

Close Brothers Group plc

Pillar 3 disclosures for the year ended 31 July 2021

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1. Overview

Background

The aim of the capital adequacy regime is to promote safety and soundness in the financial system. It is structured around three 'pillars': Pillar 1 on minimum capital requirements; Pillar 2 on the supervisory review process; and Pillar 3 on market discipline. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess key pieces of information on that firm's capital, risk exposures and risk assessment process. The disclosures contained in this document cover the qualitative and quantitative disclosure requirements of Pillar 3, set out in the Capital Requirements Regulation as implemented in the UK under the EU (Withdrawal Act) 2018 ("CRR"), and are based on data at 31 July 2021 with comparative figures for 31 July 2020 where relevant. Within this document are references to the Close Brothers Group plc's Annual Report which can be found at:

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

Scope

The Prudential Regulation Authority ("PRA") supervises Close Brothers Group plc ("CBG" or "the group") on a consolidated basis and receives information on the capital adequacy of, and sets capital requirements for, the group as a whole. In addition, a number of subsidiaries are regulated for prudential purposes by either the PRA or the Financial Conduct Authority ("FCA"). The main subsidiary institutions which are subject to the CRR are Close Brothers Limited ("CBL"), Winterflood Securities Limited ("Winterflood") and Close Asset Management Limited. Details of the group's principal subsidiaries are included in note 30 of the group's Annual Report. There are no differences between the basis of consolidation of the group for accounting and regulatory purposes. Other than restrictions due to regulatory capital requirements for regulated entities, there are no current material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities when due between the group and its subsidiaries.

Pillar 3 Policy

Disclosures will be issued as a minimum on an annual basis and are published on the group's website. These disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the group's Annual Report. These disclosures are ratified by the Capital Adequacy Committee ("CAC") and Remuneration Committee ("RemCo") as appropriate and approved by the CBG board ("the board").

The Pillar 3 disclosures have been prepared purely for explaining the basis on which the group has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgement about the group.

Individual Consolidation

CBL, the group's regulated banking subsidiary, makes use of the provisions laid down in CRR Article 9 and reports to the PRA on an individual consolidated basis. This individual consolidated group includes CBL and its major UK operating subsidiaries as at 31 July 2021.

Regulatory Developments

In June 2020 regulatory measures announced by the EU accelerated the implementation of certain amendments to the Capital Requirement Regulation ("CRR II"), including the revised small and medium enterprises ("SME") supporting factor, change to the treatment of software assets and revised transitional arrangements for IFRS 9. The benefit of the revised SME supporting factor was recognised in the group's capital ratios for 31 July 2020 while the software assets benefit has been recognised in the group's capital ratios for 31 July 2021 following finalisation in December 2020. CBG implemented the new transitional arrangement for IFRS 9 from 1 August 2020.

The remaining elements of CRR II came into force in the EU in June 2021. As the amendments had not come into force at the date of the UK's withdrawal from the EU, CRR II was not automatically transposed into UK law and these measures required implementation by UK regulators. The PRA published its final policy statement on the Implementation of Basel Standards with a target implementation date of 1 January 2022. The key deviation from the CRR II impacting CBG is the reversal of the EU's treatment of software

1. Overview continued

assets, therefore this benefit in the capital ratio will be unwound on 1 January 2022. The remaining elements of UK CRR are not expected to have a material impact on CBG's capital position.

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

The PRA did not implement CRR II changes to the leverage ratio pending the outcome of the Financial Policy Committee ("FPC") and PRA reviews on the UK Leverage Ratio Framework. In June 2021 the FPC and PRA published a joint consultation setting out proposals for the revised UK framework. These proposals also have a target implementation date of 1 January 2022. CBG is expected to remain out of scope of the UK leverage ratio binding minimum requirements.

2. Risk Management Objectives and Policies

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

Approach to Risk

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

- adhering to our established and proven business model, as outlined on pages 12 to 14 of the group's Annual Report;
- implementing an integrated risk management approach based on the concept of "three lines of defence"; and
- setting and operating within clearly defined risk appetites, monitored with defined metrics and limits.

This risk overview provides a summary of our approach to risk management, covering each of the key aspects of the firm's Enterprise Risk Management Framework. A summary of the group's principal risks relating to the group's Pillar 1 minimum capital requirements is also included.

Role of the Board

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

Risk management across the group is overseen by the board Risk Committee. The Risk Committee is responsible for reviewing risk appetite, monitoring the group's risk profile against this and reviewing the day-to-day effectiveness of the risk management framework. In addition, the Risk Committee is responsible for overseeing the maintenance and development of an appropriate and supportive risk culture and for providing risk input into the alignment of remuneration with performance against risk appetite. The Risk Committee's key areas of focus over the last financial year are set out on pages 89 and 90 of the group's Annual Report.

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

2. Risk Management Objectives and Policies continued

Information on Number of Directorships

In addition to their roles within the group, the number of external directorships held by members of the management body are detailed in the table below.

Further details on the directorships held by the management body and on the recruitment and diversity policy with regards to selection of members of the management body are shown on pages 68, 73 and 79 of the group's Annual Report.

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

1 The number of directorships shown excludes CBG and other companies within the group and external non-commercial directorships. External directorships held within the same group of companies count as a single directorship.

Enterprise Risk Management

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

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

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

Risk Appetite

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

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

2. Risk Management Objectives and Policies continued

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

Stress Testing

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

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

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

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

Stress testing also represents a critical component of both the firm's internal capital adequacy assessment process ("ICAAP") and internal liquidity adequacy assessment process ("ILAAP") with scenario analysis additionally employed as part of the group's Recovery Plan.

Risk Governance

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

The framework is founded on a "three lines of defence" model, as set out over the page.

The key principles underlying this approach are that:

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

2. Risk Management Objectives and Policies continued

First line of defence	Second line of defence	Third line of defence
<p>The Businesses</p> <p>Group Risk and Compliance Committee ("GRCC") (Reports to the Risk Committee)</p> <p>The chief executive delegates to divisional and operating business heads day-to-day responsibility for risk management, regulatory compliance, internal control and conduct in running their divisions or businesses.</p> <p>Business management has day-to-day ownership, responsibility and accountability for:</p> <ul style="list-style-type: none"> • identifying and assessing risks; • managing and controlling risks; • measuring risk (key risk indicators/early warning indicators); • mitigating risks; • reporting risks; and • committee structure and reporting. <p>Key Features</p> <ul style="list-style-type: none"> • Promotes a strong risk culture and focus on sustainable risk-adjusted returns; • Implements the risk framework; • Promotes a culture of adhering to limits and managing risk exposures; • Promotes a culture of customer focus and appropriate behaviours; • Ongoing monitoring of positions and management and control of risks; • Portfolio optimisation; • Self-assessment. 	<p>Risk and Compliance</p> <p>Risk Committee (Reports to the board)</p> <p>The Risk Committee delegates to the group chief risk officer day-to-day responsibility for oversight and challenge on risk-related issues.</p> <p>Risk functions (including compliance) provide support, assurance and independent challenge on:</p> <ul style="list-style-type: none"> • the design and operation of the risk framework; • risk assessment; • risk appetite and strategy; • performance management; • risk reporting; • adequacy of mitigation plans; • group risk profile; and • committee governance and challenge. <p>Key Features</p> <ul style="list-style-type: none"> • Overarching "risk oversight unit" takes an integrated view of risk (qualitative and quantitative); • Supports through developing and advising on risk strategies; • Facilitates constructive check and challenge – "critical friend"/"trusted adviser"; • Oversight of business conduct. 	<p>Internal Audit</p> <p>Audit Committee (Reports to the board)</p> <p>The Audit Committee mandates the head of group internal audit with day-to-day responsibility for independent assurance.</p> <p>Internal audit provides independent assurance on:</p> <ul style="list-style-type: none"> • first and second lines of defence; • appropriateness/effectiveness of internal controls; and • effectiveness of policy implementation. <p>Key Features</p> <ul style="list-style-type: none"> • Draws on deep knowledge of the group and its businesses; • Provides independent assurance on the activities of the firm, including the risk management framework; • Assesses the appropriateness and effectiveness of internal controls; • Incorporates review of culture and conduct.

2. Risk Management Objectives and Policies continued

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

Risk Committee Structure

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

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

Over the past 12 months the group has continued to further strengthen its risk governance framework and specifically the organisation's risk and compliance committees, both at a group and divisional level. All committees continue to work efficiently and effectively.

