The Notes

1. Significant Accounting Policies

(a) Reporting entity

Close Brothers Group plc ("the company"), a public limited company incorporated and domiciled in the UK, together with its subsidiaries (collectively, "the group"), operates through five (2021: five) operating segments: Commercial, Retail, Property, Asset Management and Securities, and is primarily located within the UK.

The company financial statements ("the company accounts") have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 ''The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland'' (''FRS 102'') and the Companies Act 2006, under the provision of the Large and Medium-sized Companies and Groups (Accounts and Financial Instruments: Recognition and Measurement Reports) Regulations 2008 (SI 2008/410).

As permitted by FRS 102, the company has chosen to adopt IFRS 9 Financial Instruments where applicable and taken advantage of the disclosure exemptions available under that standard in relation to the presentation of a cash flow statement, share-based payments and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements of the group. The company has also taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its company income statement and related notes.

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

(b) Compliance with International Financial Reporting Standards

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

Standards adopted during the year

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

In the year ended 31 July 2021, the group early adopted the IASB's Interest Rate Benchmark Reform Phase 2 amendments, which were effective for accounting periods beginning on or after 1 January 2021. These amendments, which addressed the impact on financial reporting during the reform of an interest rate benchmark, did not have a material impact on the group's financial results.

Future accounting developments

Minor amendments to IFRSs effective for the group from 1 August 2022 have been issued by the IASB. These amendments are expected to have no or an immaterial impact on the group.

(c) Basis of preparation

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

The consolidated accounts have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

(d) Consolidation and investment in subsidiary

Subsidiaries

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

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

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

(e) Foreign currency translation

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

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

(f) Revenue recognition

Interest income

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

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

Fees and commissions

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

Dividends

Dividend income is recognised when the right to receive payment is established.

Gains less losses arising from dealing in securities
Net realised and unrealised gains arising from both buying and selling securities and from positions held in securities, including related interest income and dividends.

(g) Adjusted measures

Adjusted measures exclude amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional items. Amortisation and impairment of intangible assets on acquisition and goodwill impairment are excluded to present the performance of the group's acquired businesses consistent with its other businesses. Exceptional items are income and expense items that are material by size and/or nature and are non-recurring. The separate reporting of these items helps give an indication of the group's underlying performance.

(h) Financial assets and liabilities (excluding derivatives)

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

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

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

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

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

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

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

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

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

(i) Impairment of financial assets

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

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

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

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

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

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

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

The Notes continued

1. Significant Accounting Policies continued

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

PD, EAD and LGD parameters are projected over the remaining life of each exposure. ECL is calculated for each future quarter by multiplying the three parameters and is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the effective interest rate.

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

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

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

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

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

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

During the year, a number of enhancements were made to the IFRS 9 models used for the calculation of expected credit losses in the Leasing business. The enhancements were made to address known model limitations and to ensure modelled provisions better reflect future loss emergence. The impact of model changes to the expected credit loss provision is disclosed in note 11(d).

(j) Settlement accounts

Settlement balance debtors and creditors are the amounts due to and from counterparties in respect of the group's market-making activities and are carried at amortised cost. The balances are short term in nature, do not earn interest and are recorded at the amount receivable or payable.

(k) Loans to and from money brokers against stock advanced

Loans to money brokers against stock advanced is the cash collateral provided to these institutions for stock borrowing by the group's market-making activities and is carried at amortised cost. Interest is paid on the stock borrowed and earned on the cash deposits advanced. The stock borrowing to which the cash deposits relate is short term in nature and is recorded at the amount receivable. Loans from money brokers against stock collateral provided are recorded at the amount payable. Interest is paid on the loans.

(l) Leases

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

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

Lessee
A lease liability and right of use asset are recognised on the balance sheet at the lease commencement date. The lease liability is measured at the present value of future lease payments. The discount rate is the rate implicit in the lease, or if that cannot be determined, the group's incremental borrowing rate appropriate for the right of use asset. The right of use asset is measured at cost, comprising the initial lease liability, payments made at or before the commencement date less lease incentives received, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease.

Lease payments are allocated between the liability and finance cost. The finance cost relating to the lease liability is charged to the consolidated income statement over the lease term. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

(m) Sale and repurchase agreements and other secured lending and borrowings

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

(n) Securitisation transactions

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

(o) Offsetting financial instruments

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

(p) Derivatives and hedge accounting

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

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

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

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

(q) Intangible assets

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

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

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

(r) Property, plant and equipment

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

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

(s) Share capital

Share issue costs

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

Dividends on ordinary shares

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

Treasury shares

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

(t) Employee benefits

The group operates defined contribution pension schemes for eligible employees as well as a defined benefit pension scheme which is closed to new members and further accrual.

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

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

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

(u) Share-based payments to employees

At 31 July 2022, the group operates three (31 July 2021: three) share-based award schemes: the Deferred Share Awards ("DSA") scheme, the Long Term Incentive Plan ("LTIP"), and the HMRC approved Save As You Earn ("SAYE") scheme.

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

The costs of LTIP and SAYE are based on the fair value of awards on the date of grant. Fair values of share-based awards are determined using the Black-Scholes pricing model, with the exception of fair values for market-based performance conditions, which are determined using Monte Carlo simulation. Both models take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the company's share price over the life of the option award and other relevant factors. For non-market-based performance conditions, vesting conditions are not taken into account when measuring fair value, but are reflected by adjusting the number of shares in each award such that the amount recognised reflects the number that are expected to, and then actually do, vest. The fair value is expensed in the consolidated income statement on a straight-line basis over the vesting period, with a corresponding credit to the share-based payments reserve. At the end of the vesting period, or upon exercise, lapse or forfeit if earlier, this credit is transferred to retained earnings. Further information on the group's schemes is provided in note 26 and in the Directors' Remuneration Report.

(v) Provisions and contingent liabilities

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

The Notes continued

1. Significant Accounting Policies continued

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

(w) Taxes, including deferred taxes

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

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

(x) Cash and cash equivalents

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

(y) Segmental reporting

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

2. Critical Accounting Estimates and Judgements

The reported results of the group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the directors, in preparing the group's financial statements, to select suitable accounting policies, apply them consistently and make judgements, estimates and assumptions that are reasonable. The group's estimates and assumptions are based on historical experience and reasonable expectations of future events and are reviewed on an ongoing basis. There are no critical accounting judgements or key sources of estimation uncertainty relating to the company.

While the impact of climate change represents a source of uncertainty, the group does not consider climate related risks to be a critical accounting judgement or estimate.

Critical accounting judgements

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

Expected credit losses

At 31 July 2022 the group's expected credit loss provision was £285.6 million (31 July 2021: £280.4 million). The calculation of the group's expected credit loss provision under IFRS 9 requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below.

Significant increase in credit risk

Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk since initial recognition. The assessment, which requires judgement, is probability weighted and uses historical, current and forward-looking information.

Typically, the group assesses whether a significant increase in credit risk has occurred based on a quantitative and qualitative assessment, with a 30 days past due backstop. Due to the diverse nature of the group's lending businesses, the specific indicators of a significant increase in credit risk vary by business and may include some or all of the following factors.

- Quantitative assessment: the lifetime PD has increased by more than an agreed threshold relative to the equivalent at origination. Thresholds are based on a fixed number of risk grade movements which are bespoke to the business to ensure that the increased risk since origination is appropriately captured;
- Qualitative assessment: events or observed behaviour indicate credit deterioration. This includes a wide range of information that is reasonably available including individual credit assessments of the financial performance of borrowers as appropriate during routine reviews, plus forbearance and watch list information; or
- Backstop criteria: the 30 days past due backstop is met.

Definition of default

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

Key sources of estimation uncertainty

At the balance sheet date, the directors consider that expected credit loss provisions are a key source of estimation uncertainty which, depending on a wide range of factors, could result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

The accuracy of expected credit loss provisions can be impacted by unpredictable effects or unanticipated changes to model estimates. In addition, forecasting errors could also occur due to macroeconomic scenarios or weightings differing from actual outcomes observed. Regular model monitoring, validations and provision adequacy reviews are key mechanisms to manage estimation uncertainty across model estimates.

We continue to monitor and evaluate the impact of climate risk on our expected credit loss provisions. As at 31 July 2022 we do not consider climate risk to have a material impact on our credit losses.

A representation of the core drivers of the macroeconomic scenarios that are deployed in our models are outlined on page 164. In some instances, our underlying business expected credit loss models use a range of other macroeconomic metrics and assumptions which are linked to the underlying characteristics of the business.

Model estimates

Across the Banking Division, expected credit loss provisions are outputs of models which are based on a number of assumptions. The assumptions applied involve judgement and as a result are regularly assessed.

The two assumptions requiring the most significant judgement relate to case failure rates and recovery rates in Novitas.

Novitas provides funding via intermediaries to individuals who wish to pursue legal cases. Over the course of this financial year, experience of credit performance has required the group to update a number of assumptions in the calculation of the expected credit loss provision for Novitas. A significant portion of the expected credit loss provision reported in Commercial relates to the Novitas loan book.

The majority of the Novitas portfolio, and therefore provision, relates to civil litigation cases. To help protect customers in the event that their case fails, a standard loan condition is that an individual purchases an insurance policy which covers loan capital and varying levels of interest. Across the portfolio there are insurance policies from a number of well-rated insurers.

The key sources of estimation uncertainty for the portfolio's expected credit loss provision are case failure rates and recovery rates. Case failure rates represent a forward-looking probability assessment of successful case outcomes, where a claimant is awarded settlement either prior to or following a court process, informed by actual case failure rates, where a claim is unsuccessful and expected to be repaid with proceeds from an insurance policy. Further, when a case fails or is placed on hold it is immediately considered to be in Stage 2. Recovery rates represent the level of interest and capital that is covered by an insurance policy and expected to be recoverable once a case fails. In addition, an assessment is also undertaken reflecting potential insurer insolvency risk with resultant expected credit losses held for this. All uninsured cases and financial assets which are due for more than 90 days are classified as Stage 3.

Assumptions are informed by experience of credit performance, with management judgement applied to reflect expected outcomes and uncertainties. In addition, the provision is informed by sensitivity analysis to reflect the level of uncertainty. More detailed credit performance data continues to develop as the portfolio matures, which over time will reduce the level of estimation uncertainty.

Based on this methodology, and using the latest information available, there has been an uplift in the expected credit loss provision in Novitas, reflecting the latest assumptions on case failure and recovery rates. Further details on provisions are included in note 11.

Given these assumptions represent sources of estimation uncertainty, management has assessed and completed sensitivity analysis when compared to the expected credit loss provision for Novitas of £113.3 million (31 July 2021: £89.3 million). At 31 July 2022, a 5% absolute improvement in case failure rates would decrease the ECL provision by £5.8 million (31 July 2021: £8.2 million), while a 5% absolute deterioration would increase it by £4.7 million (31 July 2021: £8.2 million). Separately, a 10% absolute deterioration or improvement in recovery rates would increase or decrease the ECL provision by £13.7 million (31 July 2021: £8.4 million).

Forward-looking information

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

In order to calculate forward-looking provisions, economic scenarios are sourced from Moody's Analytics, which are then used to project potential credit conditions for each portfolio. An overview of these scenarios using key macroeconomic indicators is provided on page 165. Benchmarking to other economic providers is carried out to provide management comfort on Moody's Analytics scenario paths.

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

The impact of forward-looking information varies across the group's lending businesses because of the differing sensitivity of each portfolio to specific macroeconomic variables. The modelled impact of macroeconomic scenarios and their respective weightings is reviewed by business experts in relation to stage allocation and coverage ratios at the individual and portfolio level, incorporating management's experience and knowledge of customers, the sectors in which they operate, and the assets financed.

The Credit Risk Management Committee ("CRMC") including the group finance director and group chief risk officer meets monthly, to review and, if appropriate, agree changes to the economic scenarios and probability weightings assigned thereto. The decision is subsequently noted at the Group Risk and Compliance Committee ("GRCC"), which includes the aforementioned roles in addition to the group chief executive officer.

Economic forecasts have evolved over the course of 2022. At 31 July 2021, the scenario weightings reflected the continued economic challenges and uncertainty associated with the pandemic, with 40% allocated to the baseline scenario, 20% to the upside scenario and 40% across the three downside scenarios. The level of economic uncertainty associated with the pandemic reduced up to 31 January 2022 and 10% weight was moved from the 3 downside scenarios to the upside scenario. In the second half of 2022, 7.5% weight has moved from the baseline scenario to the 3 downside scenarios, resulting in final weights that are considered consistent with the economic uncertainty at 31 July 2022, as follows: 30% strong upside, 32.5% baseline, 20% mild downside, 10.5% moderate downside and 7% severe downside.

Scenario forecasts deployed in IFRS 9 macroeconomic models are updated on a monthly basis. As at 31 July 2022, the latest baseline scenario forecasts GDP growth of 3.4% in calendar year 2022 and an average Base Rate of 1.1% across calendar year 2022. CPI is forecast to be 10.7% in calendar year 2022 in the baseline scenario, with 17.1% forecast in the protracted downside scenario over the same period.

Given the current economic uncertainty, we have undertaken further analysis to assess the appropriateness of the five scenarios used. This included benchmarking these scenarios to consensus economic views, as well as consideration of an additional forecast related to stagflation, which could be considered as an alternative downside scenario. When compared to the three downside scenarios, the stagflation scenario included a smaller initial reduction in GDP, coupled with higher interest rates and economic contraction over a more sustained period. Given the short tenor of our credit portfolio, using this forecast instead of the moderate or protracted downside scenario would result in lower expected credit losses.

The final scenarios deployed reflect the UK economic outlook deteriorating following Russia's invasion of Ukraine and the resulting increase in energy and food commodity prices, as well as the exacerbation of global supply-chain disruptions after the pandemic. The forecasts include a subdued rate of growth for the remainder of the year. Under the baseline scenario, UK headline CPI inflation continues to increase in 2022 owing to higher energy, food and manufactured goods prices. Higher wages and strong demand for services continue to add to the price pressures, ensuring inflation remains well above the Bank of England target throughout 2022. To prevent inflation pressures becoming embedded in the economy, the Bank of England continues to tighten monetary policy.

The forecasts represent an economic view as at 31 July 2022, after which the economic uncertainty has continued. These trends, including the risk of further interest rate rises, and their impact on scenarios and weightings are subject to ongoing monitoring by management.

The table on page 164 shows economic assumptions within each scenario, and the weighting applied to each at 31 July 2022. The metrics below are key UK economic indicators, chosen to describe the economic scenarios. These are the main metrics used to set scenario paths which then influence a wide range of additional metrics that are used in expected credit loss models. The first tables show the forecasts of the key metrics for the scenarios utilised for calendar years 2022 and 2023. The subsequent tables show averages and peak to trough ranges for the same key metrics over the five-year period from 2022 to 2026.

These periods have been included as they demonstrate the short, medium and long-term outlook for the key macroeconomic indicators which form the basis of the scenario forecasts. The portfolio has an average residual maturity of 17 months, with c.98% of loan value having a maturity of five years or less.

The Notes continued

2. Critical Accounting Estimates and Judgements continued

FY22 and FY21 scenario forecasts and weights

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

	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
At 31 July 2021										
UK GDP Growth[1]	6.1%	6.3%	7.3%	8.7%	5.2%	4.0%	4.5%	2.0%	4.1%	0.8%
UK Unemployment	5.6%	6.3%	5.5%	5.4%	5.8%	7.3%	5.8%	8.0%	5.9%	8.9%
UK HPI Growth[1]	(1.4%)	3.1%	3.8%	10.2%	(2.5%)	(1.6%)	(5.3%)	(9.0%)	(8.2%)	(14.2%)
BoE Base Rate	0.1%	0.2%	0.1%	0.3%	0.1%	0.1%	0.1%	0.1%	0.0%	(0.1%)
Consumer Price Index	2.7%	2.9%	2.8%	3.0%	2.6%	1.1%	2.5%	0.0%	2.4%	(0.5%)
Weighting	**40%**		**20%**		**15%**		**15%**		**10%**	

Notes:
UK GDP Growth: National Accounts Annual Real Gross Domestic Product, Seasonally Adjusted - YoY change (%)
UK Unemployment: ONS Labour Force Survey, Seasonally Adjusted - Average (%)
UK HPI Growth: Average nominal house price, Land Registry, Seasonally Adjusted - Q4 to Q4 change (%)
BoE Base Rate: Bank of England Base Rate - Average (%)
Consumer Price Index: ONS, EU Harmonised, Annual Inflation - Q4 to Q4 change (%).

