Further details on the board of directors can be found on page 95 of the group's Annual Report.

Name	Position	Directorships
Mike Biggs	Chairman	0
Adrian Sainsbury	Chief Executive	1
Mike Morgan	Chief Finance Director	0
Mark Pain	Senior Independent Director	3
Lesley Jones	Independent Non-executive Director	3
Bridget Macaskill	Independent Non-executive Director	2
Tesula Mohindra	Independent Non-executive Director	1
Patricia Halliday	Independent Non-executive Director	0
Oliver Corbett	Independent Non-executive Director	1
Sally Williams	Independent Non-executive Director	2
Peter Duffy	Independent Non-executive Director	2
Tracey Graham	Independent Non-executive Director	2

(b) Information regarding the recruitment policy for the selection of members of the management body (Point (b) of Article 435(2) CRR) and (c) Information on the diversity policy with regard of the members of the management body (Point (c) of Article 435(2) CRR)

The board acknowledges the benefits that diversity and inclusion can bring to the board and to all levels of the group's operations. As such, the board is committed to the promotion of diversity and inclusion across the group and to ensuring that all employees are treated fairly.

The board maintains a board diversity and inclusion policy, which is reviewed annually by the Nomination and Governance Committee. The policy recognises the importance of having directors with a range of skills, knowledge and experience, and embraces the benefits to be derived from having directors who come from a diversity of backgrounds, bringing different perspectives and the challenge needed to ensure effective decision-making. Following review by the Nomination and Governance Committee and the board during the year, a small number of incremental changes were made to the policy.

More information on the recruitment and diversity policies and practices for the selection of members of the management body can be found in the Nomination and Governance Committee Report on pages 113 and 116 of the group's Annual Report.

(d) Information whether or not Close Brothers has set up a separate risk committee and the frequency of the meetings (Point (d) of Article 435(2) CRR)

The Risk Committee comprises all CBG independent non-executive directors and Lesley Jones as chair.

Six meetings were held during the year (five scheduled and one ad hoc). Full details of attendance by the non-executive directors at scheduled meetings are set out on page 103 of the group’s Annual Report.

Members of the Committee are regularly joined by the chairman of the board, the executive directors, the group chief risk officer, the group head of compliance and the group head of internal audit, all of whom receive standing invitations to attend.

Other executives, subject matter experts, risk team members and external advisers are invited to attend the Committee from time to time as required, to present and advise on reports commissioned.

The Risk Committee’s chair continues to meet frequently with the group chief risk officer and his risk team in a combination of formal and informal sessions, and with senior management across all divisions of the group, to discuss the business environment and to gather their views on emerging risks, business performance and the competitive environment.

(e) Description on the information flow on risk to the management body (Point (e) of Article 435(2) CRR)

The governance framework operates through various delegations of authority from the board downwards, including authorities exercised via the aforementioned risk committee structure.

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

Annex V: Scope of application

UK LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (2022)[1]

		a	b	c	d	e	f	g
				Carrying values of items				
£m		**Carrying values as reported in published financial statements**	**Carrying values under scope of regulatory consolidation**	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
	Breakdown by asset class according to the balance sheet in the published financial statements							
1	Cash and balances at central banks	**1,254.7**	**1,254.7**	1,254.7	—	—	—	—
2	Settlement balances	**799.3**	**799.3**	—	14.2	—	785.1	—
3	Loans and advances to banks	**165.4**	**165.4**	165.4	—	—	—	—
4	Loans and advances to customers	**8,858.9**	**8,858.9**	8,858.9	—	—	—	—
5	Debt securities	**612.8**	**612.8**	600.4	—	—	12.4	—
6	Equity shares	**28.4**	**28.4**	1.3	—	—	27.1	—
7	Loans to money brokers against stock advanced	**48.4**	**48.4**	—	48.4	—	—	—
8	Derivative financial instruments	**71.2**	**71.2**	—	71.2	—	—	—
9	Intangible assets	**252.0**	**252.0**	—	—	—	—	252.0
10	Property, plant and equipment	**322.5**	**322.5**	322.5	—	—	—	—
11	Current tax assets	**47.0**	**47.0**	47.0	—	—	—	—
12	Deferred tax assets[2]	**32.5**	**32.5**	35.7	—	—	—	(3.2)
13	Prepayments, accrued income and other assets	**185.2**	**185.2**	178.0	—	—	—	7.2
14	**Total assets**	**12,678.3**	**12,678.3**	11,463.9	133.8	—	824.5	256.0
	Breakdown by liability classes according to the balance sheet in the published financial statements							
1	Settlement balances and short positions	**796.1**	**796.1**	—	—	—	—	796.1
2	Deposits by banks	**160.5**	**160.5**	—	—	—	—	160.5
3	Deposits by customers	**6,770.4**	**6,770.4**	—	—	—	—	6,770.4
4	Loans and overdrafts from banks	**622.7**	**622.7**	—	—	—	—	622.7
5	Debt securities in issue	**2,060.9**	**2,060.9**	—	—	—	—	2,060.9
6	Loans from money brokers against stock advanced	**—**	**—**	—	—	—	—	—
7	Derivative financial instruments	**89.2**	**89.2**	—	89.2	—	—	—
8	Current tax liabilities	**—**	**—**	—	—	—	—	—
9	Accruals, deferred income and other liabilities	**334.5**	**334.5**	—	—	—	—	334.5
10	Subordinated loan capital	**186.5**	**186.5**	—	—	—	—	186.5
11	**Total liabilities**	**11,020.8**	**11,020.8**	—	89.2	—	—	10,931.6

1 Differences are explained in UK LIA.
2 Accounting value for deferred tax assets is net of deferred tax liabilities in row 12, column a and b. £35.7m of deferred tax assets are subject to the credit risk framework with £(3.2)m of deferred tax liabilities net against associated intangible assets and pension assets that are subject to regulatory capital deductions from own funds and therefore shown in column g.

UK LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements (2022)[1]

		a	b	c	d	e
		Total	Items subject to			
£m			Credit risk framework	Securitisation framework	CCR framework	Market risk framework
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)**	**12,422.3**	11,463.9	—	133.8	824.5
2	**Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)**	**89.2**	—	—	89.2	—
3	**Total net amount under the regulatory scope of consolidation**	**12,333.1**	11,463.9	—	44.6	824.5
4	**Off-balance-sheet amounts**	**1,219.5**	1,219.5	—	—	
5	*Differences in valuations*	**—**	—	—	—	
6	*Differences due to different netting rules, other than those already included in row 2*	**—**	—	—	—	
7	*Differences due to consideration of provisions*	**—**	—	—	—	
8	*Differences due to the use of credit risk mitigation techniques (CRMs)*	**—**	—	—	—	
9	*Differences due to credit conversion factors*	**(1,093.2)**	(1,093.2)	—	—	
10	*Differences due to Securitisation with risk transfer*	**—**	—	—	—	
11	*Other differences*	**323.0**	80.6	—	242.4	
12	**Exposure amounts considered for regulatory purposes**	**12,782.4**	**11,670.9**	**—**	**287.0**	**824.5**

1 Differences are explained in UK LIA.

UK LI3 – Outline of the differences in the scopes of consolidation – entity by entity (2022)

There are no differences in the methods of accounting and regulatory consolidation as all entities within the group are fully consolidated and so this template has not been presented. A list of the group's subsidiaries as at 31 July 2022, which are all wholly owned and incorporated, can be found in Note 30 of the group's Annual Report. For more information on the differences between accounting and regulatory exposure amounts, see UK LIA.

UK LIA – Explanations of differences between accounting and regulatory exposure amounts

(a) Differences between columns (a) and (b) in template UK LI1 (Article 436(b) CRR)

There are no differences in the carrying values for columns (a) and (b) and there are no entities derecognised from the accounting balance sheet for regulatory purposes.

(b) Information on the main sources of differences between the accounting and regulatory scope of consolidation shown in template UK LI2 (Article 436(d) CRR)

Exposure amounts considered for regulatory purposes as a starting point for risk-weighted asset calculations shown in template UK LI2 differ to the carrying values under the regulatory scope of consolidation for the following reasons:

- As shown in row 9 of UK LI2, off-balance sheet amounts are reduced by applicable credit conversion factors; and
- As shown in row 11, other differences are primarily driven by add-ons in relation to potential future credit exposure for derivative financial instruments (CCR framework) and transitional arrangements in relation to IFRS 9 (credit risk framework).

UK LIB – Other qualitative information on the scope of application

(a) Impediment to the prompt transfer of own funds or to the repayment of liabilities within the group (Article 436(f) CRR)

Other than restrictions due to regulatory capital requirements for regulated subsidiaries, Winterflood Securities Ltd, Close Asset Management Ltd and CBL, there are no impediments that impact on the ability of subsidiary undertakings to transfer funds or repay liabilities promptly or the ability to transfer capital by way of a dividend payment.

(b) Subsidiaries not included in the consolidation with own funds less than required (Article 436(g) CRR)

There are no subsidiaries excluded in the consolidation.

(c) Use of derogation referred to in Article 7 CRR or individual consolidation method laid down in Article 9 CRR (Article 436(h) CRR)

CBL makes use of the provisions laid down in CRR Article 9 and reports to the PRA on an individual consolidated basis. Entities included in the individual consolidation as at 31 July 2022 are:

- Close Finance (CI) Ltd;
- Close Brothers Technology Services Ltd;
- Commercial Acceptances Ltd;
- Close Leasing Ltd;
- Close Invoice Financial Ltd;
- Close Brewery Rentals Ltd;
- Close Brothers Vehicle Hire Ltd;
- Novitas Loans Ltd;
- Close Brothers Premium DAC;
- Corporate Asset Solutions Ltd; and
- Close Brothers DAC.

(d) Aggregate amount by which the actual own funds are less than required in all subsidiaries that are not included in the consolidation (Article 436(g) CRR)

There are no subsidiaries excluded in the consolidation.

UK PV1 – Prudent valuation adjustments (2022)

		a	b	c	d	e	UK e1	UK e2	f	g	h
		Risk category					Category level AVA - Valuation uncertainty		**Total category level post-diversification**		
£m	Category level AVA	Equity	Interest Rates	Foreign exchange	Credit	Commodities	Unearned credit spreads AVA	Investment and funding costs AVA		Of which: Total core approach in the trading book	Of which: Total core approach in the banking book
1	Market price uncertainty										
3	Close-out cost										
4	Concentrated positions										
5	Early termination										
6	Model risk										
7	Operational risk										
10	Future administrative costs										
12	**Total Additional Valuation Adjustments (AVAs)**								**0.5**		

1 Close Brothers applies the simplified approach and so rows 1 -10 of this template relating to the core approach are empty. The amount in row 12 is deducted from own funds as per row 7 of UK CC1.
2 Certain rows of this table have not been presented as they are not applicable in the UK.

Annex VII: Own funds

UK CC1 – Composition of regulatory own funds (2022)[7]

£m		a Amounts	b Reference to UK CC2
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	**38.0**	(d)
	of which: called up share capital	**38.0**	(d)
2	Retained earnings	**1,559.6**	(e)[1]
3	Accumulated other comprehensive income (and other reserves)	**34.9**	(f)[2]
UK-3a	Funds for general banking risk	—	
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	—	
5	Minority interests (amount allowed in consolidated CET1)	—	
UK-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	—	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,632.5**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	**(0.5)**	
8	Intangible assets (net of related tax liability) (negative amount)	**(250.7)**	(a)[3]
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	—	
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	**(21.7)**	
12	Negative amounts resulting from the calculation of expected loss amounts	—	
13	Any increase in equity that results from securitised assets (negative amount)	—	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	—	
15	Defined-benefit pension fund assets (negative amount)	**(5.3)**	(b)[4]
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	**(40.6)**	(g)[5]
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	—	
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	—	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	—	
UK-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	—	
UK-20b	of which: qualifying holdings outside the financial sector (negative amount)	—	
UK-20c	of which: securitisation positions (negative amount)	—	
UK-20d	of which: free deliveries (negative amount)	—	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	—	
22	Amount exceeding the 17.65% threshold (negative amount)	—	
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	—	
25	of which: deferred tax assets arising from temporary differences	—	
UK-25a	Losses for the current financial year (negative amount)	—	
UK-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	—	
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	—	
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	**83.0**	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(235.8)**	

£m		a Amounts	b Reference to UK CC2
29	**Common Equity Tier 1 (CET1) capital[8]**	**1,396.7**	
	Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts	—	
31	of which: classified as equity under applicable accounting standards	—	
32	of which: classified as liabilities under applicable accounting standards	—	
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1 as described in Article 486(3) CRR	—	
UK-33 a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	—	
UK-33 b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	—	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	—	
35	of which: instruments issued by subsidiaries subject to phase out	—	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	—	
	Additional Tier 1 (AT1) capital: regulatory adjustments		
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	—	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	—	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	—	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	—	
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	—	
42a	Other regulatory adjustments to AT1 capital	—	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	—	
44	**Additional Tier 1 (AT1) capital**	—	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**1,396.7**	
	Tier 2 (T2) capital: instruments		
46	Capital instruments and the related share premium accounts	**200.0**	(c)[6]
47	Amount of qualifying items referred to in Article 484 (5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	—	
UK-47 a	Amount of qualifying items referred to in Article 494a (2) CRR subject to phase out from T2	—	
UK-47 b	Amount of qualifying items referred to in Article 494b (2) CRR subject to phase out from T2	—	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	—	
49	of which: instruments issued by subsidiaries subject to phase out	—	
50	Credit risk adjustments	—	
51	**Tier 2 (T2) capital before regulatory adjustments**	**200.0**	
	Tier 2 (T2) capital: regulatory adjustments		
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	—	
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	—	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	—	
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	—	
UK-56 a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	—	
UK-56 b	Other regulatory adjustments to T2 capital	—	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	—	
58	**Tier 2 (T2) capital[8]**	**200.0**	

£m		a Amounts	b Reference to UK CC2
59	**Total capital (TC = T1 + T2)[8]**	**1,596.7**	
60	**Total Risk exposure amount[8]**	**9,591.3**	
	Capital ratios and buffers[8]		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	**14.6**	
62	Tier 1 (as a percentage of total risk exposure amount)	**14.6**	
63	Total capital (as a percentage of total risk exposure amount)	**16.6**	
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	**7.6**	
65	of which: capital conservation buffer requirement	**2.5**	
66	of which: countercyclical buffer requirement	**0.0**	
67	of which: systemic risk buffer requirement	**0.0**	
UK-67 a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	**0.0**	
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	**7.6**	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**—**	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	**—**	
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	**35.7**	
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	**—**	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	**101.5**	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	**—**	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	**—**	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	**—**	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	**—**	
82	Current cap on AT1 instruments subject to phase out arrangements	**—**	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	**—**	
84	Current cap on T2 instruments subject to phase out arrangements	**—**	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	**—**	

1 Comprises brought-forward retained earnings, year-to-date profits net of tax and dividends paid and foreseen
2 Comprises cash flow hedge reserve, share-based awards reserve, exchange movements reserve as well as other profit and loss items in other reserves
3 Equal to the intangible assets on the balance sheet net of associated deferred tax liabilities
4 Equal to the defined-benefit pension asset on the balance sheet net of associated deferred tax liabilities
5 Comprises the treasury share reserve
6 Includes the nominal amount of subordinated notes eligible as Tier 2 capital, see UK CCA for further detail.
7 Certain rows of this table have not been presented as they are not applicable in the UK.
8 For more information on the movements in CET1, Tier 2 capital, RWAs and capital ratios, see 'Regulatory capital' and 'Movement in CET1 capital' templates in this Annex.