Risk Committee Roles and Responsibilities

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

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

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

2. Risk Management Objectives and Policies continued

As part of the ongoing review process a specific assessment of the principal risks and emerging risks and uncertainties facing the group is also carried out by the board, including those that would threaten its business model, future performance, solvency or liquidity. A summary of the group's principal risks and emerging risks and uncertainties is provided on pages 60 to 67 of the group's Annual Report.

Membership and Meetings

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

In addition to the regular updates received by the Risk Committee during the Covid-19 lockdown, eight meetings were held during the year (six scheduled and two ad hoc). Full details of attendance by the non-executive directors at these meetings are set out on page 80 of the group's Annual Report.

In addition to the members of the Risk Committee, standing invitations are extended to the chairman of the board, the executive directors, the group chief risk officer, the group head of compliance and the group head of internal audit. All attend the Risk Committee meetings as a matter of course and have supported and informed the Risk Committee's discussions.

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

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

Committee Effectiveness

As described in more detail on page 86 of the group's Annual Report, an evaluation of the effectiveness of the board and its committees was undertaken during the year in line with the requirements of the UK Corporate Governance Code. The results confirm that the Risk Committee is operating effectively. The Risk Committee considers that during the year it continued to have access to sufficient resources to enable it to carry out its duties and has continued to perform effectively.

Internal Control System

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

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

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

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

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

2. Risk Management Objectives and Policies continued

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

Risk Culture and Awareness

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

The risk culture:

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

Managers actively promote a culture in which risks are identified, assessed, managed and reported in an open, transparent and objective manner, and where appropriate staff conduct is viewed as critical.

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

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

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

For further information on our approach to remuneration for the group's directors see pages 97 to 125 of the group's Annual Report.

Principal Risks

The following pages set out the principal risks in relation to the group's Pillar 1 minimum capital requirements that may impact the group's ability to deliver its strategy, how we seek to mitigate these risks, and relevant key developments, both over the last year and anticipated for the next financial year. A full list of the principal risks that the group faces can be found on pages 60 to 64 of the group's Annual Report covering business risk; capital risk; conduct risk; credit risk; funding and liquidity risk; market risk; operational risk; and reputational risk.

In addition to day-to-day management of its principal risks, the group utilises an established framework to monitor its portfolio for emerging risks and consider broader market uncertainties and support its organisational readiness to respond. A full list of emerging risks and uncertainties that the group faces can be found on pages 65 to 67 of the group's Annual Report covering economic uncertainty; financial loss resulting from the physical or transitional impacts of climate change; transition from LIBOR; disruption from

2. Risk Management Objectives and Policies continued

Scottish independence; legal and regulatory changes; evolving working practices; technological change and new business models; and supply chain risk.

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

The summary below should not be regarded as a complete and comprehensive statement of all potential risks faced by the group, but reflect those relating to the group's Pillar 1 minimum capital requirements which the group currently believes may have a significant impact on its future performance.

Risk	Mitigation	Change
<p>Capital Risk The group is required to hold sufficient regulatory capital (including equity and other loss-absorbing debt instruments) to enable it to operate effectively. This includes meeting minimum regulatory requirements, operating within risk appetites set by the board and supporting its strategic goals.</p>	<p>Capital risk is measured using CET1, tier 1 and total capital ratios, determined in line with regulatory capital adequacy requirements. These ratios, and associated metrics, are actively monitored, and reported quarterly to the regulator. These are also disclosed in the group's Annual Report as well as in these Pillar 3 disclosures – see section 3 "Key Regulatory Metrics".</p> <p>Both actual and forecast capital adequacy is reported through the group's governance framework with oversight from the Capital Adequacy Committee. Annually, as part of the ICAAP, the group also undertakes its own assessment of its capital requirements against its principal risks (Pillar 2a) together with an assessment of how capital adequacy could be impacted in a range of stress scenarios (Pillar 2b). Under both assessments, the group ensures that it maintains sufficient levels of capital adequacy.</p> <p>The group retains a range of capital risk mitigants, the most notable being its strong capital generating capacity, arising from its track record of sustained profitability. The group also maintains access to capital markets and during the last year successfully renewed and increased its tier 2 capital instruments.</p>	<p>Decreased While Covid-19 may continue to impact capital due to lower than expected profits, action by authorities to support lending through the use of Coronavirus Business Interruption Loan Scheme ("CBILS") and similar schemes has led to a reduction in RWAs. This is expected to continue in the near to medium term.</p> <p>Further commentary on the group's capital is outlined in note 22 on pages 167 to 169 of the group's Annual Report as well as in these Pillar 3 disclosures - see section 4 "Capital Resources" and section 5 "Capital Adequacy".</p>

2. Risk Management Objectives and Policies continued

Risk	Mitigation	Change
<p>Credit Risk As a lender to businesses and individuals, the bank is exposed to credit losses if customers are unable to repay loans and outstanding interest and fees. At 31 July 2021 the group had loans and advances to customers amounting to £8.4 billion.</p> <p>The group also has exposure to counterparties with which it places deposits or trades, and also has in place a small number of derivative contracts to hedge interest rate and foreign exchange exposures.</p>	<p>We seek to minimise our exposure to credit losses from our lending by:</p> <ul style="list-style-type: none"> • applying strict lending criteria when testing the credit quality and covenant of the borrower; • maintaining consistent and conservative loan to value ratios with low average loan size and short-term tenors; • lending on a predominantly secured or structurally protected basis against identifiable and accessible assets; • maintaining rigorous and timely collections and arrears management processes; and • operating strong control and governance both within our lending businesses and with oversight by a central credit risk team. <p>Our exposure to counterparties are mitigated by:</p> <ul style="list-style-type: none"> • excess liquidity of £1.3 billion placed with the Bank of England; • continuous monitoring of the credit quality of our counterparties within approved set limits; and • Winterflood's trading relating to exchange traded cash securities being settled on a delivery versus payment basis. Counterparty exposure and settlement failure monitoring controls are also in place. 	<p>Unchanged Credit losses have reduced in the year to 31 July 2021, although uncertainty remains and we continue to closely monitor Covid-19 impacts.</p> <p>Forbearance levels have decreased from those observed at the peak of the pandemic, however, they remain above historical, pre-pandemic levels. Although the economic outlook has improved, the trajectory in the short to medium term remains uncertain. In addition, the cessation of various government support schemes could have an impact on both consumers and business and the impact of this on our customers will be closely observed. These factors could result in higher credit losses in the future.</p> <p>Assumptions relating to the Novitas business provisions have been updated. Other counterparty exposures are broadly unchanged, with the majority of our liquidity requirements and surplus funding placed with the Bank of England.</p> <p>Further commentary on the credit quality of our loan book is outlined on pages 47 to 51 of the group's Annual Report. Further details on loans and advances to customers and debt securities held are in notes 11 and 12 on pages 155 to 159 of the group's Annual Report.</p> <p>Our approach to credit risk management and monitoring is outlined in more detail in note 28 on pages 176 to 186 of the group's Annual Report.</p>

2. Risk Management Objectives and Policies continued

Risk	Mitigation	Change
<p>Market Risk Market volatility impacting equity and fixed income exposures, and/or changes in interest and exchange rates, have the potential to impact the group's performance.</p>	<p>Our policy is to minimise interest rate risk by matching fixed and variable interest rate assets and liabilities, and using swaps where appropriate. The capital and reserves of the group do not have interest rate liabilities and as such are not hedged.</p> <p>When measuring interest rate risk in the Banking book the following components are considered:</p> <ul style="list-style-type: none"> • repricing risk: the risk presented by assets and liabilities that reprice at different times and rates; • embedded optionality risk: the risk presented by contract terms embedded in certain assets and liabilities; and • basis risk: the risk presented when yields on assets, and costs on liabilities, are based on two different bases. <p>Two core measures are subsequently monitored on a monthly basis: Earnings at Risk ("EaR") and Economic Value ("EV").</p> <p>Foreign exchange exposures are generally hedged using foreign exchange forwards or currency swaps with exposures monitored daily against approved limits.</p> <p>Winterflood is a market maker providing liquidity to its clients in equity and fixed income instruments. Trading is predominantly short term, with most transactions settling within two days. Trading positions are monitored on a real time basis.</p>	<p>Unchanged Interest rate risk is broadly unchanged. Base rates remain low, though with reduced expectation of negative rates compared to this time last year.</p> <p>The traded market risk environment continues to be affected by Covid-19 and its impact on the economy, although this is becoming less prominent with focus now shifting to emerging inflation risks.</p> <p>Further detail on the group's exposure to market risk is outlined in note 28 on pages 186 to 188 of the group's Annual Report.</p> <p>The sensitivity analysis on interest rate exposures shown in note 28 on pages 186 and 187 of the group's Annual Report demonstrates the limited level of exposure to interest rate and foreign exchange movements.</p>