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

	Five-year average (calendar year 2021 – 2025)				
	Baseline	Upside (strong)	Downside (mild)	Downside (moderate)	Downside (protracted)
At 31 July 2021					
UK GDP Growth[1]	3.2%	3.6%	3.0%	2.8%	2.4%
UK Unemployment	5.5%	4.8%	6.3%	7.1%	7.7%
UK HPI Growth[1]	1.6%	3.0%	0.8%	(1.2%)	(2.6%)
BoE Base Rate	0.6%	0.8%	0.2%	0.1%	0.0%
Consumer Price Index	2.6%	3.2%	1.9%	1.3%	0.8%
Weighting	**40%**	**20%**	**15%**	**15%**	**10%**

Notes:
UK GDP Growth: National Accounts Annual Real Gross Domestic Product, Seasonally Adjusted - CAGR (%)
UK Unemployment: ONS Labour Force Survey, Seasonally Adjusted - Average (%)
UK HPI Growth: Average nominal house price, Land Registry, Seasonally Adjusted - CAGR (%)
BoE Base Rate: Bank of England Base Rate - Average (%)
Consumer Price Index: ONS, EU Harmonised, Annual Inflation - CAGR (%)

The tables below provide a summary for the five-year period (calendar year 2022 – 2026) of the peak to trough range of values of the key UK economic variables used within the economic scenarios at 31 July 2022 and 31 July 2021:

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

	Five-year period (calendar year 2021-2025)									
	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough
At 31 July 2021										
UK GDP Growth[1]	17.0%	(1.6%)	19.4%	(1.6%)	15.7%	(1.6%)	14.7%	(1.6%)	12.4%	(1.6%)
UK Unemployment[1]	6.6%	4.8%	6.3%	4.2%	7.5%	4.8%	8.2%	4.8%	9.1%	4.8%
UK HPI Growth[1]	8.0%	(4.1%)	15.7%	0.5%	4.1%	(6.9%)	1.9%	(15.3%)	1.9%	(22.1%)
BoE Base Rate[1]	1.6%	0.1%	1.9%	0.1%	0.5%	0.1%	0.1%	0.1%	0.1%	(0.1%)
Consumer Price Index	3.2%	0.6%	3.9%	0.6%	2.6%	0.6%	2.5%	0.0%	2.4%	(0.9%)
Weighting	**40%**		**20%**		**15%**		**15%**		**10%**	

Notes:
UK GDP Growth: Maximum and minimum quarterly GDP as a percentage change from start of period (%)
UK Unemployment: Maximum and minimum unemployment rate (%)
UK HPI Growth: Maximum and minimum average nominal house price as a percentage change from start of period (%)
BoE Base Rate: Maximum and minimum BoE base rate (%)
Consumer Price Index Inflation: Maximum and minimum over the 5-year period (%)

1 Note that the presentation of the macroeconomic outlook above has been amended from the FY21 ARA, with the FY22 figures presented on the same basis. This has been undertaken to enhance presentation to the users of the financial statements by ensuring the macroeconomic variables are displayed in line with common practice. This amendment has no impact on ECL. These changes impact the way GDP and HPI are presented for the annual forecast, the five-year forecast and the peak to trough values. The annual forecast was previously presented as the average of the growth in each of the last four quarters and is now presented as the growth in the calendar year. The five-year forecast is now presented as the compound annual growth rate instead of the average annual growth rate used previously. Lastly, the presentation of the peak to trough values now uses the start of the macroeconomic forecast as a reference point, rather than peaks and troughs in annual growth rates over the period. In addition, we have also made a presentational change for unemployment and base rate peaks and troughs from the FY21 ARA, which are now based on quarterly forecasts over calendar years 2021-2025, rather than monthly forecasts over financial years 2021-2025.

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

- For the majority of our portfolios, the modelled expected credit loss provision has been recalculated under the upside strong and downside protracted scenarios described above, applying a 100% weighting to each scenario in turn. The change in provision requirement is driven by the movement in risk metrics under each scenario and resulting impact on stage allocation.
- Expected credit losses based on a simplified approach, which do not utilise a macroeconomic model and require expert judgement, are excluded from the sensitivity analysis.

In addition to the above, key considerations for the sensitivity analysis are set out below, by segment:

- In Commercial, the sensitivity analysis excludes Novitas, which is subject to a separate approach, as it is deemed more sensitive to credit factors than macroeconomic factors.
- In Retail:
  - The sensitivity analysis excludes expected credit loss provisions on loans and advances to customers in Stage 3, because the measurement of expected credit losses is considered more sensitive to credit factors specific to the borrower than macroeconomic scenarios.
  - For some loans, a specific sensitivity approach has been adopted to assess short tenor loans' response to modelled economic forecasts. For these short-tenor loans, PD has been extrapolated from emerging default rates and then proportionally scaled to reflect a sharp recovery in the upside scenario and a slower recovery in a downside scenario.
- In Property, the sensitivity analysis excludes individually assessed provisions, and certain sub portfolios which are deemed more sensitive to credit factors than the macroeconomic scenarios.

Based on the above analysis, at 31 July 2022, application of 100% weighting to the upside strong scenario would decrease the expected credit loss by £15.4 million whilst application to the downside protracted scenario would increase the expected credit loss by £31.8 million driven by the aforementioned changes in risk metrics and stage allocation of the portfolios.

When performing sensitivity analysis there is a high degree of estimation uncertainty. On this basis, 100% weighted expected credit loss provisions presented for the upside and downside scenarios should not be taken to represent the lower or upper range of possible and actual expected credit loss outcomes. The recalculated expected credit loss provision for each of the scenarios should be read in the context of the sensitivity analysis as a whole and in conjunction with the narrative disclosures provided in note 11. The modelled impact presented is based on gross loans and advances to customers at 31 July 2022; it does not incorporate future changes relating to performance, growth or credit risk. In addition, given the change in the macroeconomic conditions, underlying modelled provisions and methodology, and refined approach to adjustments, comparison between the sensitivity results at 31 July 2022 and 31 July 2021 is not appropriate.

The economic environment remains uncertain and future impairment charges may be subject to further volatility, including from changes to macroeconomic variable forecasts impacted by geopolitical tensions and rising inflation.

The Notes continued

3. Segmental Analysis

The directors manage the group by class of business and present the segmental analysis on that basis. The group's activities are presented in five (2021: five) operating segments: Commercial, Retail, Property, Asset Management and Securities.

In the segmental reporting information that follows, Group consists of central functions as well as various non-trading head office companies and consolidation adjustments and is presented in order that the information presented reconciles to the consolidated income statement. The Group balance sheet primarily includes treasury assets and liabilities comprising cash and balances at central banks, debt securities, customer deposits and other borrowings.

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

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Summary income statement for the year ended 31 July 2022							
Net interest income/(expense)	**257.1**	**210.8**	**112.1**	**(0.7)**	**(1.1)**	**(0.2)**	**578.0**
Non-interest income	**86.3**	**26.2**	**0.6**	**148.7**	**96.3**	**–**	**358.1**
Operating income/(expense)	**343.4**	**237.0**	**112.7**	**148.0**	**95.2**	**(0.2)**	**936.1**
Administrative expenses	**(158.3)**	**(131.3)**	**(27.0)**	**(120.7)**	**(77.2)**	**(25.8)**	**(540.3)**
Depreciation and amortisation	**(21.7)**	**(20.3)**	**(4.0)**	**(5.6)**	**(3.9)**	**(2.2)**	**(57.7)**
Impairment losses on financial assets	**(72.4)**	**(24.4)**	**(6.5)**	**–**	**–**	**–**	**(103.3)**
Total operating expenses before amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional item	**(252.4)**	**(176.0)**	**(37.5)**	**(126.3)**	**(81.1)**	**(28.0)**	**(701.3)**
Adjusted operating profit/(loss)[1]	**91.0**	**61.0**	**75.2**	**21.7**	**14.1**	**(28.2)**	**234.8**
Amortisation and impairment of intangible assets on acquisition	**(0.1)**	**–**	**–**	**(1.9)**	**–**	**–**	**(2.0)**
Goodwill impairment	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Exceptional item: HMRC VAT refund	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Operating profit/(loss) before tax	**90.9**	**61.0**	**75.2**	**19.8**	**14.1**	**(28.2)**	**232.8**
External operating income/(expense)	**391.7**	**268.3**	**129.4**	**148.1**	**95.2**	**(96.6)**	**936.1**
Inter segment operating (expense)/income	**(48.3)**	**(31.3)**	**(16.7)**	**(0.1)**	**–**	**96.4**	**–**
Segment operating income/(expense)	**343.4**	**237.0**	**112.7**	**148.0**	**95.2**	**(0.2)**	**936.1**

1 Adjusted operating profit/(loss) is stated before amortisation and impairment of intangible assets on acquisition, goodwill impairment, exceptional item and tax.

The Commercial operating segment above includes the group's Novitas business. Novitas ceased lending to new customers in July 2021 following a strategic review. In the year ended 31 July 2022, Novitas recorded impairment losses of £60.7 million (2021: £73.2 million).

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
Summary balance sheet information at 31 July 2022							
Total assets[1]	**4,561.4**	**3,064.0**	**1,473.5**	**172.8**	**972.3**	**2,434.3**	**12,678.3**
Total liabilities	**–**	**–**	**–**	**70.5**	**880.6**	**10,069.7**	**11,020.8**

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only. The Commercial operating segment includes the net loan book of Novitas of £159.4 million.
2 Balance sheet includes £2,425.0 million assets and £10,181.9 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

Equity is allocated across the group as set out below. Banking division equity, which is managed as a whole rather than on a segmental basis, reflects loan book and operating lease assets of £9,098.9 million, in addition to assets and liabilities of £2,425.0 million and £10,181.9 million respectively primarily comprising treasury balances which are included within the Group column above.

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Equity	**1,342.0**	**102.3**	**91.7**	**121.5**	**1,657.5**

	Banking						
	Commercial	**Retail**	**Property**	**Asset Management**	**Securities**	**Group**	**Total**
Other segmental information for the year ended 31 July 2022							
Employees (average number)[1]	**1,348**	**1,153**	**190**	**722**	**318**	**79**	**3,810**

1 Banking segments are inclusive of a central function headcount allocation.

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Summary income statement for the year ended 31 July 2021							
Net interest income/(expense)	218.1	198.8	122.6	(0.1)	(1.4)	(0.5)	537.5
Non-interest income	70.8	21.0	0.4	139.5	183.4	–	415.1
Operating income/(expense)	288.9	219.8	123.0	139.4	182.0	(0.5)	952.6
Administrative expenses	(139.1)	(118.6)	(29.1)	(110.8)	(118.1)	(24.1)	(539.8)
Depreciation and amortisation	(19.1)	(19.4)	(3.8)	(5.1)	(3.1)	(1.8)	(52.3)
Impairment (losses)/gains on financial assets	(77.9)	(9.9)	(2.3)	0.2	0.1	–	(89.8)
Total operating expenses before amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional item	(236.1)	(147.9)	(35.2)	(115.7)	(121.1)	(25.9)	(681.9)
Adjusted operating profit/(loss)[1]	52.8	71.9	87.8	23.7	60.9	(26.4)	270.7
Amortisation and impairment of intangible assets on acquisition	(12.2)	(0.7)	–	(1.3)	–	–	(14.2)
Goodwill impairment	(12.1)	–	–	–	–	–	(12.1)
Exceptional item: HMRC VAT refund	7.4	12.3	–	–	–	1.1	20.8
Operating profit/(loss) before tax	35.9	83.5	87.8	22.4	60.9	(25.3)	265.2
External operating income/(expense)	343.1	258.7	142.3	139.4	182.0	(112.9)	952.6
Inter segment operating (expense)/income	(54.2)	(38.9)	(19.3)	–	–	112.4	–
Segment operating income/(expense)	288.9	219.8	123.0	139.4	182.0	(0.5)	952.6

1 Adjusted operating profit/(loss) is stated before amortisation and impairment of intangible assets on acquisition, goodwill impairment, exceptional item and tax.

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
Summary balance sheet information at 31 July 2021							
Total assets[1]	4,191.0	2,974.3	1,502.1	139.7	897.9	2,329.5	12,034.5
Total liabilities	–	–	–	78.1	806.5	9,580.6	10,465.2

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only. The Commercial operating segment includes the net loan book of Novitas of £181.5 million.
2 Balance sheet includes £2,299.0 million assets and £9,677.8 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

Equity is allocated across the group as set out below. Banking division equity, which is managed as a whole rather than on a segmental basis, reflects loan book and operating lease assets of £8,667.4 million, in addition to assets and liabilities of £2,299.0 million and £9,677.8 million respectively primarily comprising treasury balances which are included within the Group column above.

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Equity	1,288.6	61.6	91.4	127.7	1,569.3

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group	Total
Other segmental information for the year ended 31 July 2021							
Employees (average number)[1]	1,276	1,163	187	706	300	77	3,709

1 Banking segments are inclusive of a central function headcount allocation.

The Notes continued

4. Operating Profit before Tax

	2022 £ million	2021 £ million
Interest income[1]		
Cash and balances at central banks	**5.9**	1.6
Loans and advances to banks	**0.3**	–
Loans and advances to customers	**680.4**	652.9
Other interest income	**3.4**	2.3
	690.0	656.8
Interest expense		
Deposits by banks	**(0.1)**	–
Deposits by customers	**(64.1)**	(66.3)
Borrowings	**(33.2)**	(38.7)
Other interest expense	**(14.6)**	(14.3)
	(112.0)	(119.3)
Net interest income	**578.0**	537.5

1 Interest income calculated using the effective interest method.

	2022 £ million	2021 £ million
Fee and commission income		
Banking	**98.1**	88.2
Asset Management	**148.8**	141.2
Securities	**12.6**	16.7
	259.5	246.1
Fee and commission expense	**(17.2)**	(16.1)
Net fee and commission income	**242.3**	230.0

Fee income and expense (other than amounts calculated using the effective interest rate method) on financial instruments that are not at fair value through profit or loss were £98.1 million (2021: £88.2 million) and £14.7 million (2021: £13.5 million) respectively.

Fee income and expense arising from trust and other fiduciary activities amounted to £148.8 million (2021: £141.2 million) and £1.8 million (2021: £1.9 million) respectively.

	2022 £ million	2021 £ million
Other income		
Operating lease assets rental income	**85.4**	75.4
Other	**20.7**	14.0
	106.1	89.4

	2022 £ million	2021 £ million
Administrative expenses		
Staff costs:		
Wages and salaries	**283.9**	297.0
Social security costs	**38.8**	44.7
Share-based awards	**4.9**	5.7
Pension costs	**16.9**	15.8
	344.5	363.2
Depreciation and amortisation	**57.7**	52.3
Other administrative expenses	**195.8**	176.6
	598.0	592.1

5. Information Regarding the Auditor

	2022[1] £ million	2021 £ million
Fees payable		
Audit of the company's annual accounts	**0.6**	0.4
Audit of the company's subsidiaries pursuant to legislation	**2.3**	2.2
Audit related services	**0.5**	0.5
Other services	**0.3**	0.2
	3.7	3.3

1 During the year, an additional audit fee of £0.2 million was paid to the auditors in relation to scope changes in the 2021 audit, which is not included above.

The auditor of the group was PricewaterhouseCoopers LLP (2021: PricewaterhouseCoopers LLP).

6. Exceptional Item

In the prior year ended 31 July 2021, the group recorded an exceptional gain of £20.8 million, reflecting a VAT refund from HMRC in relation to hire purchase agreements in the Motor Finance and Asset Finance businesses. This followed HMRC's policy in Revenue and Customs Brief 8 (2020) published in June 2020. The Brief advised businesses who supply goods by way of hire purchase agreements of HMRC's suggested method for apportionment of VAT incurred on overheads (and so the reclaimable portion of such VAT). This followed the Court of Justice of the European Union's judgement regarding Volkswagen Financial Services (UK) Ltd.

The group submitted refund claims in respect of the period from 2009 to 2020. HMRC agreed the claims and repayment was made to the group in June 2021. In line with the group's accounting policy set out in Note 1, this was presented as an exceptional item as it was material by size and nature and non-recurring.