UK CC2 – Reconciliation of regulatory own funds to balance sheet in the audited financial statements (2022)

£m		a Balance sheet as in published financial statements — As at period end	c Reference to UK CC1
Assets - Breakdown by asset class according to the balance sheet in the published financial statements			
1	Cash and balances at central banks	**1,254.7**	
2	Settlement balances	**799.3**	
3	Loans and advances to banks	**165.4**	

£m		a Balance sheet as in published financial statements As at period end	c Reference to UK CC1
4	Loans and advances to customers	**8,858.9**	
5	Debt securities	**612.8**	
6	Equity shares	**28.4**	
7	Loans to money brokers against stock advanced	**48.4**	
8	Derivative financial instruments	**71.2**	
9	Intangible assets	**252.0**	(a)
10	Property, plant and equipment	**322.5**	
11	Current tax assets	**47.0**	
12	Deferred tax assets	**32.5**	
13	Prepayments, accrued income and other assets	**185.2**	(b)
14	**Total assets**	**12,678.3**	
Liabilities - Breakdown by liability class according to the balance sheet in the published financial statements			
1	Settlement balances and short positions	**796.1**	
2	Deposits by banks	**160.5**	
3	Deposits by customers	**6,770.4**	
4	Loans and overdrafts from banks	**622.7**	
5	Debt securities in issue	**2,060.9**	
6	Loans from money brokers against stock advanced	**—**	
7	Derivative financial instruments	**89.2**	
8	Current tax liabilities	**—**	
9	Accruals, deferred income and other liabilities	**334.5**	
10	Subordinated loan capital	**186.5**	(c)
11	**Total liabilities**	**11,020.8**	
Shareholders' Equity			
1	Called up share capital	**38.0**	(d)
2	Retained earnings	**1,628.4**	(e), (f)
3	Other reserves	**(8.9)**	(f), (g)
4	**Total shareholders' equity**	**1,657.5**	
5	Non-controlling interests in equity	**—**	
6	**Total equity**	**1,657.5**	
7	**Total liabilities and equity**	**12,678.3**	

1 Close Brothers has the same statutory and regulatory scopes of consolidation and so columns a and b have been merged.

UK CCA – Main features of regulatory own funds instruments and eligible liabilities instruments (2022)

		a Qualitative or quantitative information	b Qualitative or quantitative information
1	Issuer	CBG	CBG
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS2351480566	GB0007668071
2a	Public or private placement	Public	Public
3	Governing law(s) of the instrument	English	English
3a	Contractual recognition of write down and conversion powers of resolution authorities	YES	YES
	Regulatory treatment		
4	Current treatment taking into account, where applicable, transitional CRR rules	Tier 2	Common Equity Tier 1
5	Post-transitional CRR rules	Tier 2	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated Debt	Ordinary Shares
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	£200 million	£38 million
9	Nominal amount of instrument	£200 million	£38 million
UK-9a	Issue price	Par	Par
UK-9b	Redemption price	Par	Par

		a	b
		Qualitative or quantitative information	Qualitative or quantitative information
10	Accounting classification	Liability - Amortised Cost	Equity
11	Original date of issuance	11 Jun 2021	Various
12	Perpetual or dated	Dated	Perpetual
13	Original maturity date	11 Sep 2031	N/A
14	Issuer call subject to prior supervisory approval	Yes	N/A
15	Optional call date, contingent call dates and redemption amount	11 Jun 2026	N/A
16	Subsequent call dates, if applicable	At any time	N/A
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed to Floating	N/A
18	Coupon rate and any related index	2.00 %	N/A
19	Existence of a dividend stopper	No	N/A
UK-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Full Discretionary
UK-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Full Discretionary
21	Existence of step up or other incentive to redeem	No	N/A
22	Non-cumulative or cumulative	Cumulative	Non-Cumulative
23	Convertible or non-convertible	Non-Convertible	Non-Convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
34a	Type of subordination (only for eligible liabilities)	Contractual	Contractual
UK-34b	Ranking of the instrument in normal insolvency proceedings	Ranks in priority to all other forms of capital	Ranks behind all other forms of capital
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Unsecured	Tier 2
36	Non-compliant transitioned features	No	N/A
37	If yes, specify non-compliant features	N/A	N/A
37a	Link to the full term and conditions of the instrument (signposting)[1]	https://www.closebrothers.com/tier-2	N/A

Regulatory capital

£m		a **31 Jul 2022**	b 31 Jul 2021
	CET1 capital		
1	Called up share capital	**38.0**	38.0
2	Retained earnings	**1,625.2**	1,555.5
3	Other reserves recognised for CET1 capital	**13.2**	13.1
	Regulatory adjustments to CET1 capital		
4	Intangible assets, net of associated deferred tax liabilities[1]	**(250.7)**	(180.7)
5	Foreseeable dividend[2]	**(65.6)**	(62.7)
6	Investment in own shares	**(40.6)**	(36.0)
7	Pension asset, net of associated deferred tax liabilities	**(5.3)**	(5.4)
8	Prudent valuation adjustment	**(0.5)**	(0.3)
9	IFRS 9 transitional arrangements[3]	**83.0**	117.8
10	Insufficient coverage for non-performing exposures[4]	**—**	—
11	**CET1 capital[5]**	**1,396.7**	1,439.3

12	**Tier 2 capital – subordinated debt[6]**	**200.0**	223.4
13	**Total regulatory capital[5]**	**1,596.7**	1,662.7
	RWAs (notional)		
14	Credit and counterparty credit risk	**8,389.0**	7,945.8
15	Operational risk	**1,085.8**	1,038.5
16	Market risk	**116.5**	121.0
17	**Total RWAs**	**9,591.3**	9,105.3
18	**CET1 capital ratio[5]**	**14.6**	15.8
19	**Total capital ratio[5]**	**16.6**	18.3

1 In line with CRR, effective on 1 January 2022, the CET1 capital ratio no longer includes the benefit related to software assets which were previously exempt from the deduction requirement for intangible assets from CET1.
2 Under the Regulatory Technical Standard on own funds, a deduction has been recognised as at 31 July 2022 and 31 July 2021 for a foreseeable dividend, being the proposed final dividend as set out in note 9 of the group's Annual Report.
3 The group has elected to apply IFRS 9 transitional arrangements for 31 July 2022, which allow the capital impact of expected credit losses to be phased in over the transitional period.
4 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 £0.03m as at 31 July 2022.
5 Shown after applying IFRS 9 transitional arrangements and CRR transitional and qualifying own funds arrangements in force at the time. See template 'IFRS 9 transitional arrangements disclosure' in Annex I for the impact on the capital ratios without their application.
6 Tier 2 capital decrease represents the redemption on call date of a prior period Tier 2 security, most of which had previously been redeemed as part of a tender offer. See template UK CCA above for information on the Tier 2 securities as at 31 July 2022.

Reconciliation between equity and CET1 capital

		a	b
£m		**31 Jul 2022**	31 Jul 2021
1	**Equity**	**1,657.5**	1,569.3
	Regulatory adjustments to CET1 capital:		
2	Intangible assets, net of associated deferred tax liabilities	**(250.7)**	(180.7)
3	Foreseeable dividend[1]	**(65.6)**	(62.7)
4	IFRS 9 transitional arrangements[2]	**83.0**	117.8
5	Pension asset, net of associated deferred tax liabilities	**(5.3)**	(5.4)
6	Prudent valuation adjustment	**(0.5)**	(0.3)
7	Insufficient coverage for non-performing exposures[3]	**—**	—
	Other reserves not recognised for CET1 capital:		
8	Cash flow hedging reserve	**(21.7)**	0.3
9	Non-controlling interests	**—**	1.0
10	**CET1 capital**	**1,396.7**	1,439.3

1 Under the Regulatory Technical Standards on own funds, a deduction has been recognised at 31 July 2022 and 31 July 2021 for a foreseeable dividend, being the proposed final dividend as set out in note 9 of the group's Annual Report.
2 The group has elected to apply IFRS 9 transitional arrangements for 31 July 2022, which allow the capital impact of expected credit losses to be phased in over the transitional period.
3 In line with CRR, effective on 1 January 2022, the CET1 capital includes a regulatory deduction where there is insufficient coverage for non-performing exposures, amounting to £0.03m as at 31 July 2022.

Movement in CET1 capital

		a	b
£m		**31 Jul 2022**	31 Jul 2021
1	CET1 capital at 31 July 2021	**1,439.3**	1,254.0
2	Profit in the period attributable to shareholders	**165.2**	202.1
3	Dividends paid and foreseen	**(98.4)**	(89.5)
4	Change in treatment for software intangible[1]	**(50.2)**	50.2
5	IFRS 9 transitional arrangements	**(34.8)**	17.5
6	Decrease/(increase) in intangible assets, net of associated deferred tax liabilities	**(19.7)**	6.0
7	Other movements in reserves recognised for CET1 capital	**0.1**	0.9
8	Other movements in adjustments to CET1 capital	**(4.8)**	(1.9)
16	**CET1 capital at 31 July 2022**	**1,396.7**	1,439.3

1 In line with CRR, effective on 1 January 2022, the CET1 capital ratio no longer includes the benefit related to software assets which were previously exempt from the deduction requirement for intangible assets from CET1.

Annex IX: Countercyclical capital buffers

UK CCyB1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer (2022)[1]

		a	b	c	d	e	f	g	h	i	j	k	l	m
		General credit exposures		Relevant credit exposures – Market risk		Securitisation exposures	Total exposure value	Own fund requirements				Risk-weighted exposure amounts	Own fund requirements weights (%)	Countercyclical buffer rate (%)
£m		Exposure value under the standardised approach	Exposure value under the IRB approach	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for non-trading book		Relevant credit risk exposures - Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation positions in the non-trading book	Total			
010	**Breakdown by country:**													
	United Kingdom	7,997.0	—	22.3	—	—	**8,019.3**	581.0	1.8	—	582.8	**7,285.1**	**91.52**	**0.00**
	Germany	30.7	—	—	—	—	**30.8**	2.1	—	—	2.1	**26.4**	**0.33**	**0.00**
	Guernsey	26.4	—	0.2	—	—	**26.5**	1.7	—	—	1.7	**21.1**	**0.26**	**0.00**
	Ireland	649.2	—	0.3	—	—	**649.5**	38.5	—	—	38.5	**481.4**	**6.05**	**0.00**
	Isle Of Man	26.6	—	—	—	—	**26.6**	2.8	—	—	2.8	**34.5**	**0.43**	**0.00**
	Jersey	86.7	—	0.1	—	—	**86.8**	5.7	—	—	5.7	**71.2**	**0.89**	**0.00**
	Luxembourg	3.7	—	—	—	—	**3.7**	0.3	—	—	0.3	**3.7**	**0.05**	**0.50**
	Malta	21.1	—	—	—	—	**21.1**	1.6	—	—	1.6	**20.2**	**0.25**	**0.00**
	Monaco	8.6	—	—	—	—	**8.6**	0.7	—	—	0.7	**8.6**	**0.11**	**0.00**
	Other countries	8.6	—	0.2	—	—	**8.8**	0.6	—	—	0.6	**8.1**	**0.10**	**0.00**
020	**Total**	**8,858.8**	**—**	**23.1**	**—**	**—**	**8,881.9**	**635.0**	**1.9**	**—**	**636.8**	**7,960.4**	**100.00**	**0.00**

1 'Other countries' includes general credit exposures to countries where the own funds requirement is less than 0.05%. Included in this row are exposures to British Virgin Islands, Canada, Cayman Islands, Cyprus, Finland, France, Italy, Netherlands, Poland, Portugal, Sweden and United States and these countries have a 0.0% CCyB rate.

UK CCyB2 – Amount of institution-specific countercyclical capital buffer (2022)

£m		a
1	Total risk exposure amount[1]	**9,591.3**
2	Institution specific countercyclical capital buffer rate	**0.0**
3	Institution specific countercyclical capital buffer requirement	**0.0**

1 'Total risk exposure amount' is equivalent to RWAs in Annex I.

Annex XI: Leverage ratio

UK LR1 – LRSum: Summary reconciliation of accounting assets and leverage ratio exposures (2022)

		a
£m		Applicable amount
1	Total assets as per published financial statements	**12,678.3**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	**—**
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	**—**
4	(Adjustment for exemption of exposures to central banks)	**(1,254.7)**
5	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the total exposure measure in accordance with point (i) of Article 429a(1) of the CRR)	**—**
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	**—**
7	Adjustment for eligible cash pooling transactions	**—**
8	Adjustment for derivative financial instruments	**167.8**
9	Adjustment for securities financing transactions (SFTs)	**—**
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**221.2**
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced tier 1 capital (leverage))	**—**
UK-11a	(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) of the CRR)	**—**
UK-11b	(Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) of the CRR)	**—**
12	Other adjustments	**(186.0)**
13	**Total exposure measure**	**11,626.6**

UK LR2 – LRCom: Leverage ratio common disclosure (2022)

		Leverage ratio exposures	
		a	b[1,2]
£m		31 Jul 2022	31 Jul 2021
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	**12,629.1**	12,016.2
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework	**—**	—
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**—**	—
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	**—**	—
5	(General credit risk adjustments to on-balance sheet items)	**—**	—
6	(Asset amounts deducted in determining tier 1 capital (leverage))	**(256.0)**	(73.7)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**12,373.1**	**11,942.5**
	Derivative exposures		
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	**—**	—
UK-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	**—**	—
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	**—**	—
UK-9a	Derogation for derivatives: potential future exposure contribution under the simplified standardised approach	**—**	—
UK-9b	Exposure determined under the original exposure method[1]	**238.6**	51.1
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	**—**	—
UK-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	**—**	—
UK-10b	(Exempted CCP leg of client-cleared trade exposures) (original exposure method)	**—**	—
11	Adjusted effective notional amount of written credit derivatives	**—**	—
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**—**	—
13	**Total derivatives exposures**	**238.6**	**51.1**
	Securities financing transaction (SFT) exposures		
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	**48.4**	8.0

£m		Leverage ratio exposures	
		a	b[1,2]
		31 Jul 2022	31 Jul 2021
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	—	—
16	Counterparty credit risk exposure for SFT assets	—	—
UK-16a	Derogation for SFTs: counterparty credit risk exposure in accordance with Articles 429e(5) and 222 of CRR	—	—
17	Agent transaction exposures	—	—
UK-17a	(Exempted CCP leg of client-cleared SFT exposures)	—	—
18	**Total securities financing transaction exposures**	**48.4**	**8.0**
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	**1,219.5**	1,314.1
20	(Adjustments for conversion to credit equivalent amounts)	**(998.3)**	(1,106.7)
21	(General provisions deducted in determining tier 1 capital (leverage) and specific provisions associated with off-balance sheet exposures)	—	—
22	**Off-balance sheet exposures**	**221.2**	**207.4**
	Excluded exposures		
UK-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) of CRR)	—	—
UK-22b	(Exposures exempted in accordance with point (j) of Article 429a(1) of CRR (on- and off-balance sheet))	—	—
UK-22g	(Excluded excess collateral deposited at triparty agents)	—	—
UK-22k	**(Total exempted exposures)**	—	—
	Capital and total exposure measure[2]		
23	Tier 1 capital (leverage)	**1,396.7**	1,439.3
24	Total exposure measure including claims on central banks	**12,881.3**	12,209.0
UK-24a	(-) Claims on central banks excluded	**1,254.7**	—
UK-24b	Total exposure measure excluding claims on central banks	**11,626.6**	—
	Leverage ratio[2,5]		
25	Leverage ratio excluding claims on central banks (%)	**12.0**	—
UK-25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**11.4**	—
UK-25b	Leverage ratio excluding central bank reserves as if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income had not been applied (%)[3]	—	—
UK-25c	Leverage ratio including claims on central banks (%)	**10.8**	11.8
26	Regulatory minimum leverage ratio requirement (%)[4]		
	Additional leverage ratio disclosure requirements - leverage ratio buffers[4]		
27	Leverage ratio buffer (%)		
UK-27a	Of which: G-SII or O-SII additional leverage ratio buffer (%)		
UK-27b	Of which: countercyclical leverage ratio buffer (%)		
	Additional leverage ratio disclosure requirements - disclosure of mean values[4]		
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable		
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables		
UK-31	Average total exposure measure including claims on central banks		
UK-32	Average total exposure measure excluding claims on central banks		
UK-33	Average leverage ratio including claims on central banks		
UK-34	Average leverage ratio excluding claims on central banks		

1 As at 31 July 2021, Close Brothers calculated derivative exposure amounts under the mark-to-market ("MTM") method with a change of calculation to the original exposure method under CRR rules effective 1st January 2022. Therefore, comparative derivative exposure amounts as at 31 July 2021 are being shown in row UK-9b as there are no relevant rows relating to the MTM method in this template.
2 Effective 1st January 2022, Close Brothers applied the UK leverage framework which excludes central bank claims from the leverage measure. Therefore, comparative data as at 31 July 2021 is not reported for rows UK-24a, UK-24b, 25, UK 25-a. The leverage ratio is compared in rows 25 for 31 July 2022and UK-25c for 31 July 2021.
3 Close Brothers does not apply the temporary treatment of unrealised gains and losses measured at FVOCI under CRR article 468 and so row UK-25b is not applicable.
4 Close Brothers is not an LREQ firm so rows 26 to UK-34 are not applicable.
5 The explanations for changes in the leverage ratio are included in UK LRA.