2. Risk Management Objectives and Policies continued

Risk	Mitigation	Change
<p>Operational Risk The group is exposed to various operational risks through its day-to-day operations, all of which have the potential to result in financial loss or adverse impact.</p> <p>Losses typically crystallise as a result of inadequate or failed internal processes, people, models and systems, or as a result of external factors.</p> <p>Impacts to the business, customers, third parties and the markets in which we operate are considered within a maturing framework for resilient delivery of important business services.</p> <p>Legal and regulatory risks are also considered as part of operational risk. Failure to comply with existing legal or regulatory requirements, or to adapt to changes to these requirements in a timely fashion, may have negative consequences for the group. Similarly, changes to regulation can impact our financial performance, capital, liquidity and the markets in which we operate.</p>	<p>The group seeks to maintain its operational resilience through effective management of operational risks, including by:</p> <ul style="list-style-type: none"> • sustaining robust operational risk management processes, governance and management information; • identifying key systems, third party relationships, processes and staff, informing investment decisions; • investing in technology to provide reliable and contemporary customer service offerings and effective model outputs; • attracting, retaining and developing high quality staff through the operation of competitive remuneration and benefit structures and an inclusive environment that embraces diversity and recognises behaviours aligned to our cultural attributes; • investing in cyber security including expertise, tools and staff engagement; • maintaining focus on personal data protection; • adopting fraud prevention and detection capabilities aligned with our risk profile; and • planning and rehearsing strategic and operational responses to severe but plausible stress scenarios. <p>Legal and regulatory risks are mitigated by:</p> <ul style="list-style-type: none"> • responding in an appropriate, risk-based and proportionate manner to any changes to the legal and regulatory environment as well as those driven by strategic initiatives; 	<p>Unchanged</p> <p>The continued impacts of Covid-19 may lead to risks associated with people, third party suppliers, operational process execution, information security and fraud. The group continues to utilise its operational risk management framework to manage these risks with oversight by relevant risk committees.</p> <p>The volume and complexity of regulatory and legal requirements applicable to the group continues to increase, with management focused on responding in a timely manner to changing expectations.</p> <p>Notwithstanding these stresses, improvements continue to be made across the operational risk framework including further enhancement of information security management and strengthening of the firm's operational resilience. Process improvements, including through the use of robotic process automation, continue to reduce the likelihood of manual errors occurring.</p> <p>We continue to invest in experienced people and relevant systems and processes to help us navigate the increasingly complex regulatory and legal landscape. Arrangements in place to mitigate these risks continue to evolve in their sophistication, application and effectiveness.</p>

2. Risk Management Objectives and Policies continued

Risk	Mitigation	Change
<p>Operational Risk continued</p>	<ul style="list-style-type: none"> • implementing appropriate and proportionate policies, standards and procedures designed to capture relevant regulatory and legal requirements; • providing clear advice on legal and regulatory requirements, including in relation to the scope of regulatory permissions and perimeter guidance; • delivering relevant training to all staff, including anti-money laundering, anti-bribery and corruption, conduct risk, data protection and information security. This is augmented by tailored training to relevant employees in key areas; • deploying a risk-based monitoring programme designed to assess the extent to which compliant practices are embedded within the business; • maintaining, where possible, constructive and positive relationships and dialogue with regulatory bodies and authorities; and • maintaining a prudent capital position with headroom above minimum capital requirements. 	

3. Key Regulatory Metrics

The table below summarises the key regulatory metrics on a transitional basis as at 31 July 2021:

Key Metrics	31 July 2021 £ million	31 July 2020 £ million
Regulatory capital¹		
Common equity tier 1 ("CET1") capital	1,439.3	1,254.0
Tier 1 capital	1,439.3	1,254.0
Total capital	1,662.7	1,441.0
Total risk weighted assets ("RWAs")¹	9,105.3	8,863.2
Regulatory capital as a percentage of RWAs¹		
CET1 capital ratio	15.8%	14.1%
Tier 1 capital ratio	15.8%	14.1%
Total capital ratio	18.3%	16.3%
Leverage ratio ¹	11.8%	11.2%
Liquidity coverage ratio ("LCR") ²	1,003%	823%

1 The group has elected to apply IFRS 9 transitional arrangements for 31 July 2021, which allow the capital impact of expected credit losses to be phased in over the transitional period. Shown after applying IFRS 9 transitional arrangements and the CRR transitional and qualifying own funds arrangements in force at the time. Without their application, and excluding the benefit related to the current treatment of software assets, at 31 July 2021 the CET1 capital ratio would be 14.2%, total capital ratio 16.7% and leverage ratio 10.6% (31 July 2020: CET1 capital ratio 13.1%, total capital ratio 15.1% and leverage ratio 10.4%). Further disclosures on transitional arrangements are provided in Appendices 3 and 4.

2 12-month average.

4. Capital Resources

The table below summarises the composition of regulatory capital. The group's individual regulated entities and the group as a whole complied with all of the externally imposed capital requirements to which they are subject for the years ended 31 July 2021 and 31 July 2020.

	31 July 2021 £ million	31 July 2020 £ million
CET1 capital		
Called up share capital	38.0	38.0
Retained earnings	1,555.5	1,435.0
Other reserves recognised for CET1 capital	13.1	17.2
Regulatory adjustments to CET1 capital		
Intangible assets, net of associated deferred tax liabilities ¹	(180.7)	(236.9)
Foreseeable dividend ²	(62.7)	(59.8)
Investment in own shares	(36.0)	(33.9)
Pension asset, net of associated deferred tax liabilities	(5.4)	(5.7)
Prudent valuation adjustment	(0.3)	(0.2)
IFRS 9 transitional arrangements ³	117.8	100.3
CET1 capital⁴	1,439.3	1,254.0
Tier 2 capital – subordinated debt	223.4	187.0
Total regulatory capital⁴	1,662.7	1,441.0
RWAs (notional)⁵		
Credit and counterparty credit risk	7,945.8	7,789.0
Operational risk	1,038.5	945.7
Market risk	121.0	128.5
Total RWAs	9,105.3	8,863.2
CET1 capital ratio⁴	15.8%	14.1%
Total capital ratio⁴	18.3%	16.3%

1 In line with CRR II, effective on 23 December 2020, the CET1 capital ratio at 31 July 2021 includes a c.50bps benefit related to software assets which are exempt from the deduction requirement for intangible assets from CET1. The PRA published PS17/21 'Implementation of Basel standards' on 9 July 2021, confirming the reversal to the earlier position. This will result in the reversal of this benefit and reduction of the CET1 capital ratio upon implementation on 1 January 2022.

2 Under the regulatory technical standards on own funds, a deduction has been recognised at 31 July 2021 and 31 July 2020 for a foreseeable dividend being the proposed final dividend as set out in note 9 of the group's Annual Report.

3 The group has elected to apply IFRS 9 transitional arrangements for 31 July 2021, which allow the capital impact of expected credit losses to be phased in over the transitional period.

4 Shown after applying IFRS 9 transitional arrangements and the CRR transitional and qualifying own funds arrangements in force at the time. Without their application, and excluding the benefit related to the current treatment of software assets, at 31 July 2021 the CET1 capital ratio would be 14.2% and total capital ratio 16.7% (31 July 2020: CET1 capital ratio 13.1% and total capital ratio 15.1%).

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

4. Capital Resources continued

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

	31 July 2021	31 July 2020
	£ million	£ million
Equity	1,569.3	1,449.6
Regulatory adjustments to CET1 capital:		
Intangible assets, net of associated deferred tax liabilities	(180.7)	(236.9)
Foreseeable dividend ¹	(62.7)	(59.8)
IFRS 9 transitional arrangements ²	117.8	100.3
Pension asset, net of associated deferred tax liabilities	(5.4)	(5.7)
Prudent valuation adjustment	(0.3)	(0.2)
Other reserves not recognised for CET1 capital:		
Cash flow hedging reserve	0.3	5.7
Non-controlling interests	1.0	1.0
CET1 capital	1,439.3	1,254.0

- 1 Under the regulatory technical standards on own funds, a deduction has been recognised at 31 July 2021 and 31 July 2020 for a foreseeable dividend being the proposed final dividend as set out in note 9 of the group's Annual Report.
- 2 The group has elected to apply IFRS 9 transitional arrangements for 31 July 2021, which allow the capital impact of expected credit losses to be phased in over the transitional period.