7. Taxation

	2022 £ million	2021 £ million
Tax charged/(credited) to the income statement		
Current tax:		
UK corporation tax	**53.7**	75.1
Foreign tax	**1.9**	1.5
Adjustments in respect of previous years	**(2.8)**	(3.4)
	52.8	73.2
Deferred tax:		
Deferred tax charge/(credit) for the current year	**11.8**	(13.6)
Adjustments in respect of previous years	**3.0**	3.5
	67.6	63.1
Tax on items not charged/(credited) to the income statement		
Deferred tax relating to:		
Cash flow hedging	**8.6**	2.0
Defined benefit pension scheme	**(0.3)**	0.6
Financial instruments classified as fair value through other comprehensive income	**(0.4)**	0.3
Share-based payments	**1.1**	(1.4)
Currency translation losses	**(0.3)**	(1.1)
Acquisitions	**–**	1.0
	8.7	1.4
Reconciliation to tax expense		
UK corporation tax for the year at 19.0% (2021: 19.0%) on operating profit before tax	**44.2**	50.4
Effect of different tax rates in other jurisdictions	**(0.3)**	(0.3)
Disallowable items and other permanent differences	**0.9**	2.9
Banking surcharge	**14.9**	19.8
Deferred tax impact of decreased/(increased) tax rates	**7.7**	(9.8)
Prior year tax provision	**0.2**	0.1
	67.6	63.1

The Notes continued

7. Taxation continued

The standard UK corporation tax rate for the financial year is 19.0% (2021: 19.0%). However, an additional 8% surcharge applies to banking company profits as defined in legislation. The effective tax rate of 29.0% (2021: 23.8%) is above the UK corporation tax rate primarily due to the surcharge applying to most of the group's profits and to a write-down in deferred tax assets reflecting a reduction in the banking surcharge applying from April 2023 from 8% to 3% passed into law in the year.

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

Movements in deferred tax assets and liabilities were as follows:

	Capital allowances £ million	Pension scheme £ million	Share-based payments and deferred compensation £ million	Impairment losses £ million	Cash flow hedging £ million	Intangible assets £ million	Other £ million	Total £ million
Group								
At 1 August 2020	31.5	(1.7)	8.9	9.5	2.1	(3.2)	0.2	47.3
Credit/(charge) to the income statement	3.5	0.1	5.2	(0.7)	–	2.5	(0.5)	10.1
Credit/(charge) to other comprehensive income	1.1	(0.6)	–	–	(2.0)	–	(0.3)	(1.8)
Credit to equity	–	–	1.4	–	–	–	–	1.4
Acquisitions	–	–	–	–	–	(1.0)	–	(1.0)
At 31 July 2021	36.1	(2.2)	15.5	8.8	0.1	(1.7)	(0.6)	56.0
(Charge)/credit to the income statement	(10.9)	–	(1.5)	(3.0)	–	0.4	0.2	(14.8)
Credit/(charge) to other comprehensive income	0.3	0.3	–	–	(8.6)	–	0.4	(7.6)
Charge to equity	–	–	(1.1)	–	–	–	–	(1.1)
Acquisitions	–	–	–	–	–	–	–	–
At 31 July 2022	**25.5**	**(1.9)**	**12.9**	**5.8**	**(8.5)**	**(1.3)**	**–**	**32.5**

	Capital allowances £ million	Pension scheme £ million	Share-based payments and deferred compensation £ million	Total £ million
Company				
At 1 August 2020	–	(1.7)	1.8	0.1
(Charge)/credit to the income statement	(0.6)	0.1	0.2	(0.3)
Charge to other comprehensive income	–	(0.6)	–	(0.6)
At 31 July 2021	(0.6)	(2.2)	2.0	(0.8)
Credit/(charge) to the income statement	0.3	–	–	0.3
Credit to other comprehensive income	–	0.3	–	0.3
At 31 July 2022	**(0.3)**	**(1.9)**	**2.0**	**(0.2)**

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

8. Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to shareholders and the number of basic weighted average shares. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the effects of all dilutive share options and awards.

	2022	2021
Basic	**110.4p**	134.8p
Diluted	**109.9p**	133.6p
Adjusted basic[1]	**111.5p**	140.4p
Adjusted diluted[1]	**111.0p**	139.1p

1 Excludes amortisation and impairment of intangible assets on acquisition, goodwill impairment, exceptional item and their tax effects.

	2022 £ million	2021 £ million
Profit attributable to shareholders	**165.2**	202.1
Adjustments:		
Amortisation of intangible assets on acquisition	**2.0**	14.2
Goodwill impairment	**–**	12.1
Exceptional item: HMRC VAT refund	**–**	(20.8)
Tax effect of adjustments and exceptional item	**(0.4)**	2.9
Adjusted profit attributable to shareholders	**166.8**	210.5

	2022 million	2021 million
Average number of shares		
Basic weighted	**149.6**	149.9
Effect of dilutive share options and awards	**0.7**	1.4
Diluted weighted	**150.3**	151.3

9. Dividends

	2022 £ million	2021 £ million
For each ordinary share		
Final dividend for previous financial year paid in November 2021: 42.0p (November 2020: 40.0p)	**62.7**	59.8
Interim dividend for current financial year paid in April 2022: 22.0p (April 2021: 18.0p)	**32.8**	26.8
	95.5	86.6

A final dividend relating to the year ended 31 July 2022 of 44.0p, amounting to an estimated £65.6 million, is proposed. This final dividend, which is due to be paid on 22 November 2022 to shareholders on the register at 14 October 2022, is not reflected in these financial statements.

10. Loans and Advances to Banks

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	Total £ million
At 31 July 2022	**147.0**	**1.9**	**10.0**	**2.4**	**4.1**	**165.4**
At 31 July 2021	121.9	1.0	2.2	10.5	0.7	136.3

The Notes continued

11. Loans and Advances to Customers

(a) Maturity analysis of loans and advances to customers

The following table sets out a maturity analysis of loans and advances to customers. At 31 July 2022 loans and advances to customers with a maturity of two years or less was £6,733.0 million (31 July 2021: £6,326.6 million) representing 73.6% (31 July 2021: 72.5%) of total gross loans and advances to customers:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total gross loans and advances to customers £ million	Impairment provisions £ million	Total net loans and advances to customers £ million
At 31 July 2022	**141.3**	**2,354.2**	**2,369.0**	**1,868.5**	**2,235.0**	**176.5**	**9,144.5**	**(285.6)**	**8,858.9**
At 31 July 2021	71.8	2,276.6	2,289.1	1,689.1	2,242.8	155.5	8,724.9	(280.4)	8,444.5

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

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

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

	Stage 1 £ million	Stage 2 Less than 30 days past due £ million	Stage 2 Greater than or equal to 30 days past due £ million	Stage 2 Total £ million	Stage 3 £ million	Total £ million
At 31 July 2021						
Gross loans and advances to customers						
Commercial	3,417.2	549.4	74.0	623.4	99.9	4,140.5
Of which: Novitas	185.8	3.6	55.8	59.4	25.6	270.8
Retail	2,817.0	175.3	6.4	181.7	43.2	3,041.9
Property	1,200.1	100.5	54.6	155.1	187.3	1,542.5
	7,434.3	825.2	135.0	960.2	330.4	8,724.9
Impairment provisions						
Commercial	55.6	30.3	33.6	63.9	52.9	172.4
Of which: Novitas	31.4	2.1	30.6	32.7	25.2	89.3
Retail	22.1	13.3	1.9	15.2	30.3	67.6
Property	2.3	5.0	0.1	5.1	33.0	40.4
	80.0	48.6	35.6	84.2	116.2	280.4
Provision coverage ratio						
Commercial	1.6%	5.5%	45.4%	10.3%	53.0%	4.2%
Of which: Novitas	16.9%	58.3%	54.8%	55.1%	98.4%	33.0%
Retail	0.8%	7.6%	29.7%	8.4%	70.1%	2.2%
Property	0.2%	5.0%	0.2%	3.3%	17.6%	2.6%
	1.1%	5.9%	26.4%	8.8%	35.2%	3.2%

Stage allocation of loans and advances to customers has been applied in line with the definitions set out on page 159.

During the year the staging profile of loans and advances to customers has remained broadly stable. At 31 July 2022, 83.4% (31 July 2021: 85.2%) of gross loans and advances to customers were Stage 1. Stage 2 loans and advances to customers increased slightly to 12.7% (31 July 2021: 11.0%) as falling Covid-19 forborne exposure has been more than offset by migrations into Stage 2 associated with a significant increase in credit risk. The remaining 3.9% (31 July 2021: 3.8%) of loans and advances to customers was deemed to be credit impaired and classified as Stage 3.

Overall impairment provisions increased to £285.6 million (31 July 2021: £280.4 million), following regular reviews of staging and provision coverage for individual loans and portfolios. The movement in impairment provisions is driven by Novitas, which reflects the case failure and recovery rate assumptions used. The increase was partially offset by reducing impairment provisions across the remainder of the Bank, following a reduction in adjustments driven by the encouraging performance of our forborne book.

As a result, there has been a marginal decrease in provision coverage to 3.1% (31 July 2021: 3.2%).

Provision Coverage Analysis by Business

In Commercial, the impairment coverage ratio decreased to 4.0% (31 July 2021: 4.2%) reflecting strong new business volumes and positive performance of the Covid-19 forborne loan book. Excluding Novitas, the Commercial impairment coverage ratio decreased to 1.6% (31 July 2021: 2.1%) following the release of Covid-19 related adjustments. The significant increase in credit provisions against the Novitas loan book reflects the latest assumptions on case failure and recovery rates.

In Retail, the impairment coverage ratio was unchanged at 2.2% (31 July 2021: 2.2%) reflecting the performance of the forborne loan book and strong new business volumes.

In Property the impairment coverage ratio reduced to 2.4% (31 July 2021: 2.6%) reflecting the write off of a well provided individually assessed case, partially offset by deteriorating macroeconomic forecasts.

(c) Adjustments

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

As the UK economy has emerged from pandemic related restrictions, and the government support measures being unwound, the use of adjustments has also evolved. In particular, previous adjustments to reflect the guarantee under government lending schemes have now been incorporated into modelled LGD estimates. The remaining adjustments reflect the application of expert management judgement to incorporate management's experience and knowledge of customers, the sectors in which they operate, and the assets financed.

The Notes continued

11. Loans and Advances to Customers continued

We will continue to monitor the need for adjustments as new information emerges which might not be recognised in our existing models.

At 31 July 2022, £(2.8) million of the expected credit loss provision was attributable to adjustments (31 July 2021: £38.9 million). The reduction in this value is driven by incorporation of a number of adjustments into model calculations, as well as the lower volume of Covid-19 forborne exposures and reduced macroeconomic uncertainty related to the pandemic. The remaining value is driven by a small number of adjustments primarily made to ensure models are reflective of economic conditions.

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

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

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

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

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

ECL model methodologies may be updated or enhanced from time to time and the impacts of such changes are presented on a separate line. Enhancements to our model suite during the course of the financial year are a contributory factor to ECL movements and such factors have been taken into consideration when assessing any required adjustments to modelled output and ensuring appropriate provision coverage levels.

A loan is written off when there is no reasonable expectation of further recovery following realisation of all associated collateral and available recovery actions against the customer.

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers				
At 1 August 2021	**7,434.3**	**960.2**	**330.4**	**8,724.9**
New financial assets originated	**6,537.4**	**–**	**–**	**6,537.4**
Transfers to Stage 1	**196.2**	**(278.6)**	**(5.3)**	**(87.7)**
Transfers to Stage 2	**(1,056.3)**	**959.9**	**(21.4)**	**(117.8)**
Transfers to Stage 3	**(206.9)**	**(137.5)**	**278.6**	**(65.8)**
Net transfers between stages and repayments[1]	**(1,067.0)**	**543.8**	**251.9**	**(271.3)**
Repayments while stage remained unchanged and final repayments	**(5,241.7)**	**(354.2)**	**(157.8)**	**(5,753.7)**
Changes to model methodologies	**(33.3)**	**31.6**	**1.8**	**0.1**
Write offs	**(2.7)**	**(22.5)**	**(67.7)**	**(92.9)**
At 31 July 2022	**7,627.0**	**1,158.9**	**358.6**	**9,144.5**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers				
At 1 August 2020	5,906.6	1,574.2	374.6	7,855.4
New financial assets originated	6,980.2	–	–	6,980.2
Transfers to Stage 1	640.0	(639.6)	(11.2)	(10.8)
Transfers to Stage 2	(1,054.5)	912.4	(15.0)	(157.1)
Transfers to Stage 3	(133.3)	(113.4)	178.6	(68.1)
Net transfers between stages and repayments[1]	(547.8)	159.4	152.4	(236.0)
Repayments while stage remained unchanged and final repayments	(4,907.6)	(781.4)	(106.5)	(5,795.5)
Changes to model methodologies	6.3	9.8	(16.0)	0.1
Write offs	(3.4)	(1.8)	(74.1)	(79.3)
At 31 July 2021	7,434.3	960.2	330.4	8,724.9

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

The gross carrying amount before modification of loans and advances to customers which were modified during the year while in Stage 2 or 3 was £288.3 million (2021: £293.9 million). No gain or loss (2021: £0.8 million loss) was recognised as a result of these modifications. The gross carrying amount at 31 July 2022 of modified loans and advances to customers which transferred from Stage 2 or 3 to Stage 1 during the year was £110.2 million (31 July 2021: £237.9 million).

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 1 August 2021	**80.0**	**84.2**	**116.2**	**280.4**
New financial assets originated	**37.7**	**–**	**–**	**37.7**
Transfers to Stage 1	**1.3**	**(12.2)**	**(1.7)**	**(12.6)**
Transfers to Stage 2	**(17.1)**	**59.4**	**(9.9)**	**32.4**
Transfers to Stage 3	**(9.0)**	**(28.8)**	**123.2**	**85.4**
Net remeasurement of expected credit losses arising from transfers between stages and repayments[1]	**(24.8)**	**18.4**	**111.6**	**105.2**
Repayments and ECL movements while stage remained unchanged and final repayments	**(37.6)**	**(0.7)**	**(9.8)**	**(48.1)**
Changes to model methodologies	**(2.2)**	**(1.1)**	**1.9**	**(1.4)**
Charge to the income statement	**(26.9)**	**16.6**	**103.7**	**93.4**
Write offs	**(2.8)**	**(22.5)**	**(62.9)**	**(88.2)**
At 31 July 2022	**50.3**	**78.3**	**157.0**	**285.6**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 1 August 2020	57.6	87.3	93.8	238.7
New financial assets originated	45.0	–	–	45.0
Transfers to Stage 1	4.0	(15.7)	(1.0)	(12.7)
Transfers to Stage 2	(15.7)	63.4	(2.4)	45.3
Transfers to Stage 3	(2.2)	(13.3)	67.6	52.1
Net remeasurement of expected credit losses arising from transfers between stages and repayments[1]	(13.9)	34.4	64.2	84.7
Repayments and ECL movements while stage remained unchanged and final repayments	(9.0)	(35.9)	(5.0)	(49.9)
Changes to model methodologies	0.9	(0.2)	(2.8)	(2.1)
Charge to the income statement	23.0	(1.7)	56.4	77.7
Write offs	(0.6)	(1.4)	(34.0)	(36.0)
At 31 July 2021	80.0	84.2	116.2	280.4

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

	2022 £ million	2021 £ million
Impairment losses relating to loans and advances to customers:		
Charge to income statement arising from movement in impairment provisions	**93.4**	77.7
Amounts written off directly to income statement, net of recoveries and other costs	**8.5**	10.2
	101.9	87.9
Impairment losses relating to other financial assets	**1.4**	1.9
Impairment losses on financial assets recognised in income statement	**103.3**	89.8

Impairment losses on financial assets of £103.3 million (2021: £89.8 million) include £60.7 million in relation to Novitas (2021: £73.2 million).

The contractual amount outstanding at 31 July 2022 on financial assets that were written off during the period and are still subject to recovery activity is £17.3 million (31 July 2021: £19.0 million).