UK LR3 – LRSpl: Split-up of on balance sheet exposures (2022)

£m		a Leverage ratio exposures
UK-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**12,373.1**
UK-2	Trading book exposures	**572.6**
UK-3	Banking book exposures, of which:	**11,800.5**
UK-4	Covered bonds	**—**
UK-5	Exposures treated as sovereigns	**1,702.9**
UK-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	**39.7**
UK-7	Institutions	**350.9**
UK-8	Secured by mortgages of immovable properties	**1,436.2**
UK-9	Retail exposures	**4,384.9**
UK-10	Corporates	**2,854.9**
UK-11	Exposures in default	**143.3**
UK-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	**887.8**

UK LRA – Disclosure of LR qualitative information

(a) Processes used to manage the risk of excessive leverage

Close Brothers has policies and procedures in place for the identification, management and monitoring of the risk of excessive leverage. Leverage ratios are computed on a monthly basis through a controlled process and reported to the Group Finance Director and CAC. Leverage ratios are forecast as part of capital planning, including under stress in the ICAAP with a number of enterprise wide scenario analyses which, among other things, forecast accounting expected losses and their impact upon own funds under these scenarios.

Asset and obligation mismatches are managed through internal and regulatory liquidity metrics with the group's "borrow long, lend short" culture resulting in the risk of excessive leverage arising from asset and obligation mismatches being insignificant.

Risk of excessive leverage is considered very low for Close Brothers as CRR leverage ratio is in excess of 10% (see row 25 of UK LR2).

(b) Factors that had an impact on the leverage ratio during the period

Close Brothers' leverage ratio excluding claims on central banks was 12.0% (31 July 2021: 11.8%). The leverage ratio increased on the position at the end of the 2021 financial year, primarily driven by a change in calculation under the UK leverage framework to exclude central banks reserves which became effective from 1st January 2022 (see rows UK-24a and UK-24b in UK LR2). This impact was offset by an increase in on-balance sheet assets driven by loan book growth in the period of £0.4 billion (see row 1 of UK LR2) and a £0.2 billion increase in derivative exposures under the original exposure method calculation effective 1st January 2022 (see row UK-9b of UK LR2). There was a slight decrease in CET1 capital driven by an increase in intangible assets due to the reversal of software assets benefit that is no longer exempt from capital deduction (see Annex I for further detail) that contributed to a small increase in the leverage ratio.

Annex XIII: Liquidity requirements

UK LIQA – Liquidity risk management

(a) Strategies and processes in the management of the liquidity risk

Funding and liquidity are managed on a separate legal entity basis with each division responsible for ensuring it maintains sufficient liquidity for its own purposes. The group's divisions operate independently of each other with no facilities or other funding arrangements in place between them, and there is no liquidity reliance between the different divisions.

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

(b) Structure and organisation of the liquidity risk management function

The group's Treasury function manages the funding and liquidity required to support our lending businesses.

The bank operates a three lines of defence model with Treasury responsible for the measurement and management of the bank's funding and liquidity position and ALM risk providing independent review and challenge. ALCO provides oversight of funding and liquidity and supports the relevant senior managers in discharging their senior management function responsibilities. The group's Treasury function manages the funding and liquidity required to support our lending businesses.

(c) The degree of centralisation of liquidity management and interaction between the group's units

The group manages its liquidity at a group level through its centralised Treasury function.

(d) Scope and nature of liquidity risk reporting and measurement systems

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

(e) Policies for hedging and mitigating the liquidity risk and strategies and processes

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

A strong liquidity position is maintained to ensure that we remain comfortably within both internal risk appetites and regulatory requirements. Liquidity risk is assessed on a daily basis to ensure adequate liquidity is held and remains readily accessible in stressed conditions.

Funding and liquidity risks are reviewed at each meeting of the ALCO.

(f) An outline of contingency funding plans

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

The primary measurement tool for funding is the Banking division's funding plan which seeks to ensure that the bank maintains a balanced and prudent approach to its funding risk that is in line with risk appetite. The funding plan is supplemented by metrics that highlight any funding concentration risks, funding ratios and levels of encumbrance.

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

(g) An explanation of how stress testing is used

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

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

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

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

(h) A declaration approved by the management body on the adequacy of liquidity risk management arrangements

The objectives set out in UK LIQA (a) above form the basis for the Group Funding and Liquidity Risk Appetite Statement, approved annually by the board, which outlines the specific levels of funding and liquidity risk that the group is willing to assume. Given the materiality of the banking divisions, this is primarily focused on the levels of risk assumed within the bank.

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

A strong liquidity position is maintained to ensure that we remain comfortably within both internal risk appetites and regulatory requirements. Liquidity risk is assessed on a daily basis to ensure adequate liquidity is held and remains readily accessible in stressed conditions.

Funding and liquidity risks are reviewed at each meeting of the ALCO.

For further details see page 84 of the group's Annual Report.

(i) A concise liquidity risk statement approved by the management body

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

The Banking division successfully issued a new £200 million securitisation transaction in April 2022 and has continued to enhance its current retail product range. For example, this year saw the launch of a new version of our Personal Fixed Rate Bond product which has greatly increased operational efficiencies and allowed us to scale up our level of fixed funding. ISAs continue to feature heavily in our range and represent a key product for growth.

For more information on key ratios and figures on group funding and liquidity see page 64 of the group's Annual Report and the LCR and NSFR in template UK KM1.

UK LIQ1 – Quantitative information of LCR

		a	b	c	d	e	f	g	h
£m		Total unweighted value (average)				Total weighted value (average)			
UK 1a	Quarter ending on	**31 Jul 2022**	30 Apr 2022	31 Jan 2022	31 Oct 2021	**31 Jul 2022**	30 Apr 2022	31 Jan 2022	31 Oct 2021
UK 1b	Number of data points used in the calculation of averages	**12**	12	12	12	**12**	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					**1,259.9**	1,284.5	1,425.9	1,568.6
CASH - OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	**424.5**	368.9	333.3	264.7	**84.9**	73.9	71.7	61.7
3	*Stable deposits*	**96.8**	76.8	71.3	64.4	**4.8**	3.8	3.6	3.2
4	*Less stable deposits*	**327.6**	292.1	262.0	200.2	**80.0**	70.1	68.1	58.5
5	Unsecured wholesale funding	**429.1**	487.4	526.9	523.5	**275.8**	327.7	363.1	359.4
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	**—**	—	—	—	**—**	—	—	—
7	*Non-operational deposits (all counterparties)*	**413.6**	442.4	476.4	472.4	**260.3**	282.8	312.6	308.3
8	*Unsecured debt*	**15.5**	45.0	50.5	51.2	**15.5**	45.0	50.5	51.2
9	*Secured wholesale funding*					**4.9**	5.2	6.5	9.5
10	Additional requirements	**58.9**	53.7	51.1	56.5	**58.9**	53.7	51.1	56.5
11	*Outflows related to derivative exposures and other collateral requirements*	**58.9**	53.7	51.1	56.5	**58.9**	53.7	51.1	56.5
12	*Outflows related to loss of funding on debt products*	**—**	—	—	—	**—**	—	—	—
13	*Credit and liquidity facilities*	**1,175.0**	1,162.6	1,170.5	1,175.1	**100.4**	98.6	99.8	99.6
14	Other contractual funding obligations	**49.0**	47.1	40.7	38.9	**20.3**	18.4	12.3	11.5
15	Other contingent funding obligations	**—**	—	—	—	**—**	—	—	—
16	TOTAL CASH OUTFLOWS					**545.1**	577.6	604.6	598.1
CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	**113.7**	110.4	90.0	67.7	**30.8**	32.1	31.1	30.4
18	Inflows from fully performing exposures	**1,521.6**	1,479.5	1,446.0	1,471.5	**908.0**	884.0	873.0	908.6
19	Other cash inflows	**—**	—	—	—	**—**	—	—	—
UK-19 a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					**—**	—	—	—
UK-19 b	(Excess inflows from a related specialised credit institution)					**—**	—	—	—
20	TOTAL CASH INFLOWS	**1,635.3**	1,589.9	1,535.9	1,539.2	**938.7**	916.0	904.1	939.0
UK-20 a	*Fully exempt inflows*	**—**	—	—	—	**—**	—	—	—
UK-20 b	*Inflows subject to 90% cap*	**—**	—	—	—	**—**	—	—	—
UK-20c	*Inflows subject to 75% cap*	**1,635.3**	1,589.9	1,535.9	1,539.2	**938.7**	916.0	904.1	939.0
TOTAL ADJUSTED VALUE									
UK-21	LIQUIDITY BUFFER					**1,259.9**	1,284.5	1,425.9	1,568.6
22	TOTAL NET CASH OUTFLOWS					**136.3**	144.4	151.1	149.5
23	LIQUIDITY COVERAGE RATIO					**924.5**	889.6	943.4	1,049.0

UK LIQB – Qualitative information on LCR, which compliments template UK LIQ1

(a) Main drivers of LCR results

Close Brothers' LCR is driven by a combination of the size of the liquid asset buffer, funding requirements from upcoming maturities and commitments to lend in the Banking Division.

(b) Explanations on the changes in the LCR over time

The 12-month average LCR has increased since the prior quarter due to the liquid asset buffer reducing at a lower rate than net outflows.

Average unweighted net outflows from funding are consistent quarter on quarter but a greater proportion of retail over wholesale funding is payable, resulting in a lower stressed outflow.

(c) Explanations on the actual concentration of funding sources

Close Brothers' approach to funding is conservative and diverse, drawing on a wide range of wholesale and deposit markets including several public debt securities as well as a number of securitisations.

Over the twelve months to 31 July 2022 a greater proportion of funding has been sourced from the retail sector and via securitisations.

(d) High-level description of the composition of the institution`s liquidity buffer

Close Brothers' liquidity buffer predominantly comprise reserves held at the central bank and highly rated debt securities issued by a restricted range of governments and central banks, which are held and managed centrally by its Treasury function. The liquidity buffer is denominated in sterling and Euro, and is in excess of the consolidated buffer requirements in both currencies.

(e) Derivative exposures and potential collateral calls

The group has in place a small number of derivative contracts to hedge interest rate and foreign exchange exposures. LCR derivative cash flows are stated gross and are subject to the 75% cap on inflows.

(f) Currency mismatch in the LCR

Liquid assets are denominated in sterling and euro, with the currency mix being subject to internal risk limits and policy requirements which aim to match the liquidity buffer with the currency composition of the balance sheet.

(g) Other items in the LCR calculation that are not captured in the LCR disclosure template

There are no other relevant items.

UK LIQ2 – Net Stable Funding Ratio (NSFR)

In line with PS22/21 ‘Implementation of Basel Standards: Final rules’, the disclosure of the NSFR is not required until after 1 January 2023 and so this template has not been presented.

Annex XV: Credit risk quality

UK CRA – General qualitative information about credit risk

(a) Risk statement in accordance how the business model translates into the components of Close Brothers' credit risk profile ((f) of Article 435(1) CRR)

Credit risk across the group arises predominantly through the lending activities of the bank. As a lender to businesses and individuals, the bank is exposed to credit losses if customers are unable to repay loans and outstanding interest and fees. At 31 July 2022 the group had loans and advances to customers amounting to £8,858.9 million.

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

(b) The criteria and approach used for defining the credit risk management policy and for setting credit risk limits (points (a) and (d) of Article 435(1) CRR)

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

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

The group Credit Risk Appetite Statement ("CRAS") outlines the specific level of credit risk that the group is willing to assume, utilising defined quantitative limits and triggers and covers both credit concentration and portfolio performance measures.