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

	2021	2020
	£ million	£ million
CET1 capital at 31 July 2020	1,254.0	1,169.2
Profit in the period attributable to shareholders	202.1	109.5
Dividends paid and foreseen	(89.5)	(59.9)
Change in treatment for software intangibles ¹	50.2	—
IFRS 9 transitional arrangements	17.5	55.7
Decrease/(increase) in intangible assets, net of associated deferred tax liabilities	6.0	(20.8)
Other movements in reserves recognised for CET1 capital		
Other movements in retained reserves	5.0	(1.2)
Decrease in share-based payments reserve	(4.7)	(1.2)
Increase/(decrease) in fair value through other comprehensive income reserves	0.6	(0.6)
Other movements in adjustments to CET1 capital		
Decrease/(increase) in pension assets, net of associated deferred tax liabilities	0.3	(0.4)
(Increase)/decrease in investment in own shares	(2.1)	3.8
Increase in prudent valuation adjustment	(0.1)	(0.1)
CET1 capital at 31 July 2021	1,439.3	1,254.0

- 1 In line with CRR II, effective on 23 December 2020, the CET1 capital ratio at 31 July 2021 includes a c.50bps benefit related to software assets which are exempt from the deduction requirement for intangible assets from CET1. The PRA published PS17/21 'Implementation of Basel standards' on 9 July 2021, confirming the reversal to the earlier position. This will result in the reversal of this benefit and reduction of the CET1 capital ratio upon implementation on 1 January 2022.

A reconciliation of regulatory capital to the balance sheet is shown in Appendices 1 and 4.

5. Capital Adequacy

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

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 group maintains a strong capital base to support the development of the business and to ensure the group meets the Total Capital Requirement ("TCR"), combined buffer and PRA buffer requirements (if any) at all times.

Our TCR add-on is 1.0%, of which 0.6% needs to be met with CET1 capital. 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%, a minimum tier 1 ratio of 9.3% and a minimum total capital ratio of 11.5%.

The minimum requirements are inclusive of the TCR, the capital conservation buffer ("CCoB", currently 2.5% for both CET1 capital and total capital) and the countercyclical capital buffer ("CCyB", currently an effective weighted buffer of 0.0% for the group). They exclude any PRA buffer requirement, if any. Further details of the group's CCyB rate are provided in section 6 "Regulatory Capital Buffers".

Internal Capital Adequacy Assessment Process ("ICAAP")

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

5. Capital Adequacy continued

Capital Requirement

The group's Pillar 1 capital requirement is set out in the table below. The Pillar 1 requirement in respect of credit risk is 8% of the RWAs for each of the following standardised exposure classes.

	31 July 2021 £ million	31 July 2020 £ million
Credit risk - standardised approach		
Central governments or central banks	10.9	9.2
Regional governments or local authorities	0.2	0.1
Public sector entities	0.4	0.3
Institutions	10.5	9.4
Corporates	156.4	131.6
Retail	215.9	212.5
Secured by mortgages on immovable property	15.8	17.9
Exposures in default	9.6	16.2
Items associated with particularly high risk	154.0	178.4
Equity	0.1	0.1
Other items	57.3	43.3
	631.1	619.0
Operational risk - standardised approach^{1,2}	83.1	75.7
Counterparty credit risk	4.6	4.1
Market risk - trading book²		
Interest rate PRR ³	0.2	0.3
Equity PRR ³	3.4	3.3
Collective investment undertakings PRR ³	4.6	4.5
Market risk - non-trading book²		
Foreign currency PRR ³	1.4	2.2
Total Pillar 1 capital requirement	728.4	709.1

1 The Standardised Approach is used for Securities, Asset Management and non-lending income in the Banking division. The Alternative Standardised Approach is applied to the loan book and securities exposures in the Banking division.

2 Further details on operational and market risk can be found in section 2 'Risk Management Objectives and Policies'.

3 Position Risk Requirement.

The increase of £19.3 million in the capital requirements during the year was driven by an increase in operational risk due to higher average levels of income in Winterflood and average loan book balance. Credit risk capital requirements have increased modestly notwithstanding the 10.9% growth in gross loan book assets due to the significant portion of government guaranteed loans under CBILS which attract a lower risk weighting and a reduction in the Property loan book due to high levels of repayments.

6. Regulatory Capital Buffers

The following regulatory capital buffers apply to CBG:

Capital Conservation Buffer

The CCoB, at 2.5% of RWAs, applies to banks and has been developed to ensure capital buffers are available which can be drawn upon during periods of stress if required.

Countercyclical Capital Buffer

The CCyB is intended to protect the banking sector against losses that could be caused by cyclical systemic risks. In each jurisdiction the relevant authority (the Bank of England in the UK) sets an individual CCyB rate based on their assessment of systemic risks in that jurisdiction. Accordingly, each institution calculates its specific CCyB based on a weighted average of the CCyB rates for each jurisdiction in which it has an exposure. The UK CCyB rate has remained at 0% throughout the year ended 31 July 2021. The FPC confirmed in its July 2021 Financial Stability Report that the UK countercyclical buffer will remain 0% until at least December 2021. Therefore, any subsequent increase will not take effect until December 2022 at the earliest given the usual 12-month implementation period.

The table below shows the geographical distribution of credit exposures relevant for the calculation of the CCyB as at 31 July 2021¹:

Breakdown by country ²	General credit exposures	Trading book exposures	Own funds requirements			Total £ million	Own funds requirement weighting	CCyB rate %
	Exposure value £ million	Sum of long and short trading book positions £ million	Of which:	Of which:	£ million			
			General credit exposures £ million	Trading book exposures £ million				
United Kingdom	8,342.9	40.8	553.8	2.0	555.8	0.91	0.0%	
Ireland	650.9	1.3	38.3	—	38.3	0.07	0.0%	
Jersey	104.3	0.2	7.1	—	7.1	0.01	0.0%	
Isle of Man	31.4	—	3.3	—	3.3	0.01	0.0%	
Germany	29.7	—	2.1	—	2.1	—	0.0%	
Guernsey	28.0	1.7	1.7	0.1	1.8	—	0.0%	
Malta	16.2	—	1.2	—	1.2	—	0.0%	
Monaco	9.2	—	0.7	—	0.7	—	0.0%	
Luxembourg	4.0	0.5	0.3	—	0.3	—	0.5%	
Cayman Islands	3.5	—	0.3	—	0.3	—	0.0%	
Cyprus	2.4	—	0.1	—	0.1	—	0.0%	
British Virgin Islands	2.1	—	0.2	—	0.2	—	0.0%	
Others ³	1.9	0.3	0.2	—	0.2	—	—	
Total	9,226.5	44.8	609.3	2.1	611.4	1.00		

The table below shows the amount of institution-specific CCyB as at 31 July 2021¹:

	2021 £ million
Total risk exposure amount ⁴	9,105.3
Institution-specific CCyB rate (%)	0.0%
Institution-specific CCyB requirement	—

1 The two tables above follow the templates set out in the relevant technical standard, except certain columns have been omitted that are not relevant. In accordance with the CRR exposures to central governments or central banks, regional governments or local authorities, public sector entities and institutions are excluded.

2 Exposures are classified by the domicile of the counterparty.

3 Included in 'others' are immaterial exposures to Norway, to which 1.0% CCyB applies. All other countries included in 'others' have a 0.0% CCyB rate.

4 'Total Risk Exposure Amount' is equivalent to RWAs (see Section 3 "Key Regulatory Metrics").

7. Counterparty Credit Risk

Counterparty credit risk is the risk of loss as a result of a counterparty to a transaction defaulting before the final settlement of the transaction's cash flows.

Counterparty credit risk derives from derivative exposures, including the regulatory credit valuation adjustment, and from exposures arising in the Securities division trading in the cash markets with regulated counterparties on a delivery versus payment basis such that any credit exposure is limited to price movements in the underlying securities. It also includes secured financing transactions and exposures resulting from free deliveries in the Securities division.

Derivative exposures are first measured using the mark-to-market method and subsequently risk weighted under the standardised approach.