(e) Finance lease and hire purchase agreement receivables

	31 July 2022 £ million	31 July 2021 £ million
Loans and advances to customers comprise		
Hire purchase agreement receivables	**3,725.1**	3,554.6
Finance lease receivables	**694.4**	567.1
Other loans and advances	**4,439.4**	4,322.8
At 31 July	**8,858.9**	8,444.5

The Notes continued

11. Loans and Advances to Customers continued

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

	31 July 2022 £ million	31 July 2021 £ million
Gross investment in finance leases and hire purchase agreement receivables due:		
One year or within one year	**1,740.2**	1,632.6
>One to two years	**1,927.1**	1,772.0
>Two to three years	**943.9**	865.8
>Three to four years	**475.1**	427.2
>Four to five years	**123.7**	175.9
More than five years	**36.2**	48.9
	5,246.2	4,922.4
Unearned finance income	**(731.4)**	(682.6)
Present value of minimum lease and hire purchase agreement payments	**4,514.8**	4,239.8
Of which due:		
One year or within one year	**1,496.9**	1,405.5
>One to two years	**1,654.4**	1,527.3
>Two to three years	**815.7**	747.2
>Three to four years	**410.0**	368.1
>Four to five years	**106.6**	149.7
More than five years	**31.2**	42.0
	4,514.8	4,239.8

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £7,443.8 million (2021: £6,775.3 million). The average effective interest rate on finance leases approximates to 9.9% (2021: 9.8%). The present value of minimum lease and hire purchase agreement payments reflects the fair value of finance lease and hire purchase agreement receivables before deduction of impairment provisions.

12. Debt Securities

	Fair value through profit or loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
Long trading positions in debt securities	**12.4**	**–**	**–**	**12.4**
Certificates of deposit	**–**	**–**	**185.0**	**185.0**
Sovereign and central bank debt	**–**	**415.4**	**–**	**415.4**
At 31 July 2022	**12.4**	**415.4**	**185.0**	**612.8**

	Fair value through profit or loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
Long trading positions in debt securities	20.1	–	–	20.1
Certificates of deposit	–	–	264.7	264.7
Sovereign and central bank debt	–	192.5	–	192.5
At 31 July 2021	20.1	192.5	264.7	477.3

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

	2022 £ million	2021 £ million
Sovereign and central bank debt at 1 August	**192.5**	72.2
Additions	**335.3**	313.7
Redemptions	**(80.0)**	(191.0)
Currency translation differences	**(1.2)**	(5.2)
Movement in value	**(31.2)**	2.8
Sovereign and central bank debt at 31 July	**415.4**	192.5

13. Equity Shares

	31 July 2022 £ million	31 July 2021 £ million
Long trading positions	**27.1**	30.8
Other equity shares	**1.3**	1.1
	28.4	31.9

14. Derivative Financial Instruments

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

	31 July 2022			31 July 2021		
	Notional value £ million	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	**109.8**	**0.7**	**0.3**	104.5	0.2	0.2
Interest rate contracts	**4,408.7**	**70.5**	**88.9**	3,267.8	18.1	21.1
	4,518.5	**71.2**	**89.2**	3,372.3	18.3	21.3

Notional amounts of interest rate contracts totalling £3,828.8 million (31 July 2021: £2,849.6 million) have a residual maturity of more than one year.

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

	31 July 2022			31 July 2021		
	Notional value £ million	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Cash flow hedges						
Interest rate contracts	**1,552.0**	**33.2**	**1.6**	780.7	2.2	1.2
Fair value hedges						
Interest rate contracts	**1,475.4**	**28.3**	**82.3**	1,483.5	14.7	17.8

The group generally enters into fair value hedges and cash flow hedges with changes in the relevant benchmark interest rate risk being the predominant hedged risk.

The fair value hedges seek to hedge the exposure to changes in the fair value of recognised assets and liabilities or firm commitments attributable to interest rate risk. Changes in interest rate risk are considered the largest component of the overall change in fair value. Other risks such as credit risk are managed but excluded from the hedge accounting relationship. The interest rate risk component is the change in fair value of the fixed rate hedging items arising solely from changes in the benchmark interest rate.

Cash flow hedges seek to hedge the exposure to variability in future cash flows due to movements in the relevant benchmark interest rate with interest rate swaps. These future cash flows relate to future interest payments or receipts on recognised financial instruments and on forecast transactions for periods of up to six (2021: five) years. The group applies portfolio cash flow hedging for interest rate risk exposures on a portfolio of actual and forecast variable interest rate cash flows arising from variable rate borrowings.

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

To assess hedge effectiveness the change in fair value or cash flows of the hedging instruments is compared with the change in fair value or cash flows of the hedged item attributable to the hedged risk. A hedge is considered highly effective if the results are within a ratio of 80%-125%.

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

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

	On demand £ million	Within three months £ million	Between three and six months £ million	Between six months and one year £ million	Between one and five years £ million	After more than five years £ million	Total £ million
Fair value hedges							
Interest rate risk							
31 July 2022	**–**	**0.7**	**0.4**	**141.3**	**680.3**	**652.7**	**1,475.4**
31 July 2021	–	70.8	41.3	1.0	482.9	887.5	1,483.5

The Notes continued

14. Derivative Financial Instruments continued

Fair value hedges have an average fixed rate of 1.9% (31 July 2021: 1.9%).

Details of the hedging instruments for the group's hedge ineffectiveness assessment are set out below.

	Changes in fair value of hedging instrument used for calculating hedge ineffectiveness 2022 £ million	Hedge ineffectiveness recognised in income statement 2022 £ million	Changes in fair value of hedging instrument used for calculating hedge ineffectiveness 2021 £ million	Hedge ineffectiveness recognised in income statement 2021 £ million
Cash flow hedges				
Interest rate risk	**29.6**	**0.1**	8.9	0.1
Fair value hedges				
Interest rate risk	**(50.4)**	**(0.1)**	(29.0)	(0.1)

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

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

	Carrying amount of hedged item £ million	Accumulated amount of fair value adjustment on the hedged item £ million	Changes in fair value of hedged item used for calculating hedge ineffectiveness £ million
At 31 July 2022			
Fair value hedges			
Assets			
Debt securities	**211.1**	**(24.0)**	**(28.5)**
Loans and advances to customers and undrawn commitments	**107.4**	**(4.8)**	**(6.7)**
	318.5	**(28.8)**	**(35.2)**
Liabilities			
Deposits by customers	**–**	**–**	**(0.1)**
Debt securities in issue	**823.3**	**(72.2)**	**(71.6)**
Subordinated loan capital	**186.5**	**(13.0)**	**(13.8)**
	1,009.8	**(85.2)**	**(85.5)**

	Carrying amount of hedged item £ million	Accumulated amount of fair value adjustment on the hedged item £ million	Changes in fair value of hedged item used for calculating hedge ineffectiveness £ million
At 31 July 2021			
Fair value hedges			
Assets			
Debt securities	192.5	4.5	1.2
Loans and advances to customers and undrawn commitments	88.5	1.8	(2.5)
	281.0	6.3	(1.3)
Liabilities			
Deposits by customers	21.2	0.1	1.5
Debt securities in issue	842.6	(0.5)	27.6
Subordinated loan capital	222.7	0.8	1.1
	1,086.5	0.4	30.2

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

	Changes in fair value of hedged item used for calculating hedge ineffectiveness £ million	Losses on discontinued hedges recognised in other comprehensive income £ million	Gains from changes in value of hedging instrument recognised in other comprehensive income £ million	Amounts reclassified from reserves to income statement[1] £ million
Cash flow hedges				
Interest rate risk				
31 July 2022	**(29.5)**	**(0.4)**	**29.6**	**(1.0)**
31 July 2021	(8.8)	(1.5)	8.9	(0.3)

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

15. Intangible Assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Group total £ million	Company software £ million
Cost					
At 1 August 2020	153.0	233.3	67.5	453.8	0.5
Additions	2.0	46.2	4.2	52.4	–
Disposals	(12.1)	(6.7)	(20.7)	(39.5)	(0.1)
At 31 July 2021	142.9	272.8	51.0	466.7	0.4
Additions	–	56.0	–	56.0	–
Disposals	(0.3)	(29.3)	–	(29.6)	–
At 31 July 2022	**142.6**	**299.5**	**51.0**	**493.1**	**0.4**
Amortisation and impairment					
At 1 August 2020	47.9	115.5	50.3	213.7	0.4
Amortisation charge for the year	–	29.4	3.0	32.4	–
Impairment charge for the year	12.1	–	11.2	23.3	–
Disposals	(12.1)	(2.5)	(20.7)	(35.3)	–
At 31 July 2021	47.9	142.4	43.8	234.1	0.4
Amortisation charge for the year	–	34.6	2.0	36.6	–
Impairment charge for the year	–	–	–	–	–
Disposals	–	(29.6)	–	(29.6)	–
At 31 July 2022	**47.9**	**147.4**	**45.8**	**241.1**	**0.4**
Net book value at 31 July 2022	**94.7**	**152.1**	**5.2**	**252.0**	**–**
Net book value at 31 July 2021	95.0	130.4	7.2	232.6	–
Net book value at 1 August 2020	105.1	117.8	17.2	240.1	0.1

Software includes assets under development of £71.1 million (31 July 2021: £60.1 million).

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

In the 2022 financial year, £2.0 million (2021: £3.0 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £34.6 million (2021: £29.4 million) of the amortisation charge is included in administrative expenses shown in the consolidated income statement. In the prior financial year, an impairment charge of £11.2 million relating to intangible assets on acquisition was excluded from administrative expenses shown in the consolidated income statement.

Impairment tests for goodwill

At 31 July 2022, goodwill has been allocated to eight (31 July 2021: eight) individual CGUs. Six (31 July 2021: six) are within the Banking division, one is the Asset Management division and the remaining one is the Securities division. The number of CGUs with goodwill decreased by one in the prior year ended 31 July 2021 following full impairment of the goodwill allocated to the Novitas CGU (further detail at the end of this note). Goodwill impairment reviews are carried out annually by assessing the recoverable amount of the group's CGUs, which is the higher of fair value less costs to sell and value in use. The recoverable amounts for all CGUs were measured based on value in use.

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

The Notes continued

15. Intangible Assets continued

For cash flows beyond the group's three year planning horizon, a terminal value was calculated using a prudent annual growth rate of 0% (2021: 0%). The cash flows are discounted using a pre-tax estimated weighted average cost of capital that reflects current market rates appropriate to the CGU as set out in the following table.

At 31 July 2022, the results of the review indicate there is no goodwill impairment. The inputs used in the value in use calculations are sensitive primarily to changes in the assumptions for future cash flows, discount rates and long-term growth rates. Having performed stress tested value in use calculations, the group believes that any reasonably possible change in the key assumptions which have been used would not lead to the carrying value of any CGU to exceed its recoverable amount.

Details of the CGUs in which the goodwill carrying amount is significant in comparison with total goodwill, together with the pre-tax discount rate used in determining value in use, are disclosed separately in the table below:

	31 July 2022		31 July 2021	
Cash generating unit	**Goodwill £ million**	**Pre-tax discount rate %**	Goodwill £ million	Pre-tax discount rate %
Close Brothers Asset Management	**39.9**	**10.4**	40.2	7.1
Winterflood Securities	**23.3**	**16.7**	23.3	12.0
Other	**31.5**	**15.4-17.1**	31.5	9.8-10.9
	94.7		95.0	

Impairment of goodwill and intangible assets on acquisition

In the prior year ended 31 July 2021, the group recorded an impairment charge of £12.1 million relating to the full impairment of goodwill allocated to Novitas, a CGU within the group's Commercial segment. In addition, a total impairment charge of £11.2 million was recorded relating to intangible assets on acquisition, of which £10.1 million related to Novitas.

These impairments reflected the value in use of the Novitas CGU and intangible assets on acquisition falling below carrying value, driven by lower expected future cash flows following strategic decisions made by management. At 31 July 2021, the value in use of the CGU and intangible assets on acquisition was £192.4 million and £3.1 million respectively, and the pre-tax discount rate used in the impairment calculations was 9%.

16. Property, Plant and Equipment

	Leasehold property £ million	Fixtures, fittings and equipment £ million	Assets held under operating leases £ million	Motor vehicles £ million	Right of use assets[1] £ million	Total £ million
Group						
Cost						
At 1 August 2020	25.5	60.1	341.4	0.1	60.4	487.5
Additions	1.1	17.2	60.6	0.1	17.6	96.6
Disposals	(1.4)	(2.5)	(41.3)	–	(6.3)	(51.5)
At 31 July 2021	25.2	74.8	360.7	0.2	71.7	532.6
Additions	0.6	4.3	67.8	–	13.6	86.3
Disposals	(4.9)	(16.5)	(30.3)	–	(6.8)	(58.5)
At 31 July 2022	**20.9**	**62.6**	**398.2**	**0.2**	**78.5**	**560.4**
Depreciation						
At 1 August 2020	14.8	42.9	119.5	0.1	13.0	190.3
Depreciation and impairment charges for the year	2.3	6.8	44.8	–	13.8	67.7
Disposals	(1.4)	(2.2)	(26.5)	–	(5.2)	(35.3)
At 31 July 2021	15.7	47.5	137.8	0.1	21.6	222.7
Depreciation and impairment charges for the year	2.2	7.6	40.6	0.1	13.2	63.7
Disposals	(4.9)	(18.2)	(20.2)	–	(5.2)	(48.5)
At 31 July 2022	**13.0**	**36.9**	**158.2**	**0.2**	**29.6**	**237.9**
Net book value at 31 July 2022	**7.9**	**25.7**	**240.0**	**–**	**48.9**	**322.5**
Net book value at 31 July 2021	9.5	27.3	222.9	0.1	50.1	309.9
Net book value at 1 August 2020	10.7	17.2	221.9	–	47.4	297.2

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

There was a gain of £3.2 million from the sale of assets held under operating leases for the year ended 31 July 2022 (2021: £2.6 million).

	31 July 2022 £ million	31 July 2021 £ million
Future minimum lease rentals receivable under non-cancellable operating leases		
One year or within one year	**49.2**	44.3
>One to two years	**28.2**	28.5
>Two to three years	**13.5**	14.6
>Three to four years	**5.6**	4.0
>Four to five years	**2.9**	1.9
More than five years	**0.6**	1.2
	100.0	94.5

	Leasehold property £ million	Fixtures, fittings and equipment £ million	Total £ million
Company			
Cost			
At 1 August 2020	1.1	5.5	6.6
Additions	–	6.7	6.7
Disposals	(0.8)	(0.4)	(1.2)
At 31 July 2021	0.3	11.8	12.1
Additions	–	–	–
Disposals	–	–	–
At 31 July 2022	**0.3**	**11.8**	**12.1**
Depreciation			
At 1 August 2020	0.8	0.4	1.2
Charge for the year	–	0.6	0.6
Disposals	(0.8)	(0.4)	(1.2)
At 31 July 2021	–	0.6	0.6
Charge for the year	0.1	1.2	1.3
Disposals	–	–	–
At 31 July 2022	**0.1**	**1.8**	**1.9**
Net book value at 31 July 2022	**0.2**	**10.0**	**10.2**
Net book value at 31 July 2021	0.3	11.2	11.5
Net book value at 1 August 2020	0.3	5.1	5.4

The net book value of leasehold property comprises:

	Group		Company	
	31 July 2022 £ million	31 July 2021 £ million	**31 July 2022 £ million**	31 July 2021 £ million
Long leasehold property	**1.3**	1.5	**0.2**	0.3
Short leasehold property	**6.6**	8.0	**–**	–
	7.9	9.5	**0.2**	0.3

The Notes continued

17. Other Assets and Other Liabilities

	31 July 2022 £ million	31 July 2021 £ million
Prepayments, accrued income and other assets		
Prepayments	**115.6**	134.6
Accrued income	**14.9**	15.7
Trade and other receivables	**54.7**	59.3
	185.2	209.6
Accruals, deferred income and other liabilities		
Accruals	**149.0**	182.8
Deferred income	**5.7**	4.1
Trade and other payables	**155.9**	158.3
Provisions	**23.9**	21.8
	334.5	367.0

Provisions movement in the year:

	Claims £ million	Property £ million	Other £ million	Total £ million
Group				
At 1 August 2020	–	6.1	9.7	15.8
Additions	6.2	0.8	5.9	12.9
Utilised	(0.4)	(0.1)	(2.9)	(3.4)
Released	–	–	(3.5)	(3.5)
At 31 July 2021	5.8	6.8	9.2	21.8
Additions	5.8	1.1	2.2	9.1
Utilised	(1.4)	(0.6)	(1.9)	(3.9)
Released	(1.3)	(0.6)	(1.2)	(3.1)
At 31 July 2022	**8.9**	**6.7**	**8.3**	**23.9**

	Property £ million	Other £ million	Total £ million
Company			
At 1 August 2020	0.4	2.9	3.3
Additions	–	0.7	0.7
Utilised	–	(1.0)	(1.0)
Released	–	–	–
At 31 July 2021	0.4	2.6	3.0
Additions	–	1.0	1.0
Utilised	–	(0.4)	(0.4)
Released	–	(0.2)	(0.2)
At 31 July 2022	**0.4**	**3.0**	**3.4**

Provisions are made for claims and other items which arise in the normal course of business. Claims relate to legal and regulatory cases, while other items largely relate to property dilapidations and employee benefits. For such matters, a provision is recognised where it is determined that there is a present obligation arising from a past event, payment is probable, and the amount can be estimated reliably. The timing and/or outcome of these claims and other items are uncertain.