All are based on the following key principles:

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

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

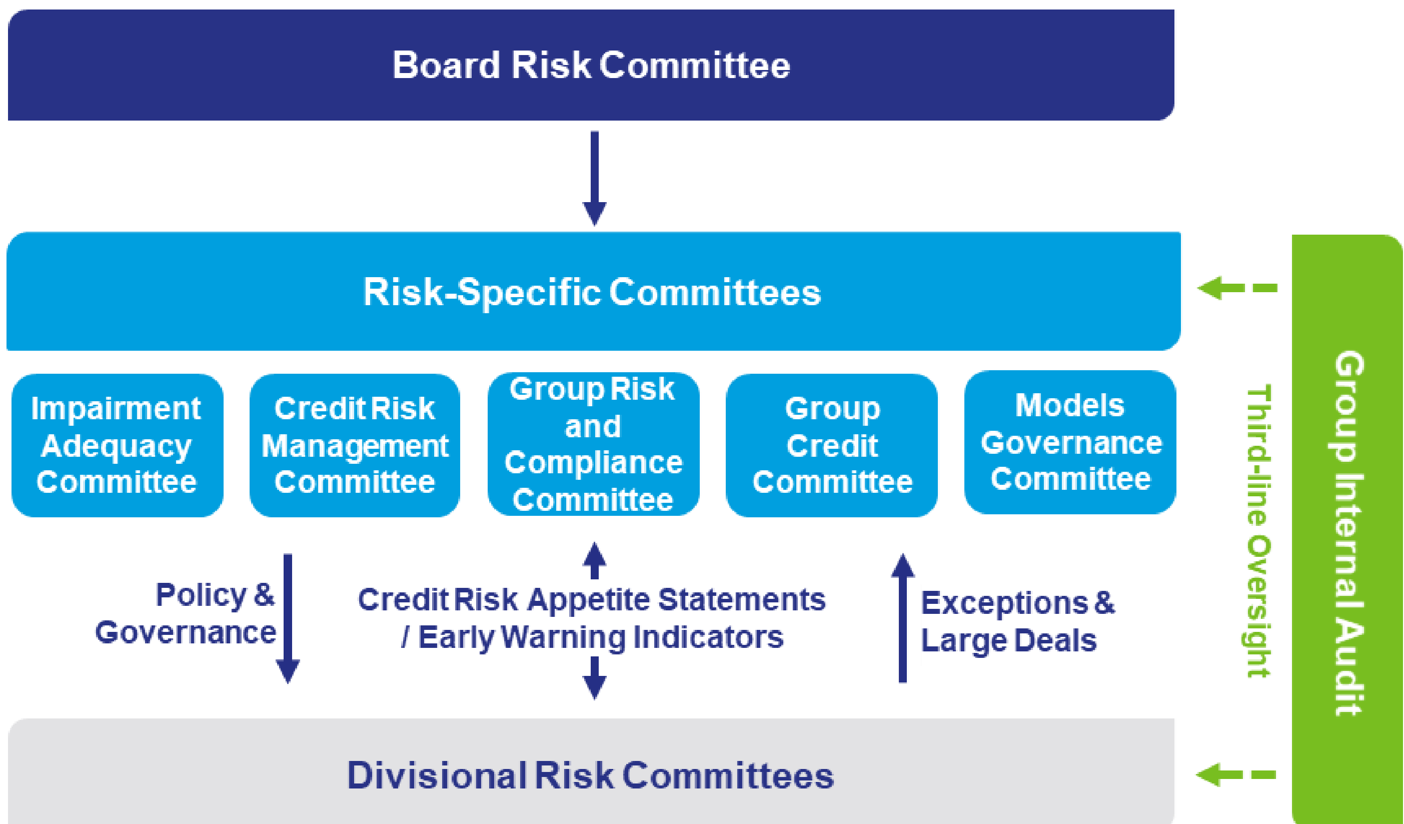
The CRAS is embedded into business unit credit risk management through a hierarchy of local triggers and limits, which are approved by the CRMC (or the chief credit risk officer depending on materiality) and include formal caps and triggers against which performance is similarly monitored monthly via local Risk and Compliance Committees ("RCCs"). Material breaches are escalated via established governance channels.

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

(c) The structure and organisation of the credit risk management and control function (point (b) of Article 435(1)

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

The group's credit risk governance framework, as set out over the page, is structured as follows:



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

(d) The relationships between credit risk management, risk control, compliance and internal audit functions (point (b) of Article 435(1) CRR)

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, RCCs, CRMC, Model Governance Committee ("MGC") and the Board Risk Committee ("BRC")), overlaid with a third line group internal audit function.

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

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

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

UK CRB – Additional information related to the credit quality of assets

(a) The scope and definitions of 'past-due' and 'impaired' exposures used for accounting purposes and the differences, if any, for accounting and regulatory purposes (in accordance with Article 178 CRR)

For accounting purposes, 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 default. As a backstop, all financial assets 90 days or more past due are considered to be credit impaired and transferred to Stage 3. For regulatory purposes, all financial assets 90 or more past due are treated as in default.

(b) The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this

All financial assets 90 days past due or more are considered to be credit impaired.

(c) Description of methods used for determining general and specific credit risk adjustments

All provisions are considered specific credit risk adjustments that are allocated against individual loans.

(d) Definition of a restructured exposure (point (d) of Article 178(3) CRR)

Close Brothers does not use the Internal Ratings Based (IRB) approach for credit risk.

UK CR1 – Performing and non-performing exposures and related provisions (2022)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
£m			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
005	Cash balances at central banks and other demand deposits	**1,382.9**	—	—	**—**	—	—	—	—	—	—	—	—	—	**—**	**—**
010	Loans and advances	**9,717.0**	8,554.7	1,160.6	**363.9**	—	363.9	(128.9)	(50.6)	(78.3)	(160.1)	—	(160.1)	(23.9)	**—**	**—**
020	Central banks	**18.8**	18.8	—	**—**	—	—	—	—	—	—	—	—	—	**—**	**—**
030	General governments	**39.9**	30.0	9.9	**—**	—	—	(0.2)	(0.1)	(0.1)	—	—	—	—	**—**	**—**
040	Credit institutions	**156.7**	156.7	—	**—**	—	—	—	—	—	—	—	—	—	**—**	**—**
050	Other financial corporations	**777.0**	768.0	7.3	**1.5**	—	1.5	(0.2)	(0.1)	(0.1)	(0.2)	—	(0.2)	—	**—**	**—**
060	Non-financial corporations	**5,848.1**	4,954.3	893.8	**223.0**	—	223.0	(41.9)	(22.6)	(19.3)	(69.9)	—	(69.9)	—	**—**	**—**
070	Of which SMEs	**4,878.7**	4,140.4	738.3	**214.0**	—	214.0	(36.8)	(19.5)	(17.3)	(64.4)	—	(64.4)	—	**—**	**—**
080	Households	**2,876.5**	2,626.9	249.6	**139.4**	—	139.4	(86.6)	(27.8)	(58.8)	(90.0)	—	(90.0)	(23.9)	**—**	**—**
090	Debt securities	**601.1**	601.1	—	**—**	—	—	(0.7)	(0.7)	—	—	—	—	—	**—**	**—**
100	Central banks	**—**	—	—	**—**	—	—	—	—	—	—	—	—	—	**—**	**—**
110	General governments	**415.6**	415.6	—	**—**	—	—	(0.2)	(0.2)	—	—	—	—	—	**—**	**—**
120	Credit institutions	**185.5**	185.5	—	**—**	—	—	(0.5)	(0.5)	—	—	—	—	—	**—**	**—**
130	Other financial corporations	**—**	—	—	**—**	—	—	—	—	—	—	—	—	—	**—**	**—**
140	Non-financial corporations	**—**	—	—	**—**	—	—	—	—	—	—	—	—	—	**—**	**—**
150	Off-balance-sheet exposures	**1,335.7**	1,289.3	46.4	**0.2**	—	0.2	0.1	0.1	—	—	—	—		**—**	**—**
160	Central banks	**—**	—	—	**—**	—	—	—	—	—	—	—	—		**—**	**—**
170	General governments	**6.2**	6.2	—	**—**	—	—	—	—	—	—	—	—		**—**	**—**
180	Credit institutions	**106.7**	106.7	—	**—**	—	—	—	—	—	—	—	—		**—**	**—**
190	Other financial corporations	**—**	—	—	**—**	—	—	—	—	—	—	—	—		**—**	**—**
200	Non-financial corporations	**1,177.7**	1,131.9	45.8	**0.1**	—	0.1	—	—	—	—	—	—		**—**	**—**
210	Households	**45.1**	44.5	0.6	**0.1**	—	0.1	0.1	0.1	—	—	—	—		**—**	**—**
220	**Total**	**13,036.7**	**10,445.1**	**1,207.0**	**364.1**	**—**	**364.1**	**(129.5)**	**(51.2)**	**(78.3)**	**(160.1)**	**—**	**(160.1)**	**(23.9)**	**—**	**—**

UK CR1-A – Maturity of exposures (2022)

£m		a	b	c	d	e	f
		Net exposure value					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Loans and advances	145.8	5,463.9	3,988.0	173.7	18.8	**9,790.2**
2	Debt securities	—	389.8	62.4	148.2	—	**600.4**
3	**Total**	**145.8**	**5,853.7**	**4,050.5**	**321.9**	**18.8**	**10,390.6**

UK CR2 – Changes in the stock of non-performing loans and advances

As required by CRR, disclosures may be omitted if not regarded as material and so template UK CR2 has not been presented as non-performing loans and advances comprise less than 5% of total loans and advances.

UK CR2-A – Changes in the stock of non-performing loans and advances and related net accumulated recoveries

As required by CRR, template UK CR2-A has not been presented as it is subject to the 5% threshold. Non-performing loans and advances comprise less than 5% of total loans and advances.

UK CQ1 – Credit quality of forborne exposures (2022)

£m		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
				Of which defaulted	Of which impaired				
005	Cash balances at central banks and other demand deposits	**—**	**—**	—	—	—	—	—	—
010	Loans and advances	**62.4**	**140.5**	140.5	140.5	(2.7)	(47.1)	145.6	92.7
020	*Central banks*	**—**	**—**	—	—	—	—	—	—
030	*General governments*	**—**	**—**	—	—	—	—	—	—
040	*Credit institutions*	**—**	**—**	—	—	—	—	—	—
050	*Other financial corporations*	**—**	**—**	—	—	—	—	—	—
060	*Non-financial corporations*	**56.3**	**117.1**	117.1	117.1	(2.3)	(34.8)	131.3	81.9
070	*Households*	**6.1**	**23.4**	23.4	23.4	(0.4)	(12.3)	14.3	10.8
080	Debt Securities	**—**	**—**	—	—	—	—	—	—
090	Loan commitments given	**2.4**	**0.1**	0.1	0.1	—	—	—	—
100	**Total**	**64.8**	**140.6**	140.6	140.6	(2.7)	(47.1)	145.6	92.7

UK CQ2 – Quality of forbearance

As required by CRR, template UK CQ2 has not been presented as it is subject to the 5% threshold. Non-performing loans and advances comprise less than 5% of total loans and advances.

UK CQ3 – Credit quality of performing and non-performing exposures by past due days (2022)

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
£m			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
005	Cash balances at central banks and other demand deposits	**1,382.9**	—	—	**—**	—	—	—	—	—	—	—	—
010	Loans and advances	**9,717.0**	9,487.6	229.4	**363.9**	127.0	72.3	46.5	62.3	32.5	0.3	23.0	363.9
020	Central banks	**18.8**	18.8	—	**—**	—	—	—	—	—	—	—	—
030	General governments	**39.9**	39.9	—	**—**	—	—	—	—	—	—	—	—
040	Credit institutions	**156.7**	156.7	—	**—**	—	—	—	—	—	—	—	—
050	Other financial corporations	**777.0**	775.2	1.8	**1.5**	—	0.4	0.1	0.1	0.8	0.1	—	1.5
060	Non-financial corporations	**5,848.1**	5,727.7	120.4	**223.0**	73.2	39.9	29.2	38.1	20.2	—	22.4	223.0
070	Of which SMEs	**4,878.7**	4,758.8	119.9	**214.0**	69.9	39.1	24.3	38.1	20.2	—	22.4	214.0
080	Households	**2,876.5**	2,769.3	107.2	**139.4**	53.8	32.0	17.2	24.1	11.5	0.2	0.6	139.4
090	Debt securities	**601.1**	601.1	—	**—**	—	—	—	—	—	—	—	—
100	Central banks	**—**	—	—	**—**	—	—	—	—	—	—	—	—
110	General governments	**415.6**	415.6	—	**—**	—	—	—	—	—	—	—	—
120	Credit institutions	**185.5**	185.5	—	**—**	—	—	—	—	—	—	—	—
130	Other financial corporations	**—**	—	—	**—**	—	—	—	—	—	—	—	—
140	Non-financial corporations	**—**	—	—	**—**	—	—	—	—	—	—	—	—
150	Off-balance-sheet exposures	**1,335.7**			**0.2**								0.2
160	Central banks	**—**			**—**								—
170	General governments	**6.2**			**—**								—
180	Credit institutions	**106.7**			**—**								—
190	Other financial corporations	**—**			**—**								—
200	Non-financial corporations	**1,177.7**			**0.1**								0.1
210	Households	**45.1**			**0.1**								0.1
220	**Total**	**13,036.7**	**10,088.7**	**229.4**	**364.1**	**127.0**	**72.3**	**46.5**	**62.3**	**32.5**	**0.3**	**23.0**	**364.1**

UK CQ4 - Quality of non-performing exposures by geography (2022)[1]

£m		a	b	c	d	e	f	g
		Gross carrying/nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which subject to impairment			
				Of which defaulted				
010	On-balance-sheet exposures	**10,682.0**	363.9	363.9	10,680.3	(289.7)		—
	United Kingdom	**9,358.7**	340.5	340.5	9,357.0	(275.1)		—
	Ireland	**688.8**	15.6	15.6	688.8	(7.1)		—
	Netherlands	**96.4**	—	—	96.4	(0.1)		—
	Jersey	**89.8**	1.3	1.3	89.8	(3.9)		—
	Switzerland	**89.7**	—	—	89.7	—		—
	Canada	**78.4**	—	—	78.4	(0.1)		—
	France	**64.6**	—	—	64.6	—		—
	Other countries	**215.6**	6.5	6.5	215.6	(3.4)		—
020	Off-balance-sheet exposures	**1,335.9**	0.2	0.2			0.1	
	United Kingdom	**1,297.2**	0.2	0.2			0.1	
	Germany	**28.9**	—	—			—	
	Other countries	**9.8**	—	—			—	
030	**Total**	**12,017.9**	364.1	364.1	10,680.3	(289.7)	0.1	—

1 Included in rows "other countries" are aggregated on and off-balance sheet exposures to countries under 1% of total gross carrying amounts (column a, rows 010 and 020). Included in other countries are immaterial exposures to Cayman Islands, Cyprus, Finland, Germany, Guernsey, Ireland, Isle of Man, Jersey, Luxembourg, Malta, Monaco, New Zealand, Norway, Poland, United States, British Virgin Islands.

UK CQ5 - Credit quality of loans and advances to non-financial corporations by industry (2022)

£m		a	b	c	d	e	f
		Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which loans and advances subject to impairment		
				Of which defaulted			
010	Agriculture, forestry and fishing	**41.6**	0.7	0.7	41.6	(0.9)	—
020	Mining and quarrying	**31.8**	0.2	0.2	31.8	(0.2)	—
030	Manufacturing	**829.5**	13.9	13.9	829.5	(11.5)	—
040	Electricity, gas, steam and air conditioning supply	**435.3**	11.2	11.2	435.3	(2.2)	—
050	Water supply	**79.0**	2.1	2.1	79.0	(1.0)	—
060	Construction	**1,943.2**	131.4	131.4	1,943.2	(42.7)	—
070	Wholesale and retail trade	**555.2**	5.4	5.4	555.2	(7.7)	—
080	Transport and storage	**544.9**	11.9	11.9	544.9	(8.0)	—
090	Accommodation and food service activities	**39.6**	0.5	0.5	39.6	(0.5)	—
100	Information and communication	**102.2**	16.2	16.2	102.2	(15.2)	—
110	Real estate activities	**47.5**	1.3	1.3	47.5	(0.4)	—
120	Financial and insurance activities	**7.3**	—	—	7.3	—	—
130	Professional, scientific and technical activities	**237.3**	15.1	15.1	237.3	(9.5)	—
140	Administrative and support service activities	**726.3**	4.7	4.7	726.3	(6.3)	—
150	Public administration and defence, compulsory social security	**3.2**	—	—	3.2	(0.1)	—
160	Education	**27.0**	1.4	1.4	27.0	(0.3)	—
170	Human health services and social work activities	**93.8**	0.4	0.4	93.8	(1.1)	—
180	Arts, entertainment and recreation	**145.9**	4.0	4.0	145.9	(2.1)	—
190	Other services	**180.5**	2.6	2.6	180.5	(2.1)	—
200	**Total**	**6,071.1**	**223.0**	**223.0**	**6,071.1**	**(111.8)**	**—**

UK CQ6 - Collateral valuation - loans and advances

As required by CRR, template UK CQ6 has not been presented as it is subject to the 5% threshold. Non-performing loans and advances comprise less than 5% of total loans and advances.