The table in Section 5 "Capital Adequacy" shows that counterparty credit risk amounts to less than 1% (2020: less than 1%) of the overall capital requirement. Consequently, on the grounds of materiality no further detail is provided on this risk in accordance with the 'guidelines on materiality, proprietary and confidentiality and on disclosure frequency'.

8. Credit Risk

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

	31 July 2021	31 July 2020	Average exposure for year ending 31 July 2021
	£ million	£ million	£ million
Central governments or central banks	1,577.9	1,494.2	1,807.2
Regional governments or local authorities	12.2	3.2	11.9
Public sector entities	23.7	16.5	23.7
Institutions	401.0	411.9	422.8
Corporates	2,615.3	1,954.0	2,475.6
Retail	4,297.4	3,948.2	4,434.7
Secured by mortgages on immovable property	212.4	239.4	250.2
Exposures in default	99.9	165.1	139.3
Items associated with particularly high risk	1,284.0	1,486.4	1,484.2
Equity	1.1	0.8	1.2
Other items	716.4	540.9	703.6
Total	11,241.3	10,260.6	11,754.4

The exposures are after specific credit risk adjustments, before applying risk weightings and credit risk mitigation and include undrawn commitments after the application of the applicable credit conversion factors. The retail exposure class consists of loans to individuals and SMEs with similar characteristics.

As at 31 July 2021, the group's exposure to SMEs is £5,159.8 million (including undrawn commitments) (2020: £4,786.4 million).

8. Credit Risk continued

Geographic distribution of exposures¹ by regulatory exposure asset class at 31 July 2021:

	United Kingdom ² £ million	Europe £ million	Rest of world £ million	Total £ million
Central governments or central banks	1,509.5	68.4	—	1,577.9
Regional governments or local authorities	12.2	—	—	12.2
Public sector entities	23.7	—	—	23.7
Institutions	227.2	79.3	94.5	401.0
Corporates	2,470.4	140.5	4.4	2,615.3
Retail	3,737.0	560.4	—	4,297.4
Secured by mortgages on immovable property	206.7	5.0	0.7	212.4
Exposure in default	91.8	7.6	0.5	99.9
Items associated with particularly high risk	1,284.0	—	—	1,284.0
Equity	1.1	—	—	1.1
Other items	715.6	0.8	—	716.4
Total	10,279.2	862.0	100.1	11,241.3

1 Exposures are classified by the domicile of the counterparty.

2 Includes Crown dependencies.

8. Credit Risk continued

Residual maturity breakdown by regulatory exposure asset class on a contractual basis¹ at 31 July 2021:

	On demand £ million	Less than three months £ million	Three months to one year £ million	One to five years £ million	More than five years £ million	Non-defined maturity £ million	Total £ million
Central governments or central banks	1,314.7	4.8	13.1	81.2	147.8	16.3	1,577.9
Regional governments or local authorities	—	—	0.5	3.8	7.9	—	12.2
Public sector entities	—	0.2	0.5	15.4	7.6	—	23.7
Institutions	128.2	—	264.7	0.1	8.0	—	401.0
Corporates	—	760.1	247.5	1,316.0	291.7	—	2,615.3
Retail	—	170.6	1,008.1	2,998.2	120.5	—	4,297.4
Secured by mortgages on immovable property	—	45.1	85.7	81.6	—	—	212.4
Items associated with particularly high risk	—	517.6	417.3	349.1	—	—	1,284.0
Other items	—	103.3	18.7	103.5	—	490.9	716.4
Total	1,442.9	1,601.7	2,056.1	4,948.9	583.5	507.2	11,140.3
Exposures in default							99.9
Equity							1.1
							11,241.3

¹ Exposures repaid in instalments have been allocated in the maturity bucket corresponding to the last instalment.

8. Credit Risk continued

Impairment of Financial Assets

For accounting purposes, expected credit losses are recognised for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at fair value through other comprehensive income, loan commitments and financial guarantee contracts.

Under IFRS 9, financial assets are allocated to one of three stages based on the level of credit risk associated with the asset. 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 Stage 2 and a provision is made for the lifetime expected credit losses. As a backstop, all financial assets 30 days past due are considered to have experienced a significant increase in credit risk and are transferred to Stage 2. A financial asset will remain classified as Stage 2 until the credit risk has improved such that it no longer represents a significant increase since origination and will be returned to Stage 1.

In general, the group assesses whether a significant increase in credit risk has occurred based on a quantitative and qualitative assessment, with a 30 day past due backstop. Due to the diverse nature of the group's lending businesses, the specific indicators of a significant increase in credit risk vary by business and may include some or all of the following factors. The credit risk of a financial asset is considered to have significantly increased when any of the following triggers are met:

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

Due to the impact and complexity of Covid-19, and to reflect the ongoing uncertainty in the external environment, a number of enhancements were made to the above-mentioned staging approach during the course of the 2020 financial year. These fully incorporate the effects of Covid-19 into the significant increase in credit risk assessment, and continue to be in operation.

Note 28 of the group's Annual Report sets out the approach to Covid-19 related concessions, including staging assumptions and cure periods. Additional monitoring of this cohort of customers continues to be in place until the relevant cure period has expired, upon which, standard staging triggers are applied.

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

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

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

Different model-based approaches to estimate PDs are employed across the Banking division, which represent the likelihood of a borrower defaulting on its financial obligation. The framework applied typically

8. Credit Risk continued

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.

EAD is based on the amounts expected to be owed at the time of default, and is estimated using an amortising schedule or a credit conversion factor, depending on the nature of lending. 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. LGD estimates vary and can include estimates for the likelihood of collateral recovery and a separate calculation for the likely loss on recovery, and for some businesses LGDs are estimated using liquidation curves based on historical cashflows. EADs and LGDs are adjusted to account for the impact of discounting using the effective interest rate.

For further details see pages 142 to 143 of the group's Annual Report.

Definition of Past Due

A financial asset is treated as past due when a counterparty has failed to make a payment when contractually due. As described above, where payment on a financial asset is more than 30 days past due the financial asset would be considered Stage 2, and likewise Stage 3 where it is more than 90 days past due.

Definition of Default

For accounting purposes, a default is considered to have occurred if any unlikelihood to pay criteria are met or when a financial asset meets the 90 days past due backstop. These include an assessment of whether the borrower has significant financial difficulties which are expected to have a detrimental impact on their ability to pay interest or principal on the loan, and include events such as administration, insolvency, bankruptcy, distressed restructuring and fraud.

For regulatory purposes, a financial asset is treated as in default when a payment is 90 days past the contractual due date or the counterparty is considered unlikely to pay its credit obligations in full. The regulatory definition of default captures all financial assets classified within Stage 3.

Impairment Provisions

For regulatory purposes, provisions are classified as either general or specific as per the definitions in Article 110 of the CRR. The group does not have any general provisions, and all provisions are therefore captured as specific credit risk adjustments.

8. Credit Risk continued

Analysis of Loans and Impairments

The tables below analyse loans and impairment balances as at 31 July 2021.

Exposure type analysis of defaulted and non-defaulted exposures alongside associated credit risk adjustments. The analysis below covers loans and advances to customers as per note 11 of the group's Annual Report and includes undrawn commitments after the application of the applicable credit conversion factors at 31 July 2021:

	A	B	C	D	E
	Gross carrying value of				
	Defaulted exposures ¹	Non-defaulted exposures	Specific credit risk adjustments	Net values (A+B-C)	Credit risk adjustment charges in the period
	Stage 3	Stages 1 & 2	All stages		
	£ million	£ million	£ million	£ million	£ million
Regional governments or local authorities	—	12.3	0.1	12.2	0.1
Public sector entities	—	23.8	0.1	23.7	—
Corporates	—	2,648.1	35.0	2,613.1	(3.1)
Retail	—	4,418.8	121.4	4,297.4	23.6
Secured by mortgages on immovable property	—	215.4	4.6	210.8	(3.3)
Exposures in default	192.0	—	92.1	99.9	57.1
Items associated with particularly high risk	138.4	1,172.7	27.1	1,284.0	3.3
Total loans and advances to customers	330.4	8,491.1	280.4	8,541.1	77.7
Other credit risk exposures ²				2,700.2	
Total				11,241.3	

- 1 Stage 3 exposures are all categorised as exposures in default except where they are high risk where the CRR requires them to remain within the high risk exposure class.
- 2 Includes central governments, central banks, institutions, equity and other assets.