18. Settlement Balances and Short Positions

	31 July 2022 £ million	31 July 2021 £ million
Settlement balances	**780.7**	674.2
Short positions in:		
Debt securities	**7.5**	7.0
Equity shares	**7.9**	9.4
	15.4	16.4
	796.1	690.6

19. Financial Liabilities

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
Deposits by banks	**6.1**	**52.0**	**102.4**	**–**	**–**	**–**	**160.5**
Deposits by customers	**120.9**	**1,645.2**	**3,615.6**	**1,058.8**	**329.9**	**–**	**6,770.4**
Loans and overdrafts from banks	**12.1**	**10.7**	**–**	**228.0**	**371.9**	**–**	**622.7**
Debt securities in issue	**–**	**26.7**	**855.3**	**249.4**	**567.0**	**362.5**	**2,060.9**
At 31 July 2022	**139.1**	**1,734.6**	**4,573.3**	**1,536.2**	**1,268.8**	**362.5**	**9,614.5**

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
Deposits by banks	2.1	37.7	110.8	–	–	–	150.6
Deposits by customers	576.3	1,547.9	3,343.6	729.8	437.2	–	6,634.8
Loans and overdrafts from banks	22.7	–	–	–	490.0	–	512.7
Debt securities in issue[1]	(0.6)	57.0	161.2	655.2	327.5	665.2	1,865.5
At 31 July 2021	600.5	1,642.6	3,615.6	1,385.0	1,254.7	665.2	9,163.6

1 Debt securities in issue of £(0.6) million due on demand includes an adjustment relating to the group's fair value hedges. See note 14 for further information.

At 31 July 2022, the parent company held £251.5 million (31 July 2021: £251.1 million) debt securities in issue.

As discussed in note 28(c) at 31 July 2022 the group accessed £600.0 million cash under the Bank of England's Term Funding Scheme with Additional Incentives for SMEs (31 July 2021: £490.0 million). Cash from the schemes and repurchase agreements is included within loans and overdrafts from banks. Residual maturities of the schemes and repurchase agreements are as follows:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
At 31 July 2022	**–**	**0.6**	**–**	**228.0**	**372.0**	**–**	**600.6**
At 31 July 2021	–	–	–	–	490.0	–	490.0

20. Subordinated Loan Capital

	Prepayment date	Initial interest rate	31 July 2022 £ million	31 July 2021 £ million
Final maturity date				
2027	2022	4.25%	**–**	23.5
2031	2026	2.00%	**186.5**	199.2
			186.5	222.7

At 31 July 2022, the parent company held £nil million (31 July 2021: £23.5 million) and £186.5 million (31 July 2021: £199.2 million) of subordinated loan capital with final maturity dates of 2027 and 2031 respectively.

The Notes continued

21. Called Up Share Capital and Distributable Reserves

	31 July 2022		31 July 2021	
	million	**£ million**	million	£ million
Group and company				
Ordinary shares of 25p each (allotted, issued and fully paid)	**152.1**	**38.0**	152.1	38.0

At 31 July 2022, the company's reserves available for distribution under section 830(2) and 831(2) of the Companies Act 2006 were £436.2 million (2021: £417.5 million). The directors have applied the guidance provided by ICAEW TECH 02/17 in determining this.

22. Capital - unaudited

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

The Prudential Regulation Authority ("PRA") supervises the group on a consolidated basis and receives information on the capital adequacy of, and sets capital requirements for, the group as a whole. In addition, a number of subsidiaries are regulated for prudential purposes by either the PRA or the Financial Conduct Authority ("FCA"). The aim of the capital adequacy regime is to promote safety and soundness in the financial system. It is structured around three "pillars": Pillar 1 on minimum capital requirements; Pillar 2 on the supervisory review process; and Pillar 3 on market discipline. The group's Pillar 1 information is presented below. Under Pillar 2, the group completes an annual self-assessment of risks known as the Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP is reviewed by the PRA which culminates in the PRA setting a Total Capital Requirement ("TCR") that the group and its regulated subsidiaries are required to hold at all times. The TCR is currently set at 9.0%, of which 5.1% needs to be met with common equity tier 1 ("CET1") capital. This includes the Pillar 1 requirements (4.5% and 8% respectively for CET1 and total capital) and a Pillar 2A component of 1.0%, of which 0.6% needs to be met with CET1 capital. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on that group's capital, risk exposures and risk assessment process. The group's Pillar 3 disclosures, which are unaudited, can be found on the group's website www.closebrothers.com/investor-relations/investor-information/results-reports-and-presentations.

The group maintains a strong capital base to support the development of the business and to ensure the group meets the TCR and additional regulatory buffers at all times. As a result, the group maintains capital adequacy ratios above minimum regulatory requirements, which are currently set at a minimum CET1 capital ratio of 7.6% and a minimum total capital ratio of 11.5%. The minimum capital requirements are inclusive of the capital conservation buffer (currently 2.5% for both CET1 capital and total capital) and the countercyclical buffer (currently 0% effective rate for the group, for both CET1 capital and total capital) and exclusive of any applicable PRA buffer.

A full analysis of the composition of regulatory capital and Pillar 1 risk weighted assets ("RWAs"), a reconciliation between equity and CET1 capital after adjustments and a table showing the movement in CET1 capital during the year are shown on the following pages.

At 31 July 2022, the group's CET1 capital ratio was 14.6% (31 July 2021: 15.8%). CET1 capital decreased to £1,396.7 million (31 July 2021: £1,439.3 million) primarily due to regulatory changes to the treatment of software assets, which are now fully deducted from capital, and a decrease in IFRS 9 transitional arrangements.

RWAs, calculated using the standardised approaches, increased to £9,591.3 million (31 July 2021: £9,105.3 million) driven by growth in the Commercial division loan book, and in derivative exposures, increasing counterparty credit risk and credit valuation adjustments.

	31 July 2022 £ million	31 July 2021 £ million
CET1 capital		
Called up share capital	**38.0**	38.0
Retained earnings	**1,628.4**	1,555.5
Other reserves recognised for CET1 capital	**10.0**	13.1
Adjustments to CET1 capital		
Intangible assets, net of associated deferred tax liabilities[1]	**(250.7)**	(180.7)
Foreseeable dividend[2]	**(65.6)**	(62.7)
Investment in own shares	**(40.6)**	(36.0)
Pension asset, net of associated deferred tax liabilities	**(5.3)**	(5.4)
Prudent valuation adjustment	**(0.5)**	(0.3)
Insufficient coverage for non-performing exposures[3]	**–**	–
IFRS 9 transitional arrangements[4]	**83.0**	117.8
CET1 capital[5]	**1,396.7**	1,439.3
Tier 2 capital[6] – subordinated debt	**200.0**	223.4
Total regulatory capital[5]	**1,596.7**	1,662.7
RWAs (notional)[7]		
Credit and counterparty credit risk	**8,389.0**	7,945.8
Operational risk[7]	**1,085.8**	1,038.5
Market risk[7]	**116.5**	121.0
	9,591.3	9,105.3
CET1 capital ratio[5]	**14.6%**	15.8%
Total capital ratio[5]	**16.6%**	18.3%

1 In line with CRR, effective on 1 January 2022, the CET1 capital ratio no longer includes the benefit related to software assets which were previously exempt from the deduction requirement for intangible assets from CET1.
2 Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2022 and 31 July 2021 for a foreseeable dividend, being the proposed final dividend as set out in note 9.
3 In line with CRR, effective on 1 January 2022, the CET1 capital includes a regulatory deduction where there is insufficient coverage for non-performing exposures, amounting to £0.03 million at 31 July 2022.
4 The group has elected to apply IFRS 9 transitional arrangements for 31 July 2022, which allow the capital impact of expected credit losses to be phased in over the transitional period.
5 Shown after applying IFRS 9 transitional arrangements and CRR transitional and qualifying own funds arrangements in force at the time. Without their application, at 31 July 2022 the CET1 capital ratio would be 13.8% and total capital ratio 15.9% (31 July 2021: CET1 capital ratio 14.7% and total capital ratio 17.2%, which includes the benefit related to the previous treatment of software assets).
6 Tier 2 capital decrease represents the redemption on call date of a prior Tier 2 security, most of which had previously been redeemed as part of a tender offer.
7 Operational and market risk include an adjustment at 8% in order to determine notional RWAs.

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

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

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

The Notes continued

22. Capital - unaudited continued

The following table shows the movement in CET1 capital during the year:

	2022 £ million	2021 £ million
CET1 capital at 1 August	**1,439.3**	1,254.0
Profit in the period attributable to shareholders	**165.2**	202.1
Dividends paid and foreseen	**(98.4)**	(89.5)
Change in software assets treatment[1]	**(50.2)**	50.2
IFRS 9 transitional arrangements	**(34.8)**	17.5
(Increase)/decrease in intangible assets, net of associated deferred tax liabilities	**(19.7)**	6.0
Other movements in reserves recognised for CET1 capital	**0.1**	0.9
Other movements in adjustments to CET1 capital	**(4.8)**	(1.9)
CET1 capital at 31 July	**1,396.7**	1,439.3

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

23. Guarantees and Commitments

Guarantees

	Group		Company	
	31 July 2022 £ million	31 July 2021 £ million	31 July 2022 £ million	31 July 2021 £ million
Earliest period in which guarantee could be called				
Within one year	**109.3**	112.5	**106.0**	107.0
More than one year	**3.3**	–	**–**	–
	112.6	112.5	**106.0**	107.0

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

Commitments

Undrawn facilities, credit lines and other commitments to lend

	31 July 2022 £ million	31 July 2021 £ million
Within one year[1]	**1,223.4**	1,310.3

1 Includes both revocable and irrevocable commitments.

Other commitments

Subsidiaries had contracted capital and other financial commitments of £119.7 million (2021: £88.4 million).

24. Related Party Transactions

Transactions with key management

Details of directors' remuneration and interests in shares are disclosed in the Directors' Remuneration Report on pages 123 to 140.

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

The table below details, on an aggregated basis, key management personnel emoluments:

	2022 £ million	2021 £ million
Emoluments		
Salaries and fees	**5.8**	4.6
Benefits and allowances	**0.5**	0.4
Performance related awards in respect of the current year:		
Cash	**3.1**	5.3
Deferred	**0.8**	2.5
	10.2	12.8
Share-based awards	**2.3**	2.6
	12.5	15.4

Gains upon exercise of options by key management personnel, expensed to the income statement in previous years, totalled £1.1 million (2021: £3.5 million).

Key management have banking and asset management relationships with group entities which are entered into in the normal course of business. Amounts included in deposits by customers at 31 July 2022 attributable, in aggregate, to key management were £0.2 million (31 July 2021: £0.2 million).

25. Pensions

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

Defined contribution schemes

During the year the charge to the consolidated income statement for the group's defined contribution pension schemes was £16.9 million (2021: £15.5 million), representing contributions payable by the group and is included in administrative expenses.

Defined benefit pension scheme

The group's only defined benefit pension scheme ("the scheme") is a final salary scheme which operates under trust law. The scheme is managed and administered in accordance with the scheme's Trust Deed and Rules and all relevant legislation by a trustee board made up of trustees nominated by both the company and the members.

The scheme was closed to new entrants in August 1996 and closed to further accrual during 2012. At 31 July 2022 this scheme had 26 (31 July 2021: 28) deferred members and 54 (31 July 2021: 53) pensioners and dependants.

Funding position

The scheme's most recent triennial actuarial valuation at 31 July 2021 showed that the scheme was fully funded. As such, no further contributions are scheduled.

IAS 19 valuation

The following disclosures are reported in accordance with IAS 19. Significant actuarial assumptions are as follows:

	2022 %	2021 %
Inflation rate (Retail Price Index)	**3.5**	3.6
Inflation rate (Consumer Price Index)	**3.1**	3.2
Discount rate for scheme liabilities[1]	**3.4**	1.6
Expected interest/expected long-term return on plan assets	**3.4**	1.6
Mortality assumptions[2]:		
Existing pensioners from age 65, life expectancy (years):		
Men	**23.5**	24.0
Women	**25.3**	25.7
Non-retired members currently aged 50, life expectancy from age 65 (years):		
Men	**24.3**	24.9
Women	**26.6**	27.0

1 Based on market yields at 31 July 2022 and 2021 on high quality sterling-denominated corporate bonds, adjusted to be consistent with the estimated term of the post-employment benefit obligation, using the Willis Towers Watson model "Global RATE:Link".
2 Based on standard tables SAPS S2 Light (2021: SAPS S2 Light) produced by the CMI Bureau of the Institute and Faculty of Actuaries with adjusted mortality multipliers for pensioners and non-pensioners, together with projected future improvements in line with the CMI 2020 (2021: CMI 2017) core projection model with a long-term trend of 1.5% per annum.

The scheme has been accounted for in the company and the surplus has been recognised as an asset on the company and group's balance sheet within "Trade and other receivables".

The group has the unconditional right to any surpluses that arise within the scheme once all benefits have been secured in full. As such no asset ceiling has been applied, and accordingly the scheme surplus is recognised on the consolidated balance sheet.

	2022 £ million	2021 £ million	2020 £ million	2019 £ million	2018 £ million
Fair value of scheme assets[1]:					
Equities	**0.0**	9.4	14.0	13.1	12.7
Bonds	**30.3**	33.6	32.3	29.9	28.7
Cash	**3.5**	0.2	0.3	0.2	0.1
Insured annuities	**1.0**				
Total Assets	**34.8**	43.2	46.6	43.2	41.5
Fair value of liabilities	**(27.6)**	(35.6)	(39.2)	(36.5)	(36.4)
Surplus	**7.2**	7.6	7.4	6.7	5.1

1 There are no amounts included within the fair value of scheme assets relating to the financial instruments of Close Brothers Group plc.

The Notes continued

25. Pensions continued

Movement in the present value of scheme liabilities during the year:

	2022 £ million	2021 £ million
Carrying amount	**(35.6)**	(39.2)
Interest expense	**(0.6)**	(0.5)
Past service cost	**–**	(0.1)
Benefits paid	**1.0**	5.6
Actuarial gain/(losses)	**8.6**	(1.4)
Other	**(1.0)**	–
Total carrying value as on 31 July	**(27.6)**	(35.6)

Movement in the fair value of scheme assets during the year:

	2022 £ million	2021 £ million
Carrying value	**43.2**	46.6
Interest income	**0.7**	0.6
Benefits paid	**(1.0)**	(5.6)
Administrative costs	**(0.4)**	(0.3)
Return on assets excluding interest income	**(8.7)**	1.9
Other	**1.0**	–
Total carrying value	**34.8**	43.2

Historical experience of actuarial gains/(losses) are shown below:

	2022 £ million	2021 £ million	2020 £ million	2019 £ million	2018 £ million
Experience gains/(losses) on scheme assets	**(8.7)**	1.9	4.1	3.3	1.3
Experience gains on scheme liabilities	**0.4**	–	–	1.3	–
Impact of changes in assumptions	**8.2**	(1.4)	(3.2)	(2.7)	0.4
Total actuarial changes in liabilities	**8.6**	(1.4)	(3.2)	(1.4)	0.4
Total actuarial gain/(losses)	**(0.1)**	0.5	0.9	1.9	1.7

Total actuarial gains have been recognised in other comprehensive income. Income of £0.1 million (2021: £0.1 million) from the interest on the scheme surplus has been recognised within administrative expenses in the consolidated income statement. The group's policy is not to allocate the net defined benefit cost between group entities participating in the scheme.