UK CQ7 - Collateral obtained by taking possession and execution processes (2022)

		a	b
		Collateral obtained by taking possession	
£m		Value at initial recognition	Accumulated negative changes
010	Property, plant and equipment (PP&E)	—	—
020	Other than PP&E	**19.3**	**(6.4)**
030	*Residential immovable property*	—	—
040	*Commercial Immovable property*	—	—
050	*Movable property (auto, shipping, etc.)*	***19.3***	***(6.4)***
060	*Equity and debt instruments*	—	—
070	*Other collateral*	—	—
080	**Total**	**19.3**	**(6.4)**

UK CQ8 - Collateral obtained by taking possession and execution processes – vintage breakdown

As required by CRR, template UK CQ8 has not been presented as it is subject to the 5% threshold. Non-performing loans and advances comprise less than 5% of total loans and advances.

Annex XVII: Credit risk mitigation (CRM) techniques

UK CRC – Information related to CRM techniques

(a) Core policies and processes for on- and off-balance sheet netting (Article 453 (a) CRR)

Financial assets and liabilities are offset and the net amount reporting in the balance sheet when the entity has a legally enforceable right to set off the recognisable amounts and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(b) The core features of policies and processes for eligible collateral evaluation (Article 453 (b) CRR)

Policies and procedures govern the protection of the group's position from the outset of a customer relationship for example, requiring standard terms and conditions and through controls over the integrity and, if necessary, realisation of collateral.

Core features include:

- Assets must be sufficiently liquid and their value stable over time;
- The bank must have the right to liquidate / retain the asset in a timely manner upon borrower default or insolvency;
- The collateral can be realised within a reasonable timeframe; and
- The CRM technique used should be legally enforceable.

(c) Main types of collateral taken by Close Brothers to mitigate credit risk (Article 453 (c) CRR)

As security for its loans, the group takes physical assets (such as property, vehicles or energy installations) as collateral. These physical assets do not have an inherent maturity or expiry date. However, no collateral is recognised to mitigate credit risk under the standardised approach.

As at 31 July 2022, the group recognised £718.6m of credit risk mitigation with substitution effect which relate to the loans granted with government guarantees under coronavirus support schemes.

(d) Guarantees and credit derivatives used as credit protection (Article 453 (d) CRR)

Close Brothers does not apply any unfunded credit protection. Whilst receipt of guarantees is a common feature within the terms of a credit agreement these are not captured in regulatory calculations with the exception of loans granted with government guarantees under coronavirus support schemes. The group does not buy protection via credit derivatives and does not have any credit derivatives in its banking portfolio.

(e) Information about market or credit risk concentrations within the credit mitigation taken (Article 453 (e) CRR)

The Group considers credit and market risk concentrations with a view to ensuring that any potential undue concentrations are identified and suitably managed.

UK CR3 - CRM techniques overview: Use of credit risk mitigation techniques (2022)

		Unsecured carrying amount	Secured carrying amount			
				Of which secured by collateral	Of which secured by financial guarantees	
						Of which secured by credit derivatives
£m		a	b	c	d	e
1	Loans and advances	**3,370.7**	**7,804.0**	7,559.3	244.7	—
2	Debt securities	**600.4**	**—**	—	—	
3	**Total**	**3,971.1**	**7,804.0**	**7,559.3**	**244.7**	—
4	*Of which non-performing exposures*	**28.9**	**174.9**	160.0	14.9	—
5	*Of which defaulted*	**28.9**	**174.9**			

Annex XIX: Standardised approach

UK CRD - Information related to standardised model

(a) Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) (Article 444 (a) CRR)

Close Brothers uses ECAI ratings provided by Moody's Investors Service ("Moody's") to determine the risk weight of rated counterparties in each standardised credit risk exposure class.

(b) The exposure classes for which each ECAI or ECA is used (Article 444 (b) CRR)

ECAI ratings are used for determining the risk weight of central governments, central banks and institutions. ECAI ratings are used for exposures to multilateral development banks where it is not listed in CRR article 117 and would receive a 0% risk weighting as well as exposure to public sector entities that do not have central government guarantees.

(c) The process used to transfer the issuer and issue credit ratings onto comparable assets items not included in the trading book (Article 444 (c) CRR)

Close Brothers applies an unrated risk weight according to the relevant CRR articles for the standardised exposure classes as mentioned above where the ECAI rating is unavailable and does not use issuer or issue credit assessments under CRR article 139.

(d) The association of the external rating of each nominated ECAI or ECA with the risk weights that correspond with the credit quality steps (Article 444 (d) CRR)

ECAIs ratings are mapped across to the Credit Quality Step requirements in CRR using EBA mappings.

UK CR4 - Standardised approach – Credit risk exposure and CRM effects (2022)

£m	Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWAs	RWAs density (%)
		a	b	c	d	e	f
1	Central governments or central banks	**1,702.9**	**—**	**2,421.5**	**—**	**82.1**	3.4
2	Regional government or local authorities	**11.9**	**—**	**11.9**	**—**	**2.4**	20.0
3	Public sector entities	**27.8**	**—**	**27.8**	**—**	**5.6**	20.0
4	Multilateral development banks	**—**	**—**	**—**	**—**	**—**	—
5	International organisations	**—**	**—**	**—**	**—**	**—**	—
6	Institutions	**350.9**	**—**	**350.9**	**—**	**90.9**	25.9
7	Corporates	**2,854.9**	**154.9**	**2,472.1**	**51.6**	**2,254.5**	89.3
8	Retail	**4,384.9**	**34.1**	**4,083.5**	**13.9**	**2,797.3**	68.3
9	Secured by mortgages on immovable property	**217.8**	**15.8**	**217.8**	**4.7**	**204.7**	92.0
10	Exposures in default	**143.3**	**0.1**	**109.2**	**—**	**137.7**	126.1
11	Exposures associated with particularly high risk	**1,218.4**	**1,014.6**	**1,218.0**	**56.2**	**1,911.2**	150.0
12	Covered bonds	**—**	**—**	**—**	**—**	**—**	—
13	Institutions and corporates with a short-term credit assessment	**—**	**—**	**—**	**—**	**—**	—
14	Collective investment undertakings	**—**	**—**	**—**	**—**	**—**	—
15	Equity	**1.3**	**—**	**1.3**	**—**	**1.3**	100.0
16	Other items	**630.5**	**—**	**630.5**	**—**	**630.5**	100.0
17	Total	**11,544.5**	**1,219.5**	**11,544.5**	**126.4**	**8,118.2**	69.6

UK CR5 - Standardised approach (2022)

£m	Exposure classes	Risk weight															Total	Of which unrated
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others		
		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
1	Central governments or central banks	2,388.7	—	—	—	—	—	—	—	—	—	—	32.9	—	—	—	**2,421.5**	—
2	Regional government or local authorities	—	—	—	—	11.9	—	—	—	—	—	—	—	—	—	—	**11.9**	—
3	Public sector entities	—	—	—	—	27.8	—	—	—	—	—	—	—	—	—	—	**27.8**	—
4	Multilateral development banks	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**—**	—
5	International organisations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**—**	—
6	Institutions	—	—	—	—	300.3	—	50.1	—	—	—	—	—	—	0.5	—	**350.9**	1.4
7	Corporates	—	—	—	—	—	—	—	—	—	2,523.7	—	—	—	—	—	**2,523.7**	2,523.7
8	Retail exposures	—	—	—	—	—	—	—	—	4,097.4	—	—	—	—	—	—	**4,097.4**	—
9	Exposures secured by mortgages on immovable property	—	—	—	—	—	—	—	—	—	222.5	—	—	—	—	—	**222.5**	—
10	Exposures in default	—	—	—	—	—	—	—	—	—	52.3	56.9	—	—	—	—	**109.2**	109.2
11	Exposures associated with particularly high risk	—	—	—	—	—	—	—	—	—	—	1,274.2	—	—	—	—	**1,274.2**	1,274.2
12	Covered bonds	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**—**	—
13	Exposures to institutions and corporates with a short-term credit assessment	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**—**	—
14	Units or shares in collective investment undertakings	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**—**	—
15	Equity exposures	—	—	—	—	—	—	—	—	—	1.3	—	—	—	—	—	**1.3**	1.3
16	Other items	—	—	—	—	—	—	—	—	—	630.5	—	—	—	—	—	**630.5**	630.5
17	**Total**	**2,388.7**	**—**	**—**	**—**	**340.0**	**—**	**50.1**	**—**	**4,097.4**	**3,430.2**	**1,331.1**	**32.9**	**—**	**0.5**	**—**	**11,670.9**	**4,540.2**

Annex XXI: IRB approach to credit risk

Close Brothers does not use the Internal Ratings Based (IRB) approaches for credit risk and capital management and so the tables and templates in this annex have not been presented.

Annex XXIII: Specialised lending

Close Brothers does not use the Internal Ratings Based (IRB) approaches for credit risk and capital management and so the tables and templates in this annex have not been presented.

Annex XXV: Counterparty credit risk

UK CCRA - Information related to CCR

(a) Methodology used to assign internal capital and credit limits for counterparty credit exposures (Article 439 (a) CRR)

Close Brothers does not use the internal ratings approach for rating derivative counterparties. Counterparty Credit Risk arises from the need to enter derivatives transactions to support the Group's treasury operations. Capital allocation is a consequence of those operations. Credit limits are approved at Group Credit Committee under delegated authority from the Board.

(b) Policies related to guarantees and other credit risk mitigants (Article 439 (b) and (h) CRR)

Close Brothers does not enter into guarantees to mitigate counterparty credit risk. Collateral is posted and received via standard ISDA agreements with credit support annexes. The group does not have a hedging programme for CVA risk.

(c) Description of policies with respect to Wrong-Way risk (Article 439 (c) CRR)

Close Brothers enters into transactions with highly rated counterparties under standard ISDA agreements. Cash collateral is posted or received and provided against these agreements avoiding wrong-way risk.

(d) Any other risk management objectives and relevant policies related to CCR (Article 431 (3) and (4) CRR)

Counterparty credit risk arises only as a consequence of the Group's Treasury operations and equivalent operations within Subsidiaries through a small number of derivatives agreements.

(e) The amount of collateral Close Brothers would have to provide if its credit rating was downgraded (Article 439 (d) CRR)

Were the group's credit rating to be downgraded the amount of collateral it would have to provide would be unchanged.

UK CCR1 - Analysis of CCR exposure by approach (2022)

		a	b	c	d	e	f	g	h
£m		Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
UK1	Original Exposure Method (for derivatives)	72.0	98.5	—	1.4	238.6	238.6	**238.6**	**113.6**
UK2	Simplified SA-CCR (for derivatives)	—	—	—	1.4	—	—	—	—
1	SA-CCR (for derivatives)	—	—	—	1.4	—	—	—	—
2	IMM (for derivatives and SFTs)	—	—	—		—	—	—	—
2a	Of which securities financing transactions netting sets	—	—	—		—	—	—	—
2b	Of which derivatives and long settlement transactions netting sets	—	—	—		—	—	—	—
2c	Of which from contractual cross-product netting sets	—	—	—		—	—	—	—
3	Financial collateral simple method (for SFTs)	—	—	—		—	—	—	—
4	Financial collateral comprehensive method (for SFTs)					48.4	48.4	**48.4**	**9.7**
5	VaR for SFTs					—	—	—	—
6	**Total**					**287.0**	**287.0**	**287.0**	**123.3**

UK CCR2 - Transactions subject to own funds requirements for CVA risk (2022)

£m		a	b
		Exposure value	RWEA
1	Total transactions subject to the Advanced method	—	—
2	(i) VaR component (including the 3× multiplier)		—
3	(ii) stressed VaR component (including the 3× multiplier)		—
4	Transactions subject to the Standardised method	**238.6**	**135.8**
UK4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	—	—
5	**Total transactions subject to own funds requirements for CVA risk**	**238.6**	**135.8**

UK CCR3 - Standardised approach – CCR exposures by regulatory exposure class and risk weights (2022)

£m	Exposure classes	Risk weight											
		a	b	c	d	e	f	g	h	i	j	k	l
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total exposure value
1	Central governments or central banks	—	—	—	—	—	—	—	—	—	—	—	**—**
2	Regional government or local authorities	—	—	—	—	—	—	—	—	—	—	—	**—**
3	Public sector entities	—	—	—	—	—	—	—	—	—	—	—	**—**
4	Multilateral development banks	—	—	—	—	—	—	—	—	—	—	—	**—**
5	International organisations	—	—	—	—	—	—	—	—	—	—	—	**—**
6	Institutions	—	—	—	—	67.3	219.7	—	—	—	—	—	**287.0**
7	Corporates	—	—	—	—	—	—	—	—	—	—	—	**—**
8	Retail	—	—	—	—	—	—	—	—	—	—	—	**—**
9	Institutions and corporates with a short-term credit assessment	—	—	—	—	—	—	—	—	—	—	—	**—**
10	Other items	—	—	—	—	—	—	—	—	—	—	—	**—**
11	**Total exposure value**	**—**	**—**	**—**	**—**	**67.3**	**219.7**	**—**	**—**	**—**	**—**	**—**	**287.0**

UK CCR4 - IRB approach – CCR exposures by exposure class and PD scale

Close Brothers does not use the Internal Ratings Based (IRB) approaches for credit risk and capital management and so the tables and templates in this annex have not been presented.

UK CCR5 - Composition of collateral for CCR exposures (2022)

		a	b	c	d	e	f
		Collateral used in derivatives transactions				Collateral used in securities financing transactions (SFTs)	
		Fair value of collateral received (£mn)		Fair value of collateral posted (£mn)		Fair value of collateral received (£mn)	Fair value of collateral posted (£mn)
£m	Collateral type	Segregated	Unsegregated	Segregated	Unsegregated		
1	Cash	—	6.1	—	32.3	—	—
2	Debt	—	—	—	—	—	15.6
3	Equity	—	—	—	—	—	32.3
4	Other	—	—	—	—	—	—
5	**Total**	**—**	**6.1**	**—**	**32.3**	**—**	**47.9**

UK CCR6 – Credit derivative exposures

Close Brothers does not use credit derivatives to mitigate credit risk so this template has not been presented.

UK CCR7 – RWEA flow statements of CCR exposures under the IMM

Close Brothers does not use the Internal Model Method for CCR exposures so this template has not been presented.

UK CCR7 – Exposures to CCPs

Close Brothers does not have any exposures to CCPs so this template has not been presented.

Annex XXVII: Securitisation positions

Close Brothers has securitised without recourse and restrictions £1,626.8 million (31 July 2021: £1,386.0 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £1,022.4 million (31 July 2021: £915.7 million). This includes the £24.3 million (31 July 2021: £72.1 million) retained notes positioned as collateral with the Bank of England.

As the group has retained exposure to substantially all the credit risk and rewards of the residual benefit of the underlying assets it continues to recognize these assets in loans and advances to customers in its consolidated balance sheet. As a result, the group does not calculate risk weighted assets on the securitised loans in accordance with Chapter 5 of Title II of Part Three of CRR or in accordance with articles 337 or 338 and so the tables and templates in this annex as per CRR article 449 have not been presented.

Annex XXIX: Standardised approach and internal model for market risk

UK MRA - Information related to market risk

(a) Close Brothers' strategies and processes to manage market risk (Points (a) and (d) of Article 435 (1) CRR)

Traded market risk in the group only arises in Winterflood Securities Ltd, 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.