8. Credit Risk continued

Counterparty type analysis of defaulted and non-defaulted exposures alongside associated credit risk adjustments. The analysis below covers loans and advances to customers as per note 11 of the group's Annual Report and includes undrawn commitments after the application of the applicable credit conversion factors at 31 July 2021:

	A	B	C	D	E
	Gross carrying value of				
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustments	Net values	Credit risk adjustment charges in the period
	Stage 3	Stages 1 & 2	All stages	(A+B-C)	the period
	£ million	£ million	£ million	£ million	£ million
Regional governments or local authorities	—	12.3	0.1	12.2	0.1
Public sector entities	—	23.8	0.1	23.7	—
Financial corporations	0.2	33.7	0.4	33.5	—
Non-financial corporations	257.4	5,571.2	128.8	5,699.8	2.8
Households	72.8	2,850.1	151.0	2,771.9	74.8
Total loans and advances to customers	330.4	8,491.1	280.4	8,541.1	77.7
Other credit risk exposures ¹				2,700.2	
Total				11,241.3	

1 Includes central governments, central banks, institutions, equity and other assets.

Geographical analysis of defaulted and non-defaulted exposures alongside associated credit risk adjustments. The analysis below covers loans and advances to customers as per note 11 of the group's Annual Report and includes undrawn commitments after the application of the applicable credit conversion factors at 31 July 2021:

	A	B	C	D	E
	Gross carrying value of				
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustments	Net values	Credit risk adjustment charges in the period
	Stage 3	Stages 1 & 2	All stages	(A+B-C)	the period
	£ million	£ million	£ million	£ million	£ million
United Kingdom ¹	316.3	7,774.6	268.9	7,822.0	76.7
Europe	13.6	711.4	11.5	713.5	1.1
Rest of the world	0.5	5.1	—	5.6	(0.1)
Total loans and advances to customers	330.4	8,491.1	280.4	8,541.1	77.7
Other credit risk exposures ²				2,700.2	
Total				11,241.3	

1 Includes Crown dependencies.

2 Includes central governments, central banks, institutions, equity and other assets.

8. Credit Risk continued

The below two tables show the movement in specific credit risk adjustments relating to loans and advances to customers, and the charge to the income statement from impairment losses in the period. For further details see note 11 of the group's Annual Report.

	£ million
As 31 July 2020	238.7
Charge to income statement	77.7
Write offs	(36.0)
As 31 July 2021	280.4

	£ million
Impairment losses relating to loans and advances to customers	
Charge to income statement arising from movement in impairment provisions	77.7
Amount written off directly to income statement, net of recoveries and other costs	10.2
	87.9
Impairment losses relating to other financial assets	1.9
Impairment losses on financial assets	89.8

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 forbore 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.

Whilst 2021 has seen forbearance request levels below those observed at the start of the pandemic, we have continued to experience customers requesting additional financial support. Our approach to classifying forbearance as Covid-19 related or otherwise has been carefully considered and has evolved throughout the financial year.

As the global pandemic has progressed, 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 Credit Risk Management Committee and GRCC, which utilise this enhanced forbearance reporting for tactical and strategic planning, and to assess the impacts of concessions granted. Additional reporting tracks the trajectory of Covid-19 specific forbearance across the businesses and examines sector and asset concentrations.

Covid-19 related forbearance support granted to customers as a consequence of Covid-19 have been varied across our lending businesses. In all instances, where further support has been required this is considered on a case-by-case basis as we seek to assist our customers during these unpredictable times. The number of customers supported via concessions offered has fallen to 17,706 from 66,153 at the end of the prior financial year.

For further information on forbearance see pages 180 and 186 of the group's Annual Report.

Further analysis of non-performing and forbore exposures is also provided in Appendix 5.

9. Credit Risk: Standardised Approach

The group uses external credit assessments provided by Moody's Investors Service ("Moody's") to determine the risk weight of rated counterparties in each standardised credit risk exposure class. Moody's is recognised by the PRA as an eligible external credit assessment institution for the purposes of calculating credit risk requirements under the standardised approach. The external ratings of Moody's are mapped to the prescribed credit quality step assessment scale that in turn produces standard risk weightings. Exposures to central governments and central banks that have obtained a 0% risk weight from using external credit assessments are omitted from the tables below.

The tables below show the exposure amounts associated with the credit quality steps for any rated exposures and the relevant risk weightings as at 31 July 2021 (only credit quality steps with exposures are shown):

Institutions			Exposure
Credit quality step	Moody's rating	Risk weight	£ million
1	Aaa to Aa3	20%	147.6
2	A1 to A3	50% / 20% ¹	250.9
Total rated exposures			398.5

¹ 20% risk weight applies where residual maturity is three months or less.

Corporates

As at 31 July 2021 the group had no exposures to rated corporates.

10. Credit Risk Mitigation

As explained in section 2 "Risk Management Objectives and Policies" and in note 28 of the group's Annual Report, the majority of the Banking division's lending is secured. The security taken does not result in any reduction in RWAs under the standardised approach to credit risk. The group does not make use of on-balance sheet netting.

However, following accreditation, we have been able to offer many of our customers facilities under the UK government introduced Coronavirus Business Interruption Loan Scheme ("CBILS"), Coronavirus Large Business Interruption Loan Scheme ("CLBILS"), Bounce Back Loan Scheme ("BBLs"), and Recovery Loan Scheme ("RLS"), as well as the Future Growth Loan Scheme ("FGLS") in the Republic of Ireland. Loans provided under these schemes are covered by government guarantees, which do qualify as eligible collateral under the standardised approach to credit risk. The total value of guarantees recognised against these loans is £798.8m. This has been reflected in the table below, which analyses the exposure value that has been covered by the government guarantees resulting in credit risk mitigation.

	Exposure value covered by eligible financial collateral	Exposure value covered by guarantees	Total exposure value covered by credit risk mitigation
	£ million	£ million	£ million
Credit risk - standardised approach			
Corporates	—	435.1	435.1
Retail	—	354.3	354.3
Exposures in default	—	8.9	8.9
Items associated with particularly high risk	—	0.5	0.5
Total credit risk mitigation	—	798.8	798.8

11. Non-Trading Book Exposures in Equities

At 31 July 2021, the group had £1.1 million of equity investments, all of which are unlisted, representing share participations in exchanges required for the Securities division trading business. Under IFRS 9 all non-trading book equity shares are classified as fair value through profit or loss ("FVTPL").

For regulatory purposes £1.1 million of equity investments are classified as equity. The capital requirement amounted to £0.1 million. Cumulative realised gains from sales in the period were nil and unrealised gains recognised were £0.2 million.

The accounting policies under IFRS 9 for classifying and valuing financial assets under FVTPL are outlined below.

Financial Assets 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 FVTPL.

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 fair value through profit or loss 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.

Movements in equity shares in the year to 31 July 2021 were as follows:

	FVTPL £ million
At 31 July 2020	0.8
Disposals	—
Equity shares classified as FVTPL	0.3
At 31 July 2021	1.1

12. Interest Rate Risk in the Non-Trading Book

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

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

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

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

Interest rate risk within the Banking book ("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.

12. Interest Rate Risk in the Non-Trading Book continued

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

- EaR measures short term 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 base case (no stress) EaR due to a parallel shift in interest rates at 31 July 2021:

	2021 £ million
0.5% increase	(11.6)
0.5% decrease	8.3

The Bank of England base rate has remained at 0.1% since March 2020. This low external interest rate environment resulted in an increased EaR in 2020 under a 0.5% increase due to embedded floors on some variable rate loans generating additional earnings in the lower rate environment. This benefit is at risk should rates rise. In the event of market rates decreasing further, additional earnings would be generated primarily due to the optionality explained above increasing EaR further.

The table below sets out the assessed impact on our base case EV due to a shift in interest rates at 31 July 2021:

	2021 £ million
0.5% increase	(4.2)
0.5% decrease	4.3

The impact above is on a comparable 0.5% increase and decrease basis. The Bank measures and monitors EV internally under a non-parallel 'Short rates down, long rates up' yield curve stress for risk management. This scenario is used as an appropriate test of the Bank's repricing profile and the external interest rate environment in 2021. The impact on our base case EV due to a 'Short rates down, long rates up' shift in interest rates at 31 July 2021 was a £6.7 million decrease (2020: £3.4 million decrease).

In July 2021, reflecting changes in regulation, the Bank updated its interest rate risk methodology for both EV and EaR by updating the interest rate shock scenarios prescribed by the PRA. The non-parallel shocks (including the 'Short rates down, long rates up' scenario used above) apply a greater magnitude of stress and a post interest rate shock floor on the same balance sheet profile resulting in increased metrics.