The valuation of the scheme's liabilities is sensitive to the key assumptions used in the valuation. The effect of a change in those assumptions in 2022 and 2021 is set out below. The analysis reflects the variation of the individual assumptions. The variation in price inflation includes all inflation-linked pension increases in deferment and in payment.

		Impact on defined benefit obligation increase/(decrease)			
		2022		2021	
Key assumption	Sensitivity	%	£ million	%	£ million
Discount rate	0.25% increase	**(3.2)**	**(0.9)**	(4.4)	(1.6)
Price inflation	0.25% increase	**1.6**	**0.4**	1.8	0.6
Mortality	Increase in life expectancy at age 65 by one year	**3.0**	**0.8**	4.0	1.4

Changes in the assumptions used in the valuation due to external factors would affect the carrying value of the scheme. The most significant risks are:

- Market factors (movements in equity and bond markets): The scheme's assets are invested 0% in global quoted equities, 87% in quoted bonds, 10% in cash and 3% in insured annuities (2021: 22% global quoted equities and 78% quoted bonds) and the scheme's liabilities are measured with reference to corporate bond yields. The performance of these asset classes can be volatile. Underperformance of either of these markets would have an adverse impact on the carrying value of the scheme.
- Inflation: Deferred pensions and pensions in payment increase at specified periods in line with inflation, subject to certain caps and floors in place. Changes in inflation may impact scheme liabilities.
- Life expectancy: Change in the life expectancy of the scheme's members may impact scheme liabilities.

The weighted average duration of the benefit payments reflected in the scheme liabilities is 14 years (2021: 17 years).

26. Share-based Awards

The Save As You Earn ("SAYE"), Long Term Incentive Plan ("LTIP") and Deferred Share Awards ("DSA") share-based awards have been granted under the group's share schemes. The general terms and conditions for these share-based awards are described in the Directors' Remuneration Report on pages 126 to 128.

In order to satisfy a number of the awards below the company has purchased company shares into Treasury and the Close Brothers Group Employee Share Trust has purchased company shares. At 31 July 2022, 1.6 million (31 July 2021: 1.3 million) and 1.4 million (31 July 2021: 1.5 million) of these shares were held respectively and in total £40.6 million (2021: £36.0 million) was recognised within the share-based payments reserve. During the year £4.9 million (2021: £10.0 million) of these shares were released to satisfy share-based awards to employees. The share-based payments reserve as shown in the consolidated statement of changes in equity also includes the cumulative position in relation to unvested share-based awards charged to the consolidated income statement of £11.4 million (2021: £13.6 million). The share-based awards charge of £4.9 million (2021: £5.7 million) is included in administrative expenses shown in the consolidated income statement.

Movements in the number of share-based awards outstanding and their weighted average share prices are as follows:

	SAYE		LTIP		DSA	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
At 1 August 2020	1,921,106	–	1,373,119	–	836,819	–
Granted	1,385,804	829.5p	502,283	–	146,223	–
Exercised	(208,013)	1174.2p	(147,807)	–	(423,915)	–
Forfeited	(801,716)	923.9p	(213,100)	–	(4,697)	–
Lapsed	(61,176)	1208.5p	(260,721)	–	(6,932)	–
At 31 July 2021	**2,236,005**	**–**	**1,253,774**	**–**	**547,498**	**–**
Granted	**420,863**	**1,042.6p**	**326,540**	**–**	**196,576**	**–**
Exercised	**(71,478)**	**1,180.6p**	**(19,549)**	**–**	**(267,051)**	**–**
Forfeited	**(288,729)**	**969.8p**	**(13,274)**	**–**	**(10,211)**	**–**
Lapsed	**(26,290)**	**1,158.8p**	**(189,633)**	**–**	**8,191**	**–**
At 31 July 2022	**2,270,371**	**–**	**1,357,858**	**–**	**475,003**	**–**
Exercisable at:						
31 July 2022	**48,978**	**1,184.4p**	**202,528**	**–**	**74,008**	**–**
31 July 2021	11,336	1,141.0p	73,936	–	9,645	–

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

	2022	2021
SAYE	**1,319.2p**	1,451.2p
LTIP	**1,460.4p**	1,286.9p
DSA	**1,402.9p**	1,291.3p

The Notes continued

26. Share-based Awards continued

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

	2022 Options outstanding		2021 Options outstanding	
	Number outstanding	Weighted average remaining contractual life Years	Number outstanding	Weighted average remaining contractual life Years
SAYE				
Between £7 and £8	**1,131,601**	**2.6**	1,244,571	3.5
Between £8 and £9	**525,818**	**1.7**	610,912	2.7
Between £9 and £10	**282,400**	**3.7**	114,155	2.3
Between £10 and £11	**102,790**	**1.3**	—	—
Between £11 and £12	**70,081**	**0.9**	107,211	1.5
Between £12 and £13	**94,729**	**2.9**	68,999	1.1
Between £13 and £14	**62,952**	**2.7**	90,157	3.7
LTIP				
Nil	**1,357,858**	**3.4**	1,253,774	3.7
DSA				
Nil	**475,003**	**1.6**	547,498	1.7
Total	**4,103,232**	**2.6**	4,037,277	3.1

For the share-based awards granted during the year, the weighted average fair value of those options at 31 July 2022 was 928.8p (31 July 2021: 453.3p). The main assumptions for the valuation of these share-based awards comprised:

Exercise period	Share price at issue	Exercise price	Expected volatility	Expected option life in years	Dividend yield	Risk free interest rate
SAYE						
1 Dec 2024 to 31 May 2025	1,551.3p	1,241.0p	32.0%	3	4.1%	0.6%
1 Dec 2026 to 31 May 2027	1,551.3p	1,241.0p	28.0%	5	4.1%	0.7%
1 Jun 2025 to 30 Nov 2025	1,195.0p	956.0p	34.0%	3	5.1%	1.8%
1 Jun 2027 to 30 Nov 2027	1,195.0p	956.0p	30.0%	5	5.1%	1.8%
LTIP						
5 Oct 2024 to 1 Oct 2027	1,545.8p	–	32.0%	3	4.1%	0.6%
DSA						
5 Oct 2022 to 5 Oct 2024	1,545.8p	–	–	–	–	–
5 Oct 2024 to 5 Oct 2025	1,545.8p	–	–	–	–	–
22 Mar 2024 to 21 Mar 2025	1,192.0p	–	–	–	–	–
1 Mar 2025 to 28 Feb 2026	1,297.0p	–	–	–	–	–

Expected volatility was determined mainly by reviewing share price volatility for the expected life of each option up to the date of grant.

27. Consolidated Cash Flow Statement Reconciliation

	2022 £ million	2021[1] £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit before tax	**232.8**	265.2
Tax paid	**(63.4)**	(69.7)
Depreciation, amortisation and impairment	**100.3**	123.4
Impairment losses on financial assets	**103.3**	89.8
Decrease/(increase) in:		
Interest receivable and prepaid expenses	**19.8**	4.6
Net settlement balances and trading positions	**17.2**	8.5
Net loans from money brokers against stock advanced	**2.7**	(23.2)
(Decrease)/increase in interest payable and accrued expenses	**(32.2)**	27.2
Net cash inflow from trading activities	**380.5**	425.8
Decrease/(increase) in:		
Loans and advances to banks not repayable on demand	**(5.3)**	9.6
Loans and advances to customers	**(515.0)**	(951.2)
Assets let under operating leases	**(54.5)**	(43.9)
Certificates of deposit	**79.7**	21.2
Sovereign and central bank debt	**(255.3)**	(126.6)
Other assets less other liabilities	**(6.4)**	29.6
Increase/(decrease) in:		
Deposits by banks	**11.8**	3.9
Deposits by customers	**142.7**	745.1
Loans and overdrafts from banks	**110.0**	14.8
Net issuance/(redemption) of debt securities	**270.5**	(9.2)
Net cash inflow from operating activities	**158.7**	119.1
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and non-controlling interests		
Cash consideration paid	**(0.1)**	(2.9)
(c) Analysis of net cash inflow in respect of the sale of subsidiaries		
Cash consideration received	**0.1**	2.3
(d) Analysis of cash and cash equivalents[2]		
Cash and balances at central banks	**1,236.0**	1,314.7
Loans and advances to banks	**147.0**	121.9
At 31 July	**1,383.0**	1,436.6

1 Comparatives have been updated to present impairment losses on financial assets in a separate line with no impact on the net cash inflow from operating activities figure.

2 Excludes £37.1 million (2021: £30.7 million) of Bank of England and other cash reserve accounts.

During the year ended 31 July 2022, the non-cash changes on debt financing amounted to £9.6 million (31 July 2021: £18.2 million) arising largely from interest accretions and fair value hedging movements.

The Notes continued

28. Financial Risk Management

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

The group's financial risk management objectives are summarised within the Risk Report on pages 74 to 92. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1.

(a) Classification

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

	Derivatives designated as hedging instruments £ million	Fair value through profit and loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
At 31 July 2022					
Assets					
Cash and balances at central banks	–	–	–	1,254.7	1,254.7
Settlement balances	–	–	–	799.3	799.3
Loans and advances to banks	–	–	–	165.4	165.4
Loans and advances to customers	–	–	–	8,858.9	8,858.9
Debt securities	–	12.4	415.4	185.0	612.8
Equity shares	–	28.4	–	–	28.4
Loans to money brokers against stock advanced	–	–	–	48.4	48.4
Derivative financial instruments	61.5	9.7	–	–	71.2
Other financial assets	–	1.7	–	82.6	84.3
	61.5	52.2	415.4	11,394.3	11,923.4
Liabilities					
Settlement balances and short positions	–	15.4	–	780.7	796.1
Deposits by banks	–	–	–	160.5	160.5
Deposits by customers	–	–	–	6,770.4	6,770.4
Loans and overdrafts from banks	–	–	–	622.7	622.7
Debt securities in issue	–	–	–	2,060.9	2,060.9
Loans from money brokers against stock advanced	–	–	–	–	–
Subordinated loan capital	–	–	–	186.5	186.5
Derivative financial instruments	83.9	5.3	–	–	89.2
Other financial liabilities	–	–	–	184.2	184.2
	83.9	20.7	–	10,765.9	10,870.5

	Derivatives designated as hedging instruments £ million	Fair value through profit and loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
At 31 July 2021					
Assets					
Cash and balances at central banks	–	–	–	1,331.0	1,331.0
Settlement balances	–	–	–	699.6	699.6
Loans and advances to banks	–	–	–	136.3	136.3
Loans and advances to customers	–	–	–	8,444.5	8,444.5
Debt securities	–	20.1	192.5	264.7	477.3
Equity shares	–	31.9	–	–	31.9
Loans to money brokers against stock advanced	–	–	–	51.1	51.1
Derivative financial instruments	16.9	1.4	–	–	18.3
Other financial assets	–	0.1	–	62.4	62.5
	16.9	53.5	192.5	10,989.6	11,252.5
Liabilities					
Settlement balances and short positions	–	16.4	–	674.2	690.6
Deposits by banks	–	–	–	150.6	150.6
Deposits by customers	–	–	–	6,634.8	6,634.8
Loans and overdrafts from banks	–	–	–	512.7	512.7
Debt securities in issue	–	–	–	1,865.5	1,865.5
Loans from money brokers against stock advanced	–	–	–	–	–
Subordinated loan capital	–	–	–	222.7	222.7
Derivative financial instruments	19.0	2.3	–	–	21.3
Other financial liabilities	–	–	–	194.8	194.8
	19.0	18.7	–	10,255.3	10,293.0

(b) Valuation

The fair values of the group's financial assets and liabilities are not materially different from their carrying values. The main differences are as follows:

	31 July 2022		31 July 2021	
	Fair value £ million	**Carrying value £ million**	Fair value £ million	Carrying value £ million
Subordinated loan capital	**180.0**	**186.5**	226.5	222.7
Debt securities in issue	**2,071.4**	**2,060.9**	1,908.9	1,865.5

Valuation hierarchy

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities where prices are readily available and represent actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient frequency to provide ongoing pricing information;
- Level 2 fair value measurements are those derived from quoted prices in less active markets for identical assets or liabilities or those derived from inputs other than quoted prices that are observable for the asset or liability, either directly as prices or indirectly derived from prices; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data ("unobservable inputs").

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

Instruments classified as Level 2 predominantly comprise less liquid listed equity shares, investment grade corporate bonds and over-the-counter derivatives. The fair value of equity shares and bonds are derived from quoted prices in less active markets in comparison to level 1. Over-the-counter derivatives largely relate to interest rate and exchange rate contracts (see note 14 for further information). The valuation of such derivatives includes the use of discounted future cash flow models, with the most significant input into these models being interest rate yield curves developed from quoted rates.

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

The Notes continued

28. Financial Risk Management continued

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

There were no significant transfers between Level 1, 2 and 3 in 2022 and 2021.

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

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2022				
Assets				
Debt securities:				
Long trading positions in debt securities	**11.0**	**1.4**	**–**	**12.4**
Sovereign and central bank debt	**415.4**	**–**	**–**	**415.4**
Equity shares	**4.1**	**24.0**	**0.3**	**28.4**
Derivative financial instruments	**–**	**71.2**	**–**	**71.2**
Contingent consideration	**–**	**–**	**1.7**	**1.7**
	430.5	**96.6**	**2.0**	**529.1**
Liabilities				
Short positions:				
Debt securities	**5.8**	**1.7**	**–**	**7.5**
Equity shares	**2.2**	**5.6**	**0.1**	**7.9**
Derivative financial instruments	**–**	**89.2**	**–**	**89.2**
Contingent consideration	**–**	**–**	**3.0**	**3.0**
	8.0	**96.5**	**3.1**	**107.6**

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2021				
Assets				
Debt securities:				
Long trading positions in debt securities	19.0	1.1	–	20.1
Sovereign and central bank debt	192.5	–	–	192.5
Equity shares	6.2	25.4	0.3	31.9
Derivative financial instruments	–	18.3	–	18.3
Contingent consideration	–	–	0.1	0.1
	217.7	44.8	0.4	262.9
Liabilities				
Short positions:				
Debt securities	5.7	1.3	–	7.0
Equity shares	3.2	6.2	–	9.4
Derivative financial instruments	–	21.3	–	21.3
Contingent consideration	–	–	3.0	3.0
	8.9	28.8	3.0	40.7

Movements in financial instruments categorised as Level 3 were:

	Equity shares £ million	Contingent consideration £ million
At 1 August 2020	0.3	(0.8)
Total gains recognised in the consolidated income statement	–	2.6
Purchases and issues	–	(2.4)
Sales and settlements	–	(2.3)
At 31 July 2021	0.3	(2.9)
Total losses recognised in the consolidated income statement	–	(0.2)
Purchases and issues	–	1.8
Sales and settlements	(0.1)	–
At 31 July 2022	**0.2**	**(1.3)**

The losses recognised in the consolidated income statement relating to instruments held at the year end amounted to £0.2 million (2021: £0.1 million).

(c) Credit risk

Credit risk is the risk of a reduction in earnings and/or value, as a result of the failure of a counterparty or associated party, with whom the group has contracted, to meet its obligations as they fall due. Credit risk across the group mainly arises through the lending and treasury activities of the Banking division.

The Banking division applies consistent and prudent lending criteria to mitigate credit risk. Its lending activities are predominantly secured across a diverse range of asset classes. Details of average tenor and loan size by business can be found on page 4 of the strategic report. This ensures concentration risk is controlled in both the loan book and associated collateral. Currently credit risk appetites are set around unsecured lending to ensure the secured lending position is under regular review. As at 31 July 2022, secured lending accounts for 89.6% of the loan book, in line with the prior year (31 July 2021: 89.2%).

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

Maximum exposure to credit risk

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

	31 July 2022 £ million	31 July 2021 £ million
On balance sheet		
Cash and balances at central banks	**1,254.7**	1,331.0
Settlement balances	**799.3**	699.6
Loans and advances to banks	**165.4**	136.3
Loans and advances to customers	**8,858.9**	8,444.5
Debt securities	**612.8**	477.3
Loans to money brokers against stock advanced	**48.4**	51.1
Derivative financial instruments	**71.2**	18.3
Other financial assets	**84.3**	62.5
	11,895.0	11,220.6
Off balance sheet		
Irrevocable undrawn commitments	**277.8**	239.6
Total maximum exposure to credit risk	**12,172.8**	11,460.2

Assets pledged and received as collateral

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

The group is a participant of the Bank of England's Term Funding Scheme with Additional Incentives for SMEs ("TFSME").