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

Interest rate risk is predominantly incurred in the banking division as a result of the bank's lending and funding activities. Interest rate risk in the group's other divisions is considered to be immaterial.

Foreign exchange risk is incurred across the group and arises from:

- Managing the funding requirements of the bank's lending subsidiaries through deposit gathering and wholesale funding and managing the associated FX risks;
- Conducting foreign exchange payment services on behalf of the group; and
- Non-sterling investments, for example, GmbH.

The group has a simple and transparent balance sheet and a low appetite for interest rate risk which is limited to that required to operate efficiently. The group's policy is to match repricing characteristics of assets and liabilities naturally where possible or by using interest rate swaps to secure the margin on its loans and advances to customers. These interest rate swaps are disclosed in note 14 of the group's Annual Report.

The group also has a low appetite for foreign exchange risk, avoiding large open positions and applying individual currency limits to mitigate risk.

The group does not use financial instruments for speculation although it retains a limited risk appetite to take advantage of profit opportunities that may arise in the normal course of business.

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

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

As noted above, the group maintains a low appetite for interest rate risk with simple hedging strategies in place to mitigate risk. The banking division's treasury is responsible for hedging the non-traded interest rate risk. Any residual risk which cannot be naturally matched is hedged utilising vanilla derivative transactions to remain within prescribed risk limits. The ALCO is responsible for approving any changes to hedging strategies before implementation.

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

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

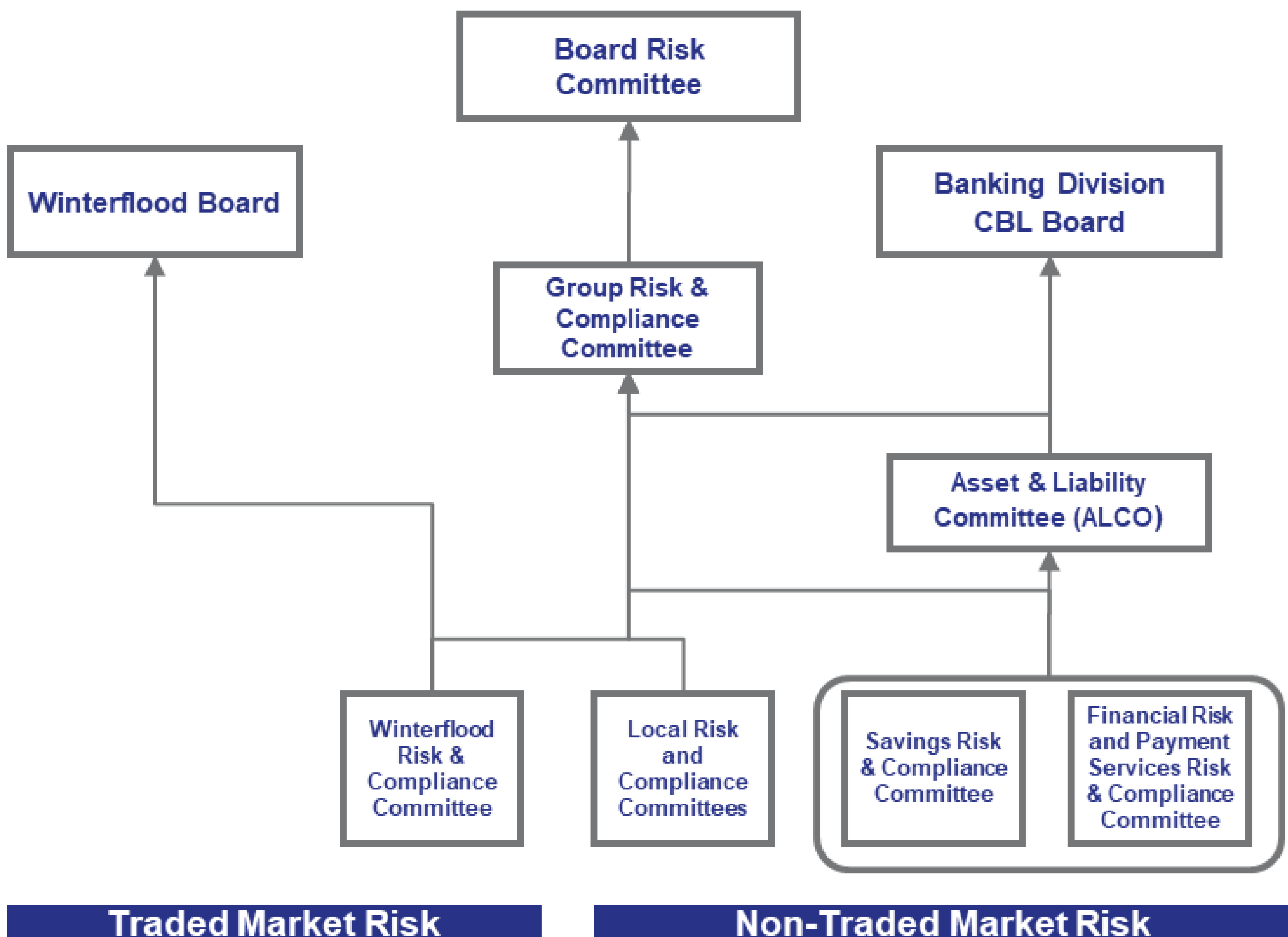
(b) The structure and organisation of the market risk management function (Point (b) of Article 435 (1) CRR)

As noted in Annex III, UK OVA (a), risk appetite is set on a top-down basis by the board.

ALCO is responsible for monitoring the non-traded market risk of the current and future risk profile within defined limits. Treasury are responsible for the day-to-day management of all non-traded market risks. Independent oversight is provided via the second line of defence, through ALM risk, with monthly reporting to ALCO.

Market Risk Governance and Committees

The structure and organisation of the market risk management function, as set out over the page:



(c) Scope and nature of risk reporting and measurement systems (Point (c) of Article 435 (1) CRR)

Traded Market Risk

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

- Market risk appetite being managed via trading book 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 foreign exchange ('FX') book cash risk against agreed limits; and
- Minimal Exposure to derivatives (limited to hedging of interest rate exposures and FX positions resulting from trades in foreign currencies).

Non-Traded Market Risk

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

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

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

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

Day-to-day oversight of non-traded market risk is exercised via a combination of daily reporting by bank finance and review and challenge through local RCCs. Further independent oversight is provided via the second line of defence through ALM risk, with monthly reporting into the ALCO.

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

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

UK MR1 - Market risk under the standardised approach (2022)

		a
		RWEAs
£m	**Outright products**	
1	Interest rate risk (general and specific)	**2.4**
2	Equity risk (general and specific)	**86.0**
3	Foreign exchange risk	**28.1**
4	Commodity risk	**—**
	Options	
5	Simplified approach	**—**
6	Delta-plus approach	**—**
7	Scenario approach	**—**
8	Securitisation (specific risk)	**—**
9	**Total**	**116.5**

UK MRB – Information on the internal Market Risk Models

Close Brothers does not use an internal Market Risk Model for market risk and so this template has not been presented.

UK MR2-A – Market Risk under the Internal Model Approach (IMA)

Close Brothers does not use an Internal Model Approach for market risk and so this template has not been presented.

UK MR2-B – RWA flow statements of market risk exposures under the IMA

Close Brothers does not use an Internal Model Approach for market risk and so this template has not been presented.

UK MR3 – IMA values for trading portfolios

Close Brothers does not use an Internal Model Approach for market risk and so this template has not been presented.

UK MR4 – Composition of VaR estimates with gains/losses

Close Brothers does not use an Internal Model Approach for market risk and so this template has not been presented.

Annex XXXI: Operational risk

UK ORA - Information on operational risk

(a) Risk management objectives and policies (Points (a), (b), (c) and(d) of Article 435(1) CRR)

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

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

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

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

Legal and regulatory risks are also considered as part of operational risk. Failure to comply with existing legal or regulatory requirements, or to adapt to changes in these requirements in a timely fashion, may have negative consequences for the group. Similarly, changes to regulation can impact our financial performance, capital, liquidity and the markets in which we operate.

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

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

Legal and regulatory risks are mitigated by:

- responding in an appropriate, risk-based and proportionate manner to any changes to the legal and regulatory environment as well as those driven by strategic initiatives;
- implementing appropriate and proportionate policies, standards and procedures designed to capture relevant regulatory and legal requirements;
- providing clear advice on legal and regulatory requirements, including in relation to the scope of regulatory permissions and perimeter guidance;
- delivering relevant training to all staff, including anti-money laundering, anti-bribery and corruption, conduct risk, data protection and information security. This is augmented by tailored training to relevant employees in key areas;
- deploying a risk-based monitoring programme designed to assess the extent to which compliant practices are embedded within the business;
- maintaining, where possible, constructive and positive relationships and dialogue with regulatory bodies and authorities; and
- maintaining a prudent capital position with headroom above minimum capital requirements.

(b) Approaches for the assessment of minimum own funds requirements (Article 446 CRR)

The standardised approach ("TSA") is used for Securities, Asset Management and non-lending income in the Banking division. The alternative standardised approach ("ASA") is applied to the loan book and securities exposures in the Banking division.

(c) Description of the AMA methodology approach used (Article 446 CRR) and (d) use of insurance for risk mitigation (Article 454 CRR))

Close Brothers does not apply the Advanced Measurement Approach ("AMA").

UK OR1 - Operational risk own funds requirements and risk-weighted exposure amounts (2022)[1]

	Banking activities	a	b	c	d	e
		Relevant indicator			Own funds requirements	Risk weighted exposure amount
		Year-3	Year-2	Last year		
1	Banking activities subject to basic indicator approach (BIA)	—	—	—	—	—
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	573.0	656.7	599.1	**86.9**	**1,085.8**
3	Subject to TSA:	288.0	342.0	272.6		
4	Subject to ASA:	285.0	314.6	326.5		
5	Banking activities subject to advanced measurement approaches AMA	—	—	—	—	—

1 Amounts in this template shown in £ millions.

Annex XXXIII: Remuneration policy

As per the proportionality levels set out in the PRA's Supervisory Statement on Remuneration (SS2/17), the group is only required to disclose information related to CRR articles 450(1)(a), 450(1)(b), 450(1)(g) and the first part of 450(1)(h) and so templates UK REM1, UK REM2, UK REM3, UK REM4 have not been presented as well as additional information in UK REMA. The qualitative information in table UK REMA is presented in a flexible format covering the group's remuneration policy.

UK REMA – Remuneration policy

Approach to Remuneration

In Accordance with the Remuneration Code, a firm must establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management. Policies and procedures must be comprehensive and proportionate to the nature, scale and complexity of the firm's activities. The Group ensures its approach to remuneration, and in particular variable pay, is aligned with clear risk principles which aim to drive sustainable growth, with no reward for inappropriate risk taking.

The Code and European regulatory technical standards require the Group to identify Material Risk takers (MRTs), being those staff whose activities have a material impact on the firm's risk profile. The Group employed a total of 117 individuals who were identified as MRTs for the year ended 31 July 2022.

RemCo Membership

The Remuneration Committee comprises Bridget Macaskill as chair, together with Mike Biggs, Peter Duffy, Lesley Jones, Mark Pain and Tracey Graham. Tracey Graham joined the committee effective 22 March 2022. The Committee met five times during the year, in-line with the annual meeting timetable. There were two additional ad hoc meetings in September 2021 to finalise 2021 compensation awards.

RemCo Responsibilities

The RemCo's main responsibilities are to:

- Review and determine the total remuneration packages of executive directors and other senior executives, including our MRTs, in consultation with the chairman and chief executive and within the terms of the agreed policy;
- Approve the design 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 loss is fully recognised;
- Review any major changes in employee benefits structures throughout the group;
- Select, appoint and determine terms of reference for independent remuneration consultants to advise the RemCo on remuneration policy and levels of remuneration;
- Ensure that the remuneration structures in the group are compliant with the rules and requirements of regulators and relevant legislation;
- Review and approve individual sales incentives schemes operated in the group and monitor and oversee the operation of those schemes;
- Ensure that provisions regarding disclosure of remuneration are fulfilled;
- Seek advice from group chief risk officer to ensure remuneration structures and annual bonuses are appropriately aligned to the group's risk appetite; and
- Assess and challenge reward outcomes across the group to encourage and ensure pay equity and non-discriminatory practices.

Advice

During the year under review the RemCo consulted and took advice from Deloitte, the chairman of the board, the chief executive, the group head of human resources, the group head of reward and hr operations, the group chief risk officer and the group company secretary. Where the committee seeks advice from employees, such as anyone in a control function, this never relates to their own remuneration.

Remuneration Philosophy

The reward structure aims to:

- Attract, motivate and retain high calibre employees across the group;
- Reward good performance;
- Promote the achievement of the group's long-term strategic objectives;
- Align the interests of employees with those of all key stakeholders, in particular our shareholders and clients, as well as other key stakeholders including regulators; and
- Support good risk management procedures and a positive culture.

Our Approach to Remuneration

The cultural attributes which unite our work force are prudence, integrity, teamwork, service, expertise and relationships. Together these define our culture and the positive behaviours that underpin the high service levels we deliver to our customers. In order to attract the calibre of employees who can support these attributes, compensation must be competitive and designed to encourage the right behaviours.

Although the risk profile of the business is short-term in nature, we seek to promote prudence, strong client relationships and sustained performance over the medium to long term with a remuneration structure for executives and senior employees which includes levels of deferral of the annual bonus and a Long Term Incentive Plan subject to performance measures applicable over a three year period.

All our businesses have a "pay for performance" model. Performance management is integral to our annual compensation review processes and assessment of performance for discretionary bonus awards takes into account a broad range of performance measures, both financial and non financial. These include an assessment of risk management behaviour which ensures that negative behaviours are penalised, resulting in lower or no variable compensation, regardless of financial performance. Our review process to determine annual awards is detailed below.

All employees have individual objectives against which their personal performance is rated. These objectives can include financial metrics (or function-specific objectives where appropriate), but also include all cover non-financial measures, including but not limited to risk management and behavioural objectives appropriate to their roles. Assessment is based on current key performance indicators, as well as long-term actions, where appropriate. We operate a rating approach to performance and employees are rated on a scale of Exceptional to Action Required. We review distribution of performance ratings against a bell curve to encourage differentiation.

These ratings feed the remuneration recommendations for all employees. There is a challenge process, which includes input from senior management and divisional HR, Risk and Compliance. Subsequently there is a further challenge process conducted by Group HR and the Group Executives, with input from Group Risk, Compliance and Internal Audit.

Employees in control function roles have within their total remuneration a greater proportion of fixed pay than those in the front office. Their variable compensation is determined independently from their business unit's performance, and Group Heads of the control functions provide oversight of compensation decisions within their functions, and all MRTs' compensation is reviewed and approved by the Remuneration Committee.

The Group Chief Risk Officer reports independently to the RemCo to ensure that risk and control considerations are accounted for when recommending the overall discretionary bonus proposals and individual bonuses. This process is based on: a top down approach which considers risk at a portfolio level across the group and its businesses, by comparing the risk profile against risk appetite, and a bottom-up approach which considers individuals' performance against their risk related objectives and contribution to the risk and control environment and associated culture (including positive risk behaviours).

The Committee believes the remuneration policies balance the requirements of all key stakeholders, including clients, shareholders, regulators and employees. The main metrics used to ensure an appropriate balance between shareholders and employees are (a) the ratio of total compensation to adjusted operating income, which has remained within the narrow band of 36% to 39% over the last 3 years, and (b) dividends as a % of total compensation, which has historically been in the range of 31% to 34%, although dropped to approximately 20% in FY20, and has increased to 25% in FY21 and 29% in FY22.