13. Leverage

The leverage ratio is a transparent, comparable measure not affected by risk weightings. It is calculated as tier 1 capital divided by adjusted balance sheet exposure. Leverage is actively monitored and regularly assessed alongside capital and capital ratios, as described in Section 5 "Capital Adequacy" and is reported to the CAC on a monthly basis. During the year the group's leverage ratio increased from 11.2% to 11.8%. This movement reflects the increase in tier 1 capital partially offset by growth in total balance sheet assets largely due to the increase in loans and advances to customers.

13. Leverage continued

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures:

	CRR leverage ratio exposure 2021 £ million
Total assets as per published financial statements	12,034.5
Adjustments for derivative financial instruments	32.8
Adjustments for securities financing transactions ("SFTs")	8.0
Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	207.4
Other adjustments	(73.7)
Total leverage exposure	12,209.0

Table LRCom: Leverage ratio common disclosure¹:

	CRR leverage ratio exposure 2021 £ million
On-balance sheet exposures (excluding derivatives and SFTs):	
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	12,016.2
Asset amounts deducted in determining tier 1 capital ²	(73.7)
Total on-balance sheet exposures (excluding derivatives and SFTs)	11,942.5
Derivative exposures:	
Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	23.2
Add-on amounts for potential future exposure associated with all derivatives transactions (mark-to-market method)	27.9
Total derivative exposures	51.1
Securities financing transaction exposures:	
Counterparty credit risk exposure for SFT assets	8.0
Total securities financing transaction exposures	8.0
Other off-balance sheet exposures:	
Off-balance sheet exposures at gross notional amount	1,314.1
Adjustments for conversion to credit equivalent amounts	(1,106.7)
Other off-balance sheet exposures	207.4
Capital and total exposures:	
Tier 1 capital	1,439.3
Total leverage ratio exposure	12,209.0
Leverage ratio³	11.8%

- 1 The table above follows the template set out in the relevant technical standard, except certain irrelevant rows have been omitted.
- 2 Includes relevant intangible assets and IFRS 9 transitional arrangements.
- 3 The leverage ratio is calculated on a transitional basis. The leverage ratio without the application of the IFRS 9 transitional arrangements and excluding the benefit related to the current treatment of software assets would be 10.6%.

13. Leverage continued

Table LRSpl: Split of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures):

	CRR leverage ratio exposure 2021 £ million
Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	11,942.5
Trading book exposures	801.6
Banking book exposures, of which:	11,140.9
Exposures treated as sovereigns	2,376.7
Exposures to regional governments, local authorities and public sector entities not treated as sovereigns	35.9
Institutions	401.0
Secured by mortgages of immovable property	210.2
Retail exposures	3,909.9
Corporates	2,147.5
Exposures in default	90.9
Exposures associated with a particularly high risk	1,251.3
Other exposures (e.g. equity, securitisation, and other non-credit obligation assets)	717.5

14. Funding and Liquidity

The group's Treasury function manages the funding and liquidity required to support our lending businesses. We maintain a conservative approach, with diverse funding sources and a prudent maturity profile. Our funding remains diverse with a wide range of retail and corporate deposits, wholesale facilities, senior unsecured debt and subordinated debt issuances. As explained in section 15 "Securitisation", we have secured funding facilities including the securitisation of certain assets within our insurance premium and motor loan books. This diversity increases resilience by reducing reliance on any individual source of funding.

The group maintains a strong liquidity position, ensuring it is consistently ahead of both internal risk appetite and regulatory requirements. The majority of our liquidity requirements and surplus funding are held in the form of high quality liquid assets ("HQLA"). We regularly assess and stress test our liquidity requirements and continue to meet the liquidity coverage ratio requirements under the CRR. For further details see page 45 of the group's Annual Report.

The table below shows the group's liquidity buffer, total net cash outflows and the LCR, averaged over a 12 month period to 31 July 2021.

	12-month average 2021 £ million
Liquidity buffer ¹	1,614.2
Total net cash outflows ²	161.0
Liquidity coverage ratio (%)	1,003%

1 The liquidity buffer consists of HQLA after applying regulatory defined weightings.

2 Weighted cash outflows net of weighted cash inflows capped at 75% of outflows.

15. Securitisation

The group has securitised without recourse and restrictions £1,386.0 million (31 July 2020: £1,610.1 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £915.7 million (31 July 2020: £1,037.1 million). This includes £72.1 million (31 July 2020: £109.0 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. As a result, CRR Article 243 does not apply when calculating risk weighted assets on the securitised loans.

16. Asset Encumbrance

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

The Pillar 3 asset encumbrance disclosure templates, shown below, have been compiled in accordance with the relevant technical standard. As such the values disclosed are presented as a median calculation rather than point in time and will therefore differ from the disclosures contained in the group's Annual Report.

Template A: Encumbered and unencumbered assets (median value¹):

	Carrying amount: encumbered assets		Carrying amount: unencumbered assets	
	of which HQLA ²		of which HQLA	
	2021 £ million	2021 £ million	2021 £ million	2021 £ million
Assets of the reporting institution	2,173	—	9,778	1,582
Equity instruments ³	2	—	31	—
Debt securities ³	10	—	346	81
of which: issued by general governments	10	—	106	81
of which: issued by financial corporations	—	—	236	—
of which: issued by non-financial corporations	—	—	—	—
Other assets	2,146	—	9,387	1,501

1 Calculated based on the last reporting date of each calendar quarter.

2 Notionally eligible HQLA.

3 Fair value of equity instruments and debt securities is equal to the carrying amount of encumbered and unencumbered assets.

16. Asset Encumbrance continued

Template B: Collateral received (median value¹):

	Fair value of encumbered collateral received		Unencumbered	
	of which HQLA ²		Fair value of collateral received available for encumbrance of which HQLA	
	2021	2021	2021	2021
	£ million	£ million	£ million	£ million
Collateral received by the reporting institution	36	7	29	6
Equity instruments	19	—	15	—
Debt securities	13	7	10	6
of which: issued by general governments	13	7	10	6
Other collateral received	—	—	5	—
Total assets, collateral received and own debt securities issued	2,209	26		

1 Calculated on the last reporting date of each calendar quarter.

2 Notionally eligible HQLA.

Template C: Encumbered Assets, Collateral Received and Associated Liabilities (median value¹):

	Matching liabilities, contingent liabilities or securities lent	Encumbered assets and collateral received
	2021	2021
	£ million	£ million
Carrying amount of selected financial liabilities	1,401	2,131

1 Calculated based on the last reporting date of each calendar quarter.

Information on Importance of Encumbrance

As an integral aspect of its business, the group engages in activities that result in certain assets being encumbered. The main activity relates to securitisation which is explained in section 15 “Securitisation” above, which includes comparatives, and from accessing the Bank of England’s Term Funding Scheme with Additional Incentives for SMEs (of which more information is set out in note 28 of the group’s Annual Report). The group also pledges assets for repurchase agreements and securities borrowing agreements, mainly in our Securities division.

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

17. Remuneration

Approach to Remuneration

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

17. Remuneration continued

The Code and European regulatory technical standards require the group to identify Material Risk takers ("MRTs"), being those staff whose activities have a material impact on the firm's risk profile. The group employed a total of 97 individuals who were identified as MRTs for the year ended 31 July 2021.

Remuneration Committee ("RemCo") Membership

The RemCo comprises Bridget Macaskill as chair, together with Mike Biggs, Peter Duffy, Lesley Jones and Mark Pain. Geoffrey Howe and Oliver Corbett stepped down as committee members on 19 November 2020 and 28 February 2021 respectively. Mike Biggs, Peter Duffy and Mark Pain joined the committee effective 1 March 2021. The RemCo met seven times during the year.

RemCo Responsibilities

The RemCo's main responsibilities are to:

- review and determine the total remuneration packages of executive directors and other senior executives, including our MRTs, in consultation with the chairman and chief executive and within the terms of the agreed policy;
- approve the design of any performance related pay schemes operated by the group;
- review the design of all employee share incentive plans;
- ensure that contractual terms on termination and any payments made are fair to the individual and the group, that failure is not rewarded and that a duty to mitigate loss is fully recognised;
- review any major changes in employee benefits structures throughout the group;
- select, appoint and determine terms of reference for independent remuneration consultants to advise the RemCo on remuneration policy and levels of remuneration;
- ensure that the remuneration structures in the group are compliant with the rules and requirements of regulators and relevant legislation;
- ensure that provisions regarding disclosure of remuneration are fulfilled; and
- seek advice from group chief risk officer to ensure remuneration structures and annual bonuses are appropriately aligned to the group's risk appetite.