Under these schemes, asset finance loan receivables of £626.1 million (31 July 2021: £571.3 million), UK gilts with a market value of £72.6 million (31 July 2021: £90.2 million), UK T-Bills with a market value of £144.3 million (31 July 2021: £nil) and retained notes relating to Motor Finance loan receivables of £24.3 million (31 July 2021: £72.1 million) were positioned as collateral with the Bank of England, against which £600.0 million (31 July 2021: £490.0 million) of cash was drawn.

The Notes continued

28. Financial Risk Management continued

The term of these transactions is four years from the date of each drawdown but the group may choose to repay earlier at its discretion. The risks and rewards of the loan receivables remain with the group and continue to be recognised in loans and advances to customers on the consolidated balance sheet.

The group has securitised without recourse and restrictions £1,626.8 million (31 July 2021: £1,386.0 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £1,022.4 million (31 July 2021: £915.7 million). This includes the £24.3 million (31 July 2021: £72.1 million) retained notes positioned as collateral with the Bank of England. As the group has retained exposure to substantially all the credit risk and rewards of the residual benefit of the underlying assets it continues to recognise these assets in loans and advances to customers in its consolidated balance sheet.

The majority of loans and advances to customers are secured against specific assets. For more information on collateral held see page 200. Consistent and prudent lending criteria are applied across the whole loan book with emphasis on the quality of the security provided.

Financial assets: Loans and advances to customers

Credit risk management and monitoring

Overall credit risk appetite is set by the group board. The monitoring of credit policy is the responsibility of the Banking division's Risk and Compliance committees. Large loans are subject to approval by a credit committee.

Credit underwriting and in-life monitoring is undertaken either centrally or through regional office networks, appropriate to the diverse and specialised nature of the businesses and the size and complexity of the transaction. Underwriting authority is ultimately delegated from the Board Risk Committee and cascaded accordingly, with lending businesses approving lower risk exposures locally subject to compliance with credit policy and risk appetite.

This model is supported by central oversight and control. An independent central credit risk function provides ongoing monitoring of material credit risks through regular review of appetites and policy. This team reports through the chief credit risk officer to the group chief risk officer and provides monthly reporting to the CRMC and GRCC. The Banking division has a dual approach to mitigating credit risk by:
- Lending on a predominantly secured basis with emphasis on both the customer's ability to repay and the quality of the underlying security to minimise any loss should the customer not be able to repay; and
- Applying greater scrutiny where the asset securing a loan is less tangible, or in cases of higher loan to value ("LTV").

Collections and recoveries processes are designed to provide a fair, consistent and effective operation for arrears management with a focus on good customer outcomes. We seek to engage in early communication with borrowers experiencing difficulty in meeting their repayments and provide forbearance where appropriate. Capacity in collections and recoveries teams is closely monitored with clear plans in place to deal with increases in arrears.

Government lending schemes

In addition to the Covid-19 specific forbearance measures covered below, following accreditation, customers facilities were offered under the UK government-introduced Coronavirus Business Interruption Loan Scheme ("CBILS"), the Coronavirus Large Business Interruption Loan Scheme ("CLBILS") and the Bounce Back Loan Scheme ("BBLS"), thereby enabling us to maximise our support to small businesses. As at 31 July 2022, 5,445 facilities were drawn, with a residual balance of £747.5 million (31 July 2021: £983.9 million) following commencement of repayments across our Property, Asset Finance & Leasing and Invoice Finance businesses.

We have also received accreditation to offer products under the Recovery Loan Scheme, and schemes in the Republic of Ireland. As at 31 July 2022, there are 633 live and approved loans, with limits of £181.6 million.

Forbearance

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

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

Covid-19 approach

As the global pandemic has evolved, the impact on customers and their ongoing performance and requirements have been monitored, including the uptake of concessions, payment performance, the resumption of normal payment terms and the requirement for further concessions. Appropriate cure periods associated with these concessions have been determined based on in-depth knowledge of portfolios and sub-portfolios.

The Central Credit Risk function continues to report on Covid-19 related concessions to the CRMC. Additional reporting tracks the trajectory of Covid-19 related concessions across the businesses and examines sector and asset concentrations.

The number of customers supported via concessions offered has fallen to 770 from 17,674 at the end of the prior financial year.

A loan will be treated as forborne until a cure period has been met. The cure periods of Covid-19 related forborne exposures are subject to expert judgement and are underpinned by carefully considered assumptions. These are subject to regular review and varies per business and ranges from instant cure when concession ends (subject to confirmation of no adverse performance) to a cure period of between 3 and 12 months, commencing upon resumption of full repayments in instances where partial repayments had been agreed for a period of time.

BAU forbearance

The Banking division has historically offered a range of concessions to support customers which vary depending on the product and the customer's status. Such concessions include an extension outside terms (for example a higher loan to value or overpayments) and refinancing, which may incorporate an extension of the loan tenor and capitalisation of arrears. Furthermore, other forms of forbearance such as moratorium, covenant waivers, and rate concessions are also offered.

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

1. The loan is considered as performing and there is no past-due amount according to the amended contractual terms;
2. A minimum two-year probation period has passed from the date the forborne exposure was considered as performing, during which time regular and timely payments have been made;
3. None of the customer's exposures with Close Brothers are more than 30 days past due at the end of the probation period.

Forbearance analysis

At 31 July 2022 the gross carrying amount of exposures with forbearance measures was £208.9 million (31 July 2021: £615.0 million). The key driver of this decrease has been repayment and curing of Covid-19 related forbearance, the total of which amounts to £40.8 million at 31 July 2022 (31 July 2021: £454.8 million).

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

	Gross loans and advances to customers £ million	Forborne loans £ million	Forborne loans as a percentage of gross loans and advances to customers %	Provision on forborne loans £ million	Number of customers supported
31 July 2022	**9,144.5**				
Covid-19 forbearance		**40.8**	**0.4%**	**1.4**	**770**
Non-Covid-19 forbearance		**168.1**	**1.8%**	**42.9**	**10,273**
	9,144.5	**208.9**	**2.3%**	**44.3**	**11,043**
31 July 2021	8,724.9				
Covid-19 forbearance		454.8	5.2%	47.3	17,674
Non-Covid-19 forbearance		160.2	1.8%	35.5	12,679
	8,724.9	615.0	7.0%	82.8	30,353

The following is a breakdown of forborne loans by segment split by those driven by Covid-19 compared to concessions that have arisen in the normal course of business:

	31 July 2022			31 July 2021		
	Covid-19 £ million	**Non-Covid-19 £ million**	**Total forborne loans £ million**	Covid-19 £ million	Non-Covid-19 £ million	Total forborne loans £ million
Commercial	**34.2**	**28.1**	**62.3**	287.4	19.8	307.2
Retail	**1.8**	**21.2**	**23.0**	49.2	9.2	58.4
Property	**4.8**	**118.8**	**123.6**	118.2	131.2	249.4
	40.8	**168.1**	**208.9**	454.8	160.2	615.0

The Notes continued

28. Financial Risk Management continued

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

	31 July 2022			31 July 2021		
	Covid-19	**Non-Covid-19**	**Total number of customers supported**	Covid-19	Non-Covid-19	Total number of customers supported
Commercial	**404**	**114**	**518**	2,291	136	2,427
Retail	**365**	**10,102**	**10,467**	15,333	12,485	27,818
Property	**1**	**57**	**58**	50	58	108
	770	**10,273**	**11,043**	17,674	12,679	30,353

The following is a breakdown of forborne loans by concession type split by those driven by Covid-19 compared to concessions that have arisen in the normal course of business:

	31 July 2022			31 July 2021		
	Covid-19 £ million	**Non-Covid-19 £ million**	**Forborne loans £ million**	Covid-19 £ million	Non-Covid-19 £ million	Forborne loans £ million
Extension outside terms	**5.4**	**107.6**	**113.0**	123.5	121.9	245.4
Refinancing	**–**	**3.0**	**3.0**	1.2	5.3	6.5
Moratorium	**35.4**	**34.5**	**69.9**	329.7	16.1	345.8
Other modifications	**–**	**23.0**	**23.0**	0.4	16.9	17.3
	40.8	**168.1**	**208.9**	454.8	160.2	615.0

Segmental credit risk

Commercial is a combination of several specialist, predominantly secured, lending businesses. The nature of assets financed varies across the businesses. The majority of the loan book is comprised of loans less than £2.5 million. Credit quality is predominantly assessed on an individual loan-by-loan basis. During and post the pandemic, Commercial has provided additional support to customers using the CBILS, CLBILS and RLS products which benefit from British Business Bank guarantee support. Collection and recovery activity is executed promptly by experts with experience in the specialised assets. This approach allows remedial action to be implemented at the appropriate time to minimise potential loss.

Retail is predominantly high volume secured, refundable or structurally protected lending. The majority of the loan book is comprised of loans less than £20,000 and includes both regulated and unregulated agreements. Credit issues are identified via largely automated monitoring and tracking processes. Collections processes and actions (focused on good and fair customer outcomes) are designed and implemented to support and restore customers to a performing status, with recovery methods applied to minimise potential loss.

Property is a low volume, specialised lending portfolio with credit quality assessed on an individual loan by loan basis. The majority of the loan book is comprised of Residential Development loans of less than £10 million. All loans are regularly reviewed to ensure that they are performing satisfactorily, with Residential Development facilities monitored, broadly, on a monthly basis by independent Close Brothers appointed Project Monitoring Surveyors ("PMS") to certify build payments and the residual cost-to-complete. This ensures the thorough supervision of all live developments and facilitates the monthly checking of on-site progress against original build plan.

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

Credit risk reporting

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

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

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

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

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
At 31 July 2022				
Gross loans and advances to customers				
Low risk	**7,356.7**	**706.9**	**21.4**	**8,085.0**
Medium risk	**259.3**	**401.9**	**47.3**	**708.5**
High risk	**11.0**	**50.1**	**289.9**	**351.0**
Ungraded	**–**	**–**	**–**	**–**
	7,627.0	**1,158.9**	**358.6**	**9,144.5**
Undrawn commitments				
Low risk	**1,205.9**	**10.7**	**–**	**1,216.6**
Medium risk	**0.4**	**3.8**	**–**	**4.2**
High risk	**–**	**2.4**	**0.2**	**2.6**
	1,206.3	**16.9**	**0.2**	**1,223.4**
Trade receivables[1]				
Low risk	**8.6**	**–**	**–**	**8.6**
Medium risk	**–**	**0.4**	**–**	**0.4**
High risk	**–**	**–**	**0.8**	**0.8**
	8.6	**0.4**	**0.8**	**9.8**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
At 31 July 2021				
Gross loans and advances to customers				
Low risk	7,217.8	328.4	10.8	7,557.0
Medium risk	210.5	616.5	31.5	858.5
High risk	0.5	13.6	283.0	297.1
Ungraded	5.5	1.7	5.1	12.3
	7,434.3	960.2	330.4	8,724.9
Undrawn commitments				
Low risk	1,249.2	5.6	–	1,254.8
Medium risk	51.1	3.0	–	54.1
High risk	–	–	1.4	1.4
	1,300.3	8.6	1.4	1,310.3
Trade receivables[1]				
Low risk	8.1	–	–	8.1
Medium risk	–	1.0	–	1.0
High risk	–	–	0.5	0.5
	8.1	1.0	0.5	9.6

1 Lifetime expected credit losses are recognised for all trade receivables under the IFRS 9 simplified approach. The figures presented are on a net basis after deducting for expected credit losses of £3.2 million (31 July 2021: £3.4 million) relating to predominantly Stage 3 receivables.

Low risk loans and advances to customers represent 88% of the overall portfolio (31 July 2021: 87%), reflective of our prudent and consistent approach to credit risk management. 80% (31 July 2021: 83%) of total advances are classified as low risk Stage 1, driven by the strong quality of the portfolio. Low risk Stage 2 represents 8% (31 July 2021: 4%) of loans and advances to customers, largely comprising early arrears cases, or agreements which have triggered a significant increase in credit risk indicator, or the 30 days past due backstop. The increase is primarily driven by deteriorating macroeconomic forecasts. Low risk Stage 3 loans and advances to customers primarily relate to agreements which have triggered the 90 days past due backstop but where full repayment is expected.

Medium risk loans account for 8% (31 July 2021: 10%) of total loans and advances to customers, of which the majority is in Stage 2. Medium risk Stage 1 has increased to 3% (31 July 2021: 2%) as certain parts of the Novitas loan book have been moved to medium risk, reflecting the latest case failure rates. Medium risk Stage 2 represents 4% (31 July 2021: 7%), reflecting the reduction in Covid-19 forbearance. Loans and advances to customers reflected as medium risk Stage 3 primarily relate to agreements that have triggered the 90 days past due backstop in addition to other significant increase in credit risk triggers.

High risk loans account for 4% (31 July 2021: 3%) of total loans and advances to customers with the majority corresponding to Stage 3.

The Notes continued

28. Financial Risk Management continued

Collateral held

The group mitigates credit risk through holding collateral against loans and advances to customers. The group has internal policies on the acceptability of specific collateral types, the requirements for ensuring effective enforceability and monitoring of collateral in-life. Internal policies define, amongst other things, legal documentation requirements, the nature of assets accepted, loan to value and age at origination, and exposure maturity and in-life inspection requirements. An asset valuation is undertaken as part of the loan origination process.

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

The Banking division's collateral policies have not materially changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the group since the prior period.

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

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

1 Government lending scheme facilities totalling £913.5 million (31 July 2021: £983.9 million), are allocated to a low LTV category reflecting the nature of the government guarantee and resultant level of lending risk.
2 Exposures are considered structurally protected when, in management's judgement, they have characteristics which mitigate the credit risk of the exposure to a significant extent, in spite of not representing tangible security.

	Commercial £ million	Retail £ million	Property[3] £ million	Total £ million
LTV[1]				
60% or lower	1,301.7	171.5	1,082.1	2,555.3
>60% to 70%	203.9	172.3	323.8	700.0
>70% to 80%	333.5	363.3	35.2	732.0
>80% to 90%	494.2	1,154.9	6.0	1,655.1
>90% to 100%	1,103.4	461.7	7.3	1,572.4
Greater than 100%	237.2	240.4	88.1	565.7
Structurally protected[2]	330.5	437.5	–	768.0
Unsecured	136.1	40.3	–	176.4
At 31 July 2021	4,140.5	3,041.9	1,542.5	8,724.9

1 Government lending scheme facilities totalling £983.9 million (31 July 2020: £193.8 million), are allocated to a low LTV category reflecting the nature of the government guarantee and resultant level of lending risk.
2 Exposures are considered structurally protected when, in management's judgement, they have characteristics which mitigate the credit risk of the exposure to a significant extent, in spite of not representing tangible security.
3 Gross loans and advances to customers by LTV ratio in Property has been updated, with no impact on the total balance, to ensure the basis of presentation is consistent with the current year.

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

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

	Commercial £ million	Retail £ million	Property[1] £ million	Total £ million
LTV				
60% or lower	19.8	2.8	10.1	32.7
>60% to 70%	2.0	2.8	57.6	62.4
>70% to 80%	6.4	6.3	18.2	30.9
>80% to 90%	12.8	12.9	6.0	31.7
>90% to 100%	15.2	9.0	7.3	31.5
Greater than 100%	14.0	5.1	88.1	107.2
Structurally protected	13.0	3.0	–	16.0
Unsecured	16.7	1.3	–	18.0
At 31 July 2021	99.9	43.2	187.3	330.4

1 Credit-impaired gross loans and advances to customers by LTV ratio in Property has been updated, with no impact on the total balance, to ensure the basis of presentation is consistent with the current year.

Financial assets: Treasury assets
The credit risk presented by the group's treasury assets is low. Immaterial impairment provisions are recognised for cash and balances at central banks, certificates of deposit and sovereign and central bank debt. These financial assets are investment grade and in Stage 1.