The Committee believes that the group's resilient performance over the past three years shows that the group's remuneration policies provide an effective incentive for executives and employees while striking a balance between risk and reward for the business as a whole.

Remuneration Schemes for Code Staff

Remuneration Code Staff (also known as Material Risk Takers) comprises categories of staff whose professional activities have a material impact on the firm's risk profile ("Code Staff"), as stipulated by the Regulatory Technical Standards. The remuneration of Code Staff is subject to specific requirements within the Remuneration Code.

Capital Requirement Directive V ("CRD V") and MIFIDPRU

As a consequence of CRD V being fully adopted by the UK, a maximum 2:1 variable to fixed pay cap applied to all the group's and bank's Material Risk Takers ("MRTs"), including the Executive Directors, from 1 August 2021. During FY22 we have undertaken a review of our Remuneration Policies for our in-scope MIFIDPRU divisions and from FY23 onwards we will implement changes to our policies to ensure we comply with MIFIDPRU. Further details will be provided in next year's Pillar 3 disclosure.

Remuneration

Base Salary

The base salary is designed to attract and retain high calibre employees and reflect an employee's role, skills and knowledge. Salaries are set annually based on an individual's role and experience, pay for the broader employee population and external factors, where applicable.

Bonus Schemes

The majority of employees in the group have the potential to receive a performance related element of pay as part of their overall compensation package. This element is based on a combination of the overall assessment of the performance of the business and individual performance. Employees have individual objectives against which their personal performance is rated. In addition to the assessment of performance against these objectives (conducted by an individual's line manager as part of their overall performance review) the group chief risk officer reports independently to the RemCo on behalf of group risk, compliance and internal audit to ensure that any concerns highlighted by the control functions during the year are appropriately addressed in individual remuneration proposals.

A portion of any discretionary bonus above certain thresholds and for certain individuals is deferred. The Group CEO and Group FD have 60% of their award deferred. Deferral is generally made into Close Brothers Group plc shares but in certain areas, where it is appropriate for the business based on the risk profile of that business, this may be deferred in cash or a cash plan. Both cash and deferred awards for Code Staff are typically subject to forfeiture, malus and clawback provisions. The malus provisions mean that the awards may be subject to forfeiture or may be reduced after grant in certain adverse circumstances. The clawback provisions mean that the awards already paid out may be subject to repayment in certain circumstances.

The aggregate level of bonuses is determined by reference to group and divisional metrics, including financial and non-financial metrics, such as risk, compliance and conduct.

A relatively small percentage of staff in in the group are eligible for formulaic bonus schemes, which are typically structured to generate business, but operate in line with the general principles of the group's bonus arrangements with individual performance and behaviours assessment, and appropriate risk controls.

Long Term Incentive Plan ("LTIP") Award

The LTIP is delivered through an annual award of nil cost options with a face value of up to 125% of base salary for both the Group CEO and the Group Finance Director. Group ExCo members are generally eligible to receive an award of up to 100% of base salary and other senior employees an award of up to 70% of base salary. The RemCo decides annually the actual size of individual awards. The shares vest after three years subject to the following performance targets for the 2022 awards:

- 35% of the award is subject to average Return on Equity (RoE);
- 35% of the award is subject to adjusted earnings per share ("EPS") growth; and
- 30% of the award is subject to risk management objectives.

Targets for the LTIP awards for 2022 were:

Average RoE over three years	Vesting % of RoE element
18% p.a. or greater	100%
Between 18% p.a. and 10% p.a.	Straight-line between these points
10% p.a.	25%
Less than 10% p.a.	0%

Adjusted EPS growth over three years	Vesting % of EPS element
30% or greater	100%
Between 10% and 30%	Straight-line between these points
10%	25%
Less 10%	0%

For Group ExCo members there is an additional two year holding period after vesting, therefore the overall restricted period is five years.

The LTIP awards are subject to forfeiture, malus and clawback provisions.

Risk Management Objectives

There are two objectives, with equal weighting of each:

- Capital and balance sheet management; and
- Risk, compliance and controls.

Close Brothers Asset Management ("CBAM") Incentive Investment Plan

Deferred awards made to CBAM employees are typically made under the CBAM Incentive Investment Plan, alternatively a small population of CBAM employees can choose to defer into CGB plc shares. Awards from the CBAM IIP cliff vest in cash after three years subject to achieving AOP/Operating margin and net flows thresholds. A new performance period starts each year i.e. with each grant. The scheme is subject to forfeiture conditions and malus conditions for Code Staff participants.

Risk Management

The remuneration policy approved by the RemCo is designed to promote sound and effective risk management and to ensure that risk taking within the group does not exceed the group's risk appetite (collectively and individually). The RemCo approves changes to compensation structures for groups of individuals and mandates the involvement of group risk in determining new structures to ensure that they are appropriately aligned to the risk profile of the business in which they operate. The group chief risk officer, group head of compliance, internal audit, and the divisional heads of risk and compliance are closely involved in the remuneration process to ensure that remuneration practices support this. The group chief risk officer reports independently to the RemCo to ensure that remuneration decisions and practices support these objectives. Risk and compliance provide input into, and independent review of, the remuneration policies of the company.

Discretionary bonuses can be adjusted for positive and negative risk and compliance assessments at both an overall spend level (top-down) and individual level (bottom-up), on an ex-ante and ex-post basis. Further details of how the risk adjustments are assessed are as follows:

Top-down review

- Considers risk at a portfolio level across the Group and its businesses by comparing the risk profile against risk appetite; and
- Includes a review of audit reports, risk assurance work and Audit, Risk and Compliance Committee papers, which would identify areas of concern and areas of achievement. It also considers the concept of 'tone from the top'.

Bottom-up review

- Considers individual performance against stated risk related objectives, wider compliance and contributions to the risk and control environment. Includes individual performance reviews and ratings (including behavioural), input from Compliance and Group

Internal Audit on their observations throughout the period, and a review of all relevant data capture systems which record risk events.

Ex-ante review

- Ex-ante risk-adjustment refers to adjustments made to take account of intrinsic risks that are inherent in the Group's business activities. For example, this could be based on the potential for unexpected losses or weak systems and controls that could result in a risk of undetected conduct failings. The Group Chief Risk Officer provides a written paper to the RemCo identifying any potential ex-ante risk.

Ex-post review

- The adjustment of variable remuneration to take account of specific crystallised risk or an adverse performance outcome including those related to misconduct. Ex-post adjustments may include reducing current year awards and the application of malus, and claw-back, particularly in line with regulatory expectations that ex-post adjustments are made where there has been a material adverse impact on the firm's stakeholders, including customers and shareholders. The Group Chief Risk Officer provides a written paper to the RemCo identifying any potential ex-post risk.

Recovery and Withholding

As outlined in the sections above, variable remuneration for Code Staff is subject to both malus and clawback.

The cash bonus is subject to clawback from award for a period of seven years (extendable to ten years where Close Brothers or a regulatory authority has started an investigation) for Executive Directors and Senior Management Function ("SMF"), seven years for "Higher Paid" code staff and one year for other Code Staff.

The deferred bonuses for Code Staff are subject to malus prior to vesting. In addition, the deferred bonuses for Code Staff are subject to clawback from the date of grant for the period of seven years (extendable to ten years where Close Brothers or a regulatory authority has started an investigation) for Executive Directors and Senior Management Function ("SMF"), seven years for "Higher Paid" code staff and five years for other Code Staff.

The LTIP for Code Staff and Executive Directors is subject to malus for the three year period to the point of vesting. In addition, LTIP is subject to clawback from the date of grant for seven years (extendable to ten years where Close Brothers or a regulatory authority has started an investigation) for Executive Directors and Senior Management Function ("SMF"), seven years for "Higher Paid" code staff and five years for other Code Staff.

The events which may trigger malus are as follows:

- The assessment of any performance target or condition in respect of an award or the information used to determine the number of shares subject to an award was based on material error, or materially inaccurate or misleading information;
- (a) You have been terminated for misconduct, or have been issued with a formal disciplinary warning for misconduct under the Company's disciplinary policy; or (b) if you have left employment, the Remuneration Committee becomes aware of circumstances that, in its reasonable opinion, if you had still been in employment, would have led to your employment being terminated for misconduct or to the issue of a formal disciplinary warning for misconduct under the firm's disciplinary policy;
- An event has occurred which has caused, or in the opinion of the Remuneration Committee is reasonably likely to cause, serious reputational damage to the Company or any member of the Group, and for which the Remuneration Committee determines you were wholly or partly responsible;
- The Company or any member of the group suffers a material loss, financial or otherwise, where you have operated outside the risk parameters or risk profile applicable to your position and for which the Remuneration Committee determines you were wholly or partly responsible;
- The payment of the award in whole or in part is not sustainable when assessing the overall financial viability of the Company; and
- The company or a material proportion of the group become(s) insolvent or suffers(s) a corporate failure so that ordinary shares in the company no longer have material value, and for which the Remuneration Committee determines you were wholly or partly responsible. (Executive Directors only).

In the event that one of these is triggered, the Committee may, at its discretion, defer and/or reduce, in whole or in part any unvested award.

The events which may trigger clawback are as follows:

- There has been a material misstatement resulting in an adjustment in the audited consolidated accounts of the Company, or the audited accounts of any Group member, for any financial year that was wholly or partly before the end of the period over which the related bonus or performance target(s) applicable to the award was assessed;
- The assessment of any performance target or condition in respect of an award or the information used to determine the related annual bonus and/or the number of shares subject to an award was based on material error, or materially inaccurate or misleading information;
- The company or a material proportion of the group become(s) insolvent or suffers(s) a corporate failure so that ordinary shares in the company no longer have material value, and for which the Remuneration Committee determines you were wholly or partly responsible;
- (a) Your action or conduct, in the reasonable opinion of the Remuneration Committee, amounts to fraud or gross misconduct; or (b) if you have left employment, the Remuneration Committee becomes aware of events or circumstances that, in its reasonable opinion, if you had still been in employment, would have amounted to fraud or gross misconduct;
- An event has occurred which is reasonably likely to cause serious reputational damage to the Company or any member of the group and for which the Remuneration Committee determines you were wholly or partly responsible; and

- The Company suffers a material loss, financial or otherwise, where you have operated outside the risk parameters or risk profile applicable to your position and for which the Remuneration Committee determines you were wholly or partly responsible. (Executive Directors only).

In the event that one of these is triggered, the Committee may require the employee to repay all or part of a relevant award, and any associated dividend equivalents.

Link between reward and performance - financial year 2022

Overall, the group reported a 13% decrease in adjusted operating profit to £234.8 million (2021: £270.7 million), returning to pre-crisis levels and achieving a return on opening equity, our key financial measure, of 10.6%. The group's performance benefited from significantly lower impairment charges in the lending business and higher income levels across all divisions. Banking adjusted operating profit increased to £91.0m (2021: £52.8m). Asset Management adjusted operating profit marginally decreased to £21.7m (2021: £23.7m) and the Securities division saw a 48% reduction in performance with adjusted operating profit increasing to £14.1m (2021: £60.9m).

These factors were taken into consideration in determining bonus payments for the Material Risk Takers for the financial year.

UK REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (2022)

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						
£m		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	Total number of identified staff										117.0
2	Of which: members of the MB	10.0	2.0	12.0							
3	Of which: other senior management				10.0	7.0	13.0	3.0	1.0	—	
4	Of which: other identified staff				20.0	22.0	24.0	5.0	—	—	
5	Total remuneration of identified staff	1.1	3.4	4.5	13.0	10.9	12.1	3.9	0.2	—	
6	Of which: variable remuneration	—	1.8	1.8	6.5	4.9	5.3	1.7	—	—	
7	Of which: fixed remuneration	1.1	1.6	2.7	6.5	6.0	6.8	2.2	0.2	—	

Annex XXXV: Encumbered and unencumbered assets

UK AE1 - Encumbered and unencumbered assets (2022)[1]

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
£m		010	030	040	050	060	080	090	100
010	Assets of the reporting institution	**2,113.4**	170.4			**10,118.7**	1,246.8		
030	Equity instruments	**1.4**	—	1.4	—	**36.2**	0.2	36.2	0.2
040	Debt securities	**142.8**	141.8	142.8	141.8	**400.1**	108.1	400.1	108.1
050	of which: covered bonds	**—**	—	—	—	**—**	—	—	—
060	of which: securitisations	**—**	—	—	—	**—**	—	—	—
070	of which: issued by general governments	**142.8**	141.8	142.8	141.8	**111.3**	108.1	111.3	108.1
080	of which: issued by financial corporations	**—**	—	—	—	**295.3**	—	295.3	—
090	of which: issued by non-financial corporations	**—**	—	—	—	**0.5**	—	0.5	—
120	Other assets	**1,974.2**	29.1			**9,787.0**	1,129.9		

1 Median values calculated based on the last reporting date of each calendar quarter.

UK AE2 – Collateral received and own debt securities issued (2022)[1]

		Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
				Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
£m		010	030	040	060
130	Collateral received by the reporting institution	**95.7**	76.0	**32.2**	9.2
140	Loans on demand	**—**	—	**—**	—
150	Equity instruments	**21.9**	7.2	**15.2**	3.9
160	Debt securities	**72.8**	67.5	**9.7**	7.7
170	of which: covered bonds	**—**	—	**—**	—
180	of which: securitisations	**—**	—	**—**	—
190	of which: issued by general governments	**72.8**	67.5	**9.7**	7.7
200	of which: issued by financial corporations	**—**	—	**—**	—
210	of which: issued by non-financial corporations	**—**	—	**—**	—
220	Loans and advances other than loans on demand	**—**	—	**—**	—
230	Other collateral received	**—**	—	**3.6**	—
240	Own debt securities issued other than own covered bonds or securitisations	**—**	—	**—**	—
241	Own covered bonds and asset-backed securities issued and not yet pledged			**—**	—
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	**2,209.1**	**246.4**		

1 Median values calculated based on the last reporting date of each calendar quarter.

UK AE3 – Sources of encumbrance (2022)[1]

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
£m		010	030
010	**Carrying amount of selected financial liabilities**	**1,470.3**	**2,109.9**

1 Median values calculated based on the last reporting date of each calendar quarter.

UK AE4 – Accompanying narrative information

(a) Information on asset encumbrance

Asset encumbrance is the process by which assets are pledged in order to secure, collateralise or credit-enhance a financial transaction from which they cannot be freely withdrawn.

There are no differences in the scope of consolidation for the purposes of asset encumbrance disclosures and those applied for liquidity requirements.

Templates UK AE1, UK AE2 and UK AE3 use accounting values which reflect the median of the sums of the four calendar quarter-end values over the previous 12 months as per CRR disclosure requirements.

There are no differences between the treatment of transactions that have been pledged and transferred compared to their level of encumbrance and status.

(b) Information on the impact of the business model on asset encumbrance and the importance of encumbrance to the institution’s business model

As an integral aspect of its business, the group engages in activities that result in certain assets being encumbered. The main activity relates to securitisation which is explained in Annex XXVII, which includes comparatives, and from accessing the Bank of England’s Term Funding Scheme with Additional Incentives for SMEs ("TFSME") of which more information is set out in note 28 of the group’s Annual Report. The group also pledges assets for repurchase agreements and securities borrowing agreements, mainly in our Securities division. These assets are included in row 120 of template UK AE1 with the corresponding liabilities in template UK AE3.