Financial assets: Settlement balances and loans to money brokers against stock advanced
The credit risk presented by settlement balances in the Securities division is limited, as such balances represent delivery versus payment transactions where delivery of securities occurs simultaneously with payment. The credit risk is therefore limited to the change in market price of a security between trade date and settlement date and not the absolute value of the trade. Winterflood is a market maker and trades on a principal-only basis with regulated counterparties including stockbrokers, wealth managers, institutions and hedge funds who are either authorised and regulated by the PRA and/or FCA or equivalent regulator in the respective country.

Counterparty exposure and settlement failure monitoring controls are in place as part of an overall risk management framework and settlement balances past due are actively managed.

Loans to money brokers against stock advanced of £48.4 million (31 July 2021: £51.1 million) is the cash collateral provided to these institutions.

The Notes continued

28. Financial Risk Management continued

for stock borrowing by Winterflood. The stock borrowing to which the cash deposits relate is short term in nature and is recorded at the amount payable. The credit risk of this financial asset is therefore limited.

The following table shows the ageing of settlement balances:

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Impairment provisions £ million	Total £ million
At 31 July 2022					
Not past due	**726.0**	**–**	**–**	**–**	**726.0**
Less than 30 days past due	**70.6**	**–**	**–**	**–**	**70.6**
More than 30 days but less than 90 days past due	**–**	**1.4**	**–**	**–**	**1.4**
More than 90 days past due	**–**	**–**	**1.5**	**(0.2)**	**1.3**
	796.6	**1.4**	**1.5**	**(0.2)**	**799.3**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Impairment provisions £ million	Total £ million
At 31 July 2021					
Not past due	615.2	–	–	–	615.2
Less than 30 days past due	81.6	–	–	–	81.6
More than 30 days but less than 90 days past due	–	1.2	–	–	1.2
More than 90 days past due	–	–	1.8	(0.2)	1.6
	696.8	1.2	1.8	(0.2)	699.6

Company financial assets: Amounts owed by subsidiaries

Amounts owed by subsidiaries on the company balance sheet largely relate to Close Brothers Limited and Close Brothers Holdings Limited, and the credit risk presented by these financial assets is immaterial.

(d) Market risk

Interest rate risk

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

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

The Asset and Liability Committee ("ALCO") monitors the interest rate risk exposure across the Bank's balance sheet. There are three main sources of interest rate risk recognised, which could adversely impact future income or the value of the balance sheet:
- repricing risk occurs when assets and liabilities reprice at different times;
- embedded optionality risk occurs as a result of special conditions attached to contract terms embedded in some assets and liabilities; and
- basis risk occurs where there is a mismatch in the interest rate reference rate for assets and liabilities.

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

Two measures are used for measuring IRRBB, namely Earnings at Risk ("EaR") and Economic Value ("EV"):
- EaR measures one year impacts to earnings, including basis risk, highlighting any earnings sensitivity should rates change unexpectedly; and
- EV measures longer term earnings capacity due to rate changes, it highlights potential future sensitivity of earnings, and ultimately risk to capital

The table below sets out the assessed impact on our EaR due to a parallel shift in interest rates at 31 July:

	2022 £ million	2021 £ million
0.5% increase	**2.1**	(11.6)
0.5% decrease	**(1.9)**	8.3

The table below sets out the assessed impact on our base case EV due to a shift in interest rates at 31 July:

	2022 £ million	2021 £ million
0.5% increase	**1.1**	(4.2)
0.5% decrease	**(0.8)**	4.3

The impact above is on a comparable 0.5% increase and decrease basis. The Bank of England Base Rate had increased base rate to 1.25% by 31 July 2022, from 0.1% at 31 July 2021. This has resulted in a reduction in embedded optionality risk as floors embedded in some variable rate loans are no longer generating additional earnings. The reduction in embedded optionality risk is responsible for most of the movement in the EaR and EV metrics in the year. The major driver for EaR and EV is now Repricing Risk with increasing rates driving positive EaR and EV and modest rate reductions resulting in negative EV and EaR.

Interest rate benchmark reform
During the year, the group completed the transition away from the use of LIBOR to alternative benchmark rates in loan documentation, treasury transactions and other forms of contract. At 31 July 2021, loans and advances to customers amounting to £995.5 million and derivatives with a notional value of £84.7 million were yet to transition to an alternative benchmark rate. The transition was subsequently completed by 31 December 2021 in compliance with the requirements set by the Prudential Regulation Authority and Financial Conduct Authority. There are no significant changes to the nature of the risks arising from financial instruments to which the group is exposed as a result of the transition.

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

	2022 £ million	2021 £ million
20% strengthening of sterling against the euro	**(1.7)**	(0.9)

The group has additional material currency assets and liabilities primarily as a result of treasury operations in the Banking division. These assets and liabilities are matched by currency, using exchange rate derivative contracts where necessary. Details of these contracts are disclosed in note 14. Other potential group exposures arise from share trading settled in foreign currency in the Securities division, and foreign currency equity investments. The group has policies and processes in place to manage foreign currency risk, and as such the impact of any reasonably expected exchange rate fluctuations would not be material.

Market price risk
Trading financial instruments: Equity shares and debt securities
The group's trading activities relate to Winterflood. The following table shows the group's trading book exposure to market price risk:

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

	Highest exposure £ million	Lowest exposure £ million	Average exposure £ million	Exposure at 31 July £ million
For the year ended 31 July 2021				
Equity shares				
Long	49.0	24.8	30.9	30.8
Short	22.8	5.8	11.0	9.4
			19.9	21.4
Debt securities				
Long	28.6	19.1	22.7	20.1
Short	12.9	4.5	8.6	7.0
			14.1	13.1

With respect to the long and short positions on debt securities £8.0 million and £1.7 million (2021: £9.1 million and £0.1 million) were due to mature within one year respectively.

The average exposure has been calculated on a daily basis. The highest and lowest exposures occurred on different dates and therefore a net position of these exposures does not reflect a spread of the trading book.

Based upon the trading book exposure given above, a hypothetical fall of 10% in market prices would result in a £1.9 million decrease (2021: £2.1 million decrease) in the group's income and net assets on the equity trading book and a £0.5 million decrease (2021: £1.3 million decrease) on the debt securities trading book. However, the group's trading activity is mainly market-making where positions are managed throughout the day on a continuous basis. Accordingly, the sensitivity referred to above is purely hypothetical.

The Notes continued

28. Financial Risk Management continued

Non-trading financial instruments
Net gains and losses on non-trading financial instruments are disclosed in notes 12 and 13.

(e) Liquidity risk

Liquidity risk is the risk that liabilities cannot be met when they fall due or can only be met at an uneconomic price and arises mainly in the Banking division.

The group has a prudent liquidity position with total available funding at 31 July 2022 of £11.6 billion (31 July 2021: £11.1 billion). This funding is significantly in excess of its loans and advances to customers at 31 July 2022 of £8.9 billion (31 July 2021: £8.4 billion). The group has a large portfolio of high quality liquid assets principally including cash placed on deposit with the Bank of England. The group measures liquidity risk with a variety of measures including regular stress testing and cash flow monitoring, and reporting to both the group and divisional boards.

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

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	Total £ million
At 31 July 2022							
Settlement balances	**–**	**780.7**	**–**	**–**	**–**	**–**	**780.7**
Deposits by banks	**6.0**	**51.9**	**98.9**	**4.1**	**–**	**–**	**160.9**
Deposits by customers	**120.9**	**1,645.1**	**2,046.5**	**1,600.1**	**1,427.2**	**–**	**6,839.8**
Loans and overdrafts from banks	**12.0**	**12.0**	**1.9**	**3.7**	**610.5**	**–**	**640.1**
Debt securities in issue	**–**	**30.3**	**256.2**	**619.5**	**890.7**	**444.2**	**2,240.9**
Loans from money brokers against stock advanced	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Subordinated loan capital	**–**	**2.0**	**–**	**2.0**	**15.0**	**218.0**	**237.0**
Derivative financial instruments	**–**	**6.4**	**9.0**	**16.0**	**89.0**	**55.6**	**176.0**
Lease liabilities	**0.2**	**4.2**	**3.6**	**7.3**	**33.9**	**11.8**	**61.0**
Other financial liabilities	**16.1**	**124.6**	**5.3**	**6.8**	**34.4**	**7.0**	**194.2**
Total	**155.2**	**2,657.2**	**2,421.4**	**2,259.5**	**3,100.7**	**736.6**	**11,330.6**

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	Total £ million
At 31 July 2021							
Settlement balances	–	674.2	–	–	–	–	674.2
Deposits by banks	2.1	37.7	105.8	5.0	–	–	150.6
Deposits by customers	576.1	1,549.4	1,985.0	1,372.0	1,202.0	–	6,684.5
Loans and overdrafts from banks	22.7	0.1	0.1	0.2	491.1	–	514.2
Debt securities in issue	–	58.3	75.5	106.6	1,048.7	705.0	1,994.1
Loans from money brokers against stock advanced	–	–	–	–	–	–	–
Subordinated loan capital	–	1.0	1.0	2.0	21.0	243.9	268.9
Derivative financial instruments	–	5.3	3.7	8.7	67.8	43.5	129.0
Lease liabilities	0.2	3.8	3.2	6.8	35.0	13.5	62.5
Other financial liabilities	18.2	158.4	6.7	8.1	47.5	1.3	240.2
Total	619.3	2,488.2	2,181.0	1,509.4	2,913.1	1,007.2	10,718.2

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

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	Total £ million
At 31 July 2022	**1.7**	**69.8**	**9.0**	**16.0**	**88.9**	**55.6**	**241.0**
At 31 July 2021	–	68.0	4.0	9.0	67.8	43.5	192.3

(f) Offsetting

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

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

	Gross amounts recognised £ million	Master netting arrangements £ million	Financial collateral £ million	Net amounts after offsetting £ million
At 31 July 2022				
Derivative financial assets	**71.2**	**(69.1)**	**(0.5)**	**1.5**
Derivative financial liabilities	**89.2**	**(69.1)**	**(26.9)**	**(6.8)**
At 31 July 2021				
Derivative financial assets	18.3	(16.0)	(2.0)	0.3
Derivative financial liabilities	21.2	(16.0)	(16.9)	(11.7)

29. Interest in Unconsolidated Structured Entities

Structured entities are those entities that have been designed so that voting or similar rights are not the dominant factor in deciding who has control, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements.

The group has interests in structured entities as a result of contractual arrangements arising from the management of assets on behalf of its clients as part of its Asset Management division. These structured entities consist of unitised vehicles such as Authorised Unit Trusts ("AUTs") and Open Ended Investment Companies ("OEICs") which entitle investors to a percentage of the vehicle's net asset value. The structured entities are financed by the purchase of units or shares by investors. The group does not hold direct investments in its structured entities.

As fund manager, the group does not guarantee returns on its funds or commit to financially support its funds. The business activity of all structured entities is the management of assets in order to maximise investment returns for investors from capital appreciation and/or investment income. The group earns a management fee from its structured entities, based on a percentage of the entity's net asset value.

The main risk the group faces from its interest in assets under management on behalf of external investors is the loss of fee income as a result of the withdrawal of funds by clients. Outflows from funds are dependent on market sentiment, asset performance and investor considerations. The assets under management of unconsolidated structured entities managed by the group were £5,091 million at 31 July 2022 (31 July 2021: £5,467 million). Included in revenue on the consolidated income statement is management fee income of £36.7 million (2021: £35.4 million) from unconsolidated structured entities managed by the group.

The Notes continued

30. Investments in Subsidiaries

In accordance with section 409 of the Companies Act 2006, the following is a list of the group's subsidiaries at 31 July 2022, which are all wholly owned and incorporated in the UK unless otherwise stated.

The investment in subsidiary of £287.0 million (31 July 2021: £287.0 million) in the company balance sheet relates to an investment in the capital reduction reserve of Close Brothers Holdings Limited. There were no indicators of impairment during the year relating to this investment (2021: none).

Group

Close Brothers Holdings Limited[1]

Banking

Air and General Finance Limited[2]
Armed Services Finance Limited[4]
Arrow Audit Services Limited[1]
Brook Funding (No.1) Limited[10, 18]
Capital Lease Solutions Limited[1]
CBM Holdings Limited[1]
Close Asset Finance Limited[2]
Close Brewery Rentals Limited[5]
Close Brothers Asset Finance GmbH[13] (Germany)
Close Brothers DAC[16] (Ireland)
Close Brothers Factoring GmbH[13] (Germany)
Close Brothers Finance plc[1]
Close Brothers Limited[1]
Close Brothers Military Services Limited[4]
Close Brothers Premium DAC[16] (Ireland)
Close Brothers Technology Services Limited[1]
Close Brothers Vehicle Hire Limited[12]
Close Business Finance Limited[2]
Close Credit Management (Holdings) Limited[1]
Close Finance (CI) Limited[14] (Jersey)
Close Invoice Finance Limited[1]
Close Leasing Limited[11]
Close Motor Finance Limited[4]
Close PF Funding I Limited[9, 18]
Commercial Acceptances Limited[6]
Commercial Finance Credit Limited[2]
Corporate Asset Solutions Limited[1]
Finance for Industry Limited[1]
Finance for Industry Services Limited[1]
Kingston Asset Finance Limited[2]
Kingston Asset Leasing Limited[2]
Metropolitan Factors Limited[1]
Micgate Holdings (UK) Limited[1]
Novitas Loans Limited[2]
Novitas (Salisbury) Limited[2]
Orbita Funding 2017-1 plc[10, 18]
Orbita Funding 2020-1 plc[10, 18]
Orbita Funding 2022-1 plc[9, 18]
Orbita Holdings Limited[10, 18]
Orbita Holdings no.2 Limited[9, 18]
Surrey Asset Finance Limited[2]

Securities

W.S. (Nominees) Limited[3]
Winterflood Client Nominees Limited[3]
Winterflood Gilts Limited[3]
Winterflood Securities Holdings Limited[3]
Winterflood Securities Limited[3]
Winterflood Securities US Corporation[15] (Delaware, USA)

Asset Management

Cavanagh Financial Management Limited[7]
CBF Wealth Management Limited[1] (80% shareholding)
CFSL Management Limited[1]
Close Asset Management Holdings Limited[1]
Close Asset Management Limited[1]
Close Asset Management (UK) Limited[1]
Close Brothers Asset Management (Guernsey) Limited[17] (Guernsey)
Close Investments Limited[1]
Close Portfolio Management Limited[1]
EOS Wealth Management Limited[1]
Lion Nominees Limited[1]
Place Campbell Close Brothers Limited[8] (50% shareholding)
PMN Financial Management LLP[1]

Registered office addresses:
1 10 Crown Place, London EC2A 4FT, United Kingdom.
2 Wimbledon Bridge House, Hartfield Road, Wimbledon, London SW19 3RU, United Kingdom.
3 The Atrium Building Cannon Bridge, 25 Dowgate Hill, London EC4R 2GA, United Kingdom.
4 Roman House, Roman Road, Doncaster, South Yorkshire DN4 5EZ, United Kingdom.
5 Unit 1, Kingfisher Park, Headlands Business Park, Ringwood, Hampshire BH24 3NX, United Kingdom.
6 101 Wigmore Street, London W1U 1QU, United Kingdom.
7 4th Floor, The Athenaeum Building, 8 Nelson Mandela Place, Glasgow G2 1BT, United Kingdom.
8 Wilmington House, High Street, East Grinstead, West Sussex RH19 3AU, United Kingdom.
9 10th Floor, 5 Churchill Place, London E14 5HU, United Kingdom.
10 1 Bartholomew Lane, London EC2N 2AX, United Kingdom.
11 Olympic Court Third Avenue, Trafford Park Village, Manchester M17 1AP, United Kingdom.
12 Lows Lane, Stanton-By-Dale, Ilkeston, Derbyshire DE7 4QU, United Kingdom.
13 Grosse Bleiche 35-39, 55116, Mainz, Germany.
14 Conway House, Conway Street, St Helier JE4 5SR, Jersey.
15 1209 Orange Street, Wilmington 19801, New Castle, Delaware, USA.
16 Swift Square, Building 1, Santry Demesne, Northwood, Dublin, DO9 AOE4, Ireland.
17 PO Box 186, Royal Chambers, St Julian's Avenue, St Peter Port GY1 4HP, Guernsey.

Subsidiaries by virtue of control:
18 The related undertakings are included in the consolidated financial statements as they are controlled by the group.