ALCO monitors the level of encumbrance to ensure it remains within approved risk appetite limits which are based on loan book and balance sheet encumbrance levels. Further information on asset encumbrance and collateralisation can be found in note 28 of the group’s Annual Report under the section “Assets pledged and received as collateral” and “Financial assets: loans and advances to customers”.

There is no material difference in the level of encumbrance between entities within the group whether on a group or individual basis.

Most encumbered assets disclosed in template UK AE1 are denominated in sterling with the majority of unencumbered assets included in column 060 available for encumbrance and only a small proportion of other assets deemed unavailable for encumbrance in the normal course of business (including derivatives, fixed assets, intangible assets and deferred tax assets).

Annex XXXVII: Interest rate risk in the banking book (IRRBB)

UK IRRBBA – IRRBB risk management objectives and policies

(a) How Close Brothers defines, measures, mitigates and controls IRRBB for the purposes of risk control and measurement

Close Brothers' exposure to interest rate risk arises in the Banking division. Interest rate risk in the group's other divisions is immaterial, and accordingly the remainder of this section relates exclusively to the Banking division.

The Board is responsible for setting the banks' market risk appetite, with the Asset and Liabilities Committee (ALCO) delegated authority for recommending appetites consistent with the banks' long-term strategy.

The group adopts a three lines of defence model to the management of Market risk, with Treasury engaged in first-line responsibilities, robust check and challenge performed by second line ALM Risk and Model Validation teams, and third line responsibilities discharged by Internal Audit. This governance structure is a key principle supporting the comprehensive risk framework together with policies, standards, metrics and limits.

The group has a simple and transparent balance sheet and a low appetite for interest rate risk that is limited to that required to operate efficiently. There are three main sources of interest rate risk for the Bank, which could adversely impact future income or the value of the balance sheet:

- **Repricing risk** which occurs when assets and liabilities reprice at different times;
- **Product optionality risk** which occurs as a result of special conditions attached to contract terms embedded in some assets and liabilities. For example, the right to prepay a loan at any time; and
- **Basis risk** which occurs where there is a mismatch in the interest rate reference rate for floating rate assets and liabilities.

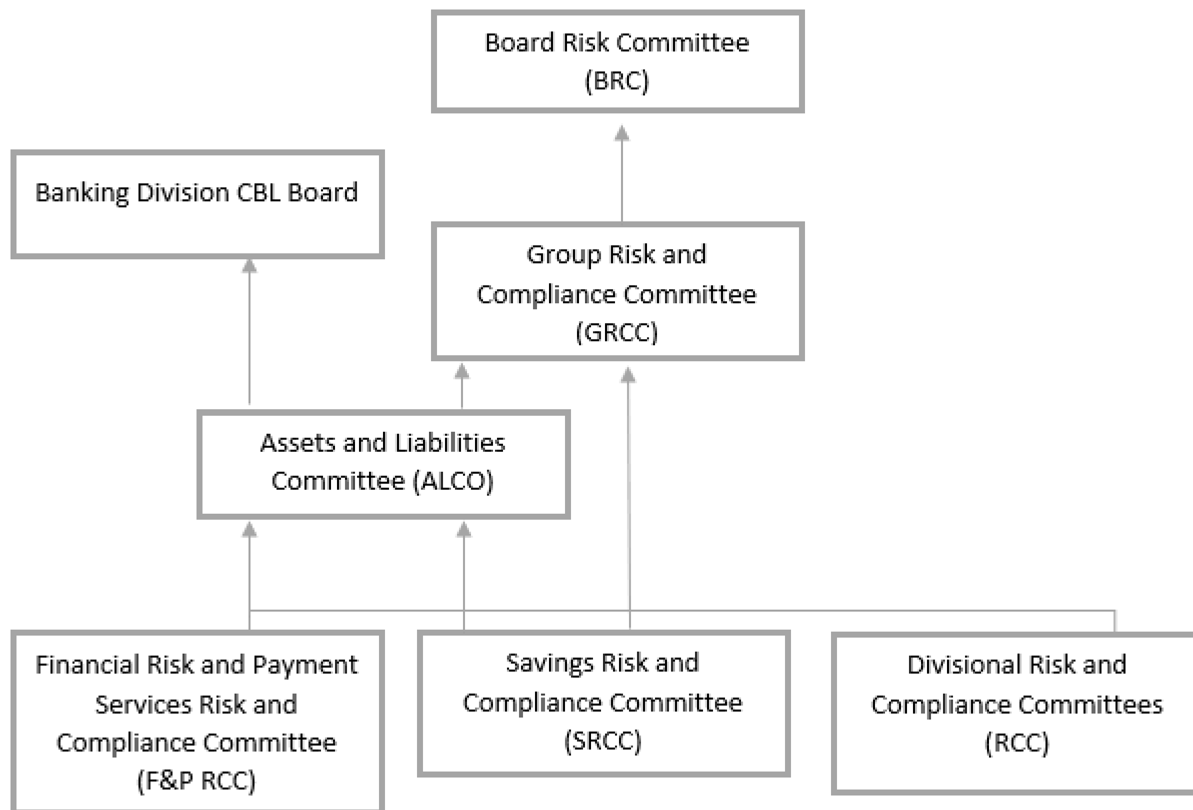
Principle Risk	Mitigating Actions	Controls
Repricing Risk	• The Group's strategy for IRRBB is to centrally manage and control interest rate risk by transferring risk from the lending businesses to the Treasury function. • Group policy is for Treasury to match the repricing characteristics of assets and liabilities naturally where possible via a match funding process or by using interest rate swaps where necessary.	Bank-wide EV and EaR metrics measure the effectiveness of risk transference and subsequent management. Limits are set at a bank-wide level with sub-limits applied at a business-level. Dedicated first and second line ALM functions ensure there is appropriate independent review and challenge of the risk transfer process and for the management of centralised interest rate risks. Divisional business risk and compliance forums ensure the funding proposed is within defined risk tolerances, with exceptions escalated and remediated in a timely fashion.
Optionality Risk	• The presence of product optionality serves to protect the lending businesses against adverse movements in rates and limit scope for margin compression. • Treasury and Risk work with the lending businesses to ensure the option strategy is consistent with the overall IRRBB strategy and within defined tolerances.	Bank-wide EV and EaR metrics measure the impact of optionality within the lending businesses. The impact of optionality is discussed at divisional risk and compliance forums to ensure this risk is appropriately monitored by Treasury and Risk. Additionally, optionality risk is covered in the annual review of the interest rate risk in each business line.
Basis Risk	• LIBOR transition has reduced the materiality of basis risk exposure across the bank, particularly in the lending businesses. • Lending businesses are now increasingly priced and funded off the same reference rate, consistent with the risk transference model.	Businesses submit their Basis risk exposures, and these are monitored and challenged through local divisional risk and compliance forums. Basis risk is monitored on a monthly basis. Basis risk triggers and EWI limits are reviewed by Treasury & Savings risk committees on a semi-annual basis to ensure they remain appropriate.
Behavioural Risk	• Independently validated prepayment behaviours are calculated and applied to loan book runoff profiles. • The codification of behaviours ensures the match funding process captures the expected underlying behavioural loan book profile.	Behavioural assumptions are calculated by the business functions, where they are signed off by divisional risk and compliance forums, and reviewed and challenged by Group ALM as part of three lines of defence framework. ALCO review material changes to existing behaviours and approve application of behavioural assumptions to new business areas.

(b) Close Brothers' overall IRRBB management and mitigation strategies

Interest rate risk is managed by a governance hierarchy responsible for market risk strategy and the discharge of oversight by means of timely monitoring and reporting.

IRRBB Governance and Committees

The structure and organisation of the market risk management function, as set out over the page (see also UK MRA in Annex XXIX for more information):



Divisional Risk and Compliance committees monitor market risk within the individual business units. The committees conduct timely reviews of local risk metrics and early warning indicators including escalating any breaches to the Group Risk and Compliance Committee as required.

Divisional limits and controls:

- Each business unit has procedures and controls in place to monitor its exposures;
- Each business unit is responsible for the review of the completeness, accuracy and timeliness of the risk transfer to Treasury, in line with the Bank standards; and
- Business units operate within limits that are approved by the relevant divisional board or committee on an at least annual basis.

ALCO is responsible for the monitoring of the current and future risk profile within defined limits. ALCO reviews and challenges the effectiveness of the approach to management and control of IRRBB and ensures it is proportionate to the size, complexity and scope of the Bank. ALCO is responsible for approving any changes to hedging strategies before implementation.

Regular risk reporting, recommendations and issues for escalation are presented to the Board Risk Committee via the Group Risk and Compliance Committee.

(c) The periodicity of the calculation of Close Brothers' IRRBB measures

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

- EaR measures short term impacts to earnings, including basis and embedded optionality risk, highlighting any earnings sensitivity should rates change unexpectedly; and
- EV measures longer term earnings capacity due to rate changes, it highlights potential future sensitivity of earnings, and ultimately risk to capital.

The bank has internal risk limits set against these measures. These measures are calculated using a number of key assumptions and reported monthly through ALCO and risk committees.

The Bank measures the impact of a change in interest rates on the economic value of equity (EVE) of its non-trading book activities, at least quarterly, under the internal capital adequacy assessment (ICAA) 9.4A, applying where applicable the principals outlined in Supervisory Statement SS31/1. Exposure to interest rates risk from all divisions is centralised in Treasury by policy. Treasury manage risk exposure to limits by currency and also monitor and report EVE and EaR exposure within Treasury on a daily basis.

(d) Interest rate shock and stress scenarios that Close Brothers uses to estimate changes in its economic value and in earnings

The Bank calculates the EV under six prescribed and two internally defined interest rate shock scenarios. EaR is calculated against parallel up and down shocks and two internally defined interest rate shock scenarios.

The prescribed scenarios are calculated in accordance with the interest shocks scenarios outlined under the ICAA, including two parallel and four non-parallel shocks.

- Parallel shock up
- Parallel shock down
- Steepener shock
- Flattener shock
- Short rates shock up
- Short rates shock down

The two internal scenarios, 'All rates increase 50bps' and 'All rates decrease 50bps', are monitored and reported to ALCO monthly. Semi-annual reviews are presented to ALCO to ensure the internal scenarios remain appropriate. The Board approves the banks risk appetite of non-traded market risk annually. More information on stress testing can be found in Annex III.

(e) A high-level description of key modelling and parametric assumptions used in calculating change in economic value of equity (ΔEVE) and change in net interest income (ΔNII) in template UK IRRBB1

Economic Value (EV and EVE) measures are calculated as the difference between the base scenario and the stressed scenarios under a run-off balance sheet.

EV calculation includes the Net free reserves (capital) in line with how lending business units fund their loan book.

EVE calculation excludes the equity positions by allocating it to the overnight bucket.

Behavioural modelling is used to model early prepayment rates which are calculated by lending business for fixed term loans. Estimated maturity is assigned to non-maturity loans and facilities.

Impact of any embedded options within the banks' assets and liabilities are also measured under the base and the stress scenarios.

Notice accounts repricing is set to overnight.

Earnings (EaR) measures are calculated on a constant balance sheet over a one-year time horizon. Maturing assets and liabilities are assumed to be reinvested at maturity with a duration of one year.

Changes in interest rates are modelled to fully pass the rate change on both assets and liabilities at maturity for fixed rate products and at next repricing date for floating rate.

For EV, EVE and EaR, no management action are modelled within the base or stress scenarios in response to interest rates changing.

The Bank uses a market standard risk measurement system to measure and monitor IRRBB for all measures across the range of interest rate shocks.

The bank used shocked values as per PRA guidance for GBP and Euro exposures and a floor on negative 100 bp for all down rates shocks.

(f) Modelling assumptions used in CBG internal measurement systems (IMS) for purposes other than disclosure that differ from the modelling assumptions prescribed for the disclosure in template UK IRRBB1

The Bank has implemented an ALM system to identify, evaluate and measure IRRBB exposure. Where applicable the Bank follows the PRA standardised framework with some minor differences in methodology that exist between the Bank's internal measures and the measures disclosed in Template UK IRRBB1. The impact of these minor differences is considered immaterial.

The only significant modelling assumption which differs between EVE and bank internal EV measure, apart from the treatment of capital discussed above, are scaling factors applied to early prepayment rates per interest rate shock scenario. No change to early prepayment rates is assumed under different interest rate shock scenarios for internal measurements. The short-term nature of the Bank's balance sheet means this difference is not material and is monitored annually.

(g) How CBG hedges its IRRBB, as well as the associated accounting treatment

The Treasury function is responsible for hedging the non-traded interest rate risk within approved EaR and EVE limits that are set by Board. It does this through naturally matching assets and liabilities where possible, with any residual risk being hedged utilising vanilla derivative transactions. Where possible assets are hedged on a portfolio basis, which in turn reduces execution costs and improves Balance Sheet efficiency.

Where we have specific material gross exposures, we hedge these on a back-to-back basis with an external derivative hedge. Partial hedging is also executed when part of the loan position can be naturally matched.

Where possible derivatives are designated into hedge accounting relationships (Fair Value and Cash Flow hedge accounting). Details of the accounting treatment of derivatives and hedge accounting is set out in note 14 of the financial statements within the Annual Report and Accounts 2022.

(h) Other information regarding significance and sensitivity of the IRRBB measures

EVE sensitivity

The Bank measures EV sensitivity, in line with its internal risk appetite, on a monthly basis and EVE sensitivity on a quarterly basis.

EVE measures the change in the value of the Bank's assets and liabilities under prescribed stress scenarios, with equity excluded from calculations. The most severe EVE scenario is parallel shock up encompassing 250bp for GBP which has a sensitivity of £(60m). This corresponds to 4.3% of the bank's Tier 1 capital, which is comfortably within the regulatory 15% threshold.

The primary driver of EVE sensitivity relates to exclusion of Bank's equity position.

NII sensitivity

The Bank measures NII sensitivity on a monthly basis against internal risk appetite.

The Bank measures NII over a 12-month period using a constant balance sheet and it has positive NII sensitivity in both parallel up and down scenarios. The most severe NII scenario for the Bank is a parallel shock down encompassing 250bp for GBP which has a positive sensitivity of £8m. This gain is primarily driven by interest rate floor embedded in a number of floating rate assets.

The Bank's sensitivity calculations are impacted by a number of factors which include balance sheet mix, timing of assets and liabilities maturities and product pricing. Due to these factors, the NII should only be taken as an indicative guide to future performance.

(i) Average repricing maturity assigned to non-maturity deposits (NMDs)

The average repricing maturity assigned to NMDs is overnight.

(j) Longest repricing maturity assigned to NMDs

The longest repricing maturity assigned to NMDs is overnight.

UK IRRBB1 – Quantitative information on IRRBB (2022)

		a	b	c	d	e	f
	In reporting currency	ΔEVE		ΔNII[2]		Tier 1 capital	
£m	Period	T	T-1[1]	T	T-1[1]	T	T-1
010	Parallel shock up	**(59.8)**	—	**10.3**	—		
020	Parallel shock down	**34.9**	—	**7.7**	—		
030	Steepener shock	**(3.9)**	—				
040	Flattener shock	**(1.8)**	—				
050	Short rates shock up	**(28.9)**	—				
060	Short rates shock down	**18.8**	—				
070	Maximum	**(59.8)**	—	**7.7**	—		
080	Tier 1 capital					**1,396.7**	1,439.3

1 UK IRRBB1 disclosed for the first time and therefore no information presented for 31 July 2021.
2 Excludes Basis Risk

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