Advice

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

Remuneration Philosophy

The reward structure aims to:

- attract, motivate and retain high calibre employees across the group;
- reward good performance;
- promote the achievement of the group's annual plans and its longer term strategic objectives;
- align the interests of employees with those of all key stakeholders in particular our shareholders, clients and regulators; and
- support effective risk management, not encourage risk-taking that exceeds the level of tolerated risk of each division of the group and promote a positive client conduct culture.

Our Approach to Remuneration

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

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

17. Remuneration continued

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

Employees have individual performance objectives against which their personal performance is rated. These annual objectives cover both financial and non-financial measures, including risk, compliance and behavioural objectives appropriate to their roles. Assessment is based on current key performance indicators as well as long term actions where appropriate. We operate a rating approach to performance and employees are rated on a scale of Exceptional to Action Required. We review distribution of performance ratings against a bell curve to encourage differentiation.

These ratings feed the remuneration recommendations for all employees. There is a challenge process, which includes input from senior management and divisional HR, risk and compliance. Subsequently there is a further challenge process conducted by group HR and the group executives, with input from group risk, compliance and internal audit.

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

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

The RemCo believes the remuneration policies balance the requirements of all key stakeholders, including clients, shareholders, regulators and employees. The main metrics used to ensure an appropriate balance between shareholders and employees are (a) the ratio of total compensation to adjusted operating income, which has remained within the narrow band of 36% to 39% over the last 3 years, and (b) dividends as a % of total compensation, which has historically been in the range of 31% to 34%, although has dropped to approximately 20% in the 2020 financial year as a result of the interim dividend being cancelled, and has increased to 22% in the 2021 financial year.

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

Remuneration Schemes for Code Staff

Remuneration Code Staff (also known as MRTs) comprises categories of staff whose professional activities have a material impact on the firm's risk profile (“Code Staff”), as stipulated by the regulatory technical standards. The remuneration of Code Staff is subject to specific requirements within the Remuneration Code.

Capital Requirement Directive V (“CRD V”)

As a consequence of CRD V being fully adopted by the UK, a maximum 2:1 variable to fixed pay cap will apply to all the group's and bank's MRTs, including the executive directors, from 1 August 2021. During the 2021 financial year we have undertaken a review of our Remuneration Policies for our in-scope Code Staff and from the 2022 financial year onwards we will implement changes to our policies to ensure we comply with CRD V, subject to shareholder approval at our 2021 Annual General Meeting. Full details will be provided in next year's Pillar 3 disclosure.

17. Remuneration continued

Base Salary

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

Discretionary Bonus Scheme

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

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

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

Long Term Incentive Plan ("LTIP") Award

The LTIP is delivered through an annual award of nil cost options with a face value of up to 125% of base salary for both the group chief executive officer and the group finance director. Group Executive Committee ("ExCo") members are generally eligible to receive an award of up to 100% of base salary and other senior employees an award of up to 70% of base salary. The RemCo decides annually the actual size of individual awards. The shares vest after three years subject to the following performance targets for the 2021 awards:

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

Targets for the LTIP awards for 2021 were:

Average RoE over three years	Vesting % of RoE element
18% p.a. or greater	100%
Between 18% p.a. and 10% p.a.	Straight-line between these points
10% p.a.	25%
Less than 10% p.a.	0%
Adjusted EPS growth over three years	Vesting % of EPS element
30% or greater	100%
Between 10% and 30%	Straight-line between these points
10%	25%
Less than 10%	0%

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

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

17. Remuneration continued

Risk Management Objectives

There are two objectives, with equal weighting of each:

- capital and balance sheet management; and
- risk, compliance and controls.

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

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

Risk Management

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

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

Top-down review

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

Bottom-up review

- Considers individual performance against stated risk related objectives, wider compliance and contributions to the risk and control environment. Includes individual performance reviews and ratings (including behavioural), input from compliance and group internal audit on their observations throughout the period, and a review of all relevant data capture systems which record risk events.

Ex-ante review

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

Ex-post review

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

17. Remuneration continued

Recovery and Withholding

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

The cash bonus is subject to clawback for a period of three years from award for executive directors and one year for Code Staff.

The deferred bonuses for Code Staff are subject to malus prior to vesting. In addition, the deferred bonuses for Code Staff are subject to clawback for the period of three years from the date of grant.

The LTIP for Code Staff and executive directors is subject to malus for the three year period to the point of vesting. In addition, LTIP is subject to clawback for five years from the date of grant for executive directors and for four years from the date of grant for Code Staff.

The events which may trigger malus are as follows:

- the employee's employment has been terminated for misconduct or the employee has been issued with a formal disciplinary warning for misconduct under the firm's disciplinary policy; or
- the firm suffers a material loss where the employee has operated outside of the risk parameters or risk profile applicable to their position and as such, the RemCo considers a material failure in risk management has occurred; or
- the level of the award is not sustainable when assessing the overall financial viability of the firm. In the event that one of these is triggered, the RemCo may, at its discretion, defer and/or reduce, in whole or in part any unvested award.

The events which may trigger clawback for executive directors are as follows:

- discovery of a material misstatement resulting in an adjustment in the audited consolidated accounts of the company, or the audited accounts of any material subsidiary. This would also be for a period that was wholly or partly before the end of the period over which the performance target applicable to an award was assessed;
- the assessment of any performance target or condition in respect of an award was based on material error, or materially inaccurate or misleading information;
- the discovery that any information used to determine the bonus and number of shares subject to an award was based on material error, or materially inaccurate or misleading information; and
- action or conduct of a plan participant which, in the reasonable opinion of the board, amounts to fraud or gross misconduct.

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

Link between reward and performance - financial year 2021

The group performed strongly in an evolving environment, while maximising the opportunities as the economy recovers from the Covid-19 crisis. Overall, the group reported an 88% increase in adjusted operating profit to £270.7 million (2020: £144.0 million), returning to pre-crisis levels and achieving a return on opening equity, our key financial measure, of 14.5%. The group's performance benefited from significantly lower impairment charges in the lending business and higher income levels across all divisions. Banking adjusted operating profit increased significantly to £212.5m (2020: £99.2m). Asset Management adjusted operating profit marginally increased to £23.7m (2020: £20.4m) and the Securities division delivered an impressive financial performance with adjusted operating profit increasing to £60.9m (2020: £47.9m).

These factors were taken into consideration in determining bonus payments for the MRTs for the financial year.

17. Remuneration continued

2021 Aggregate Remuneration¹ in respect of MRTs by business

Banking £ million	Securities £ million	Asset Management £ million	Group £ million
8.3	30.0	14.0	7.8

1 Aggregate remuneration consists of fixed and variable remuneration as outlined below.

2021 Aggregate Remuneration in respect of MRTs split into fixed and variable remuneration

	Senior Management	Other MRTs
Number of MRTs	38	59
Fixed remuneration (£ million) ¹	8.5	10.3
Variable remuneration (£ million) ²	17.9	23.4

1 Fixed remuneration consists of base salary, company pension contributions and any other fixed allowances.

2 Variable remuneration consists of the discretionary annual bonus, 60% of the face value of the LTIP award (60% being a reasonable estimate based on historic and expected future levels of vesting as this award is subject to performance conditions), and buy-out award amounts paid in the 2021 financial year.

Appendix 1: Regulatory Capital Balance Sheet Reconciliation

	Balance sheet extract 31 July 2021 £ million	Components used in regulatory capital 31 July 2021 £ million	Ref ²
Assets			
Intangible assets	232.6		
of which: deduction from common equity tier 1 capital		182.4	A
Deferred tax asset	56.0		
of which: deferred tax liability - intangible assets		(1.7)	B
of which: deferred tax liability - pension related		(2.2)	C
Prepayments, accrued income and other assets	209.6		
of which: defined-benefit pension fund assets		7.6	D
Total assets	12,034.5		
Liabilities			
Subordinated loan capital	222.7		
of which: tier 2 capital issued by Close Brothers Group plc		223.4	E
Total liabilities	10,465.2		
Equity			
Called up share capital	38.0		
of which: amount eligible for common equity tier 1 capital		38.0	F
Retained earnings	1,555.5	1,555.5	G
Exchange movements reserve	(1.3)	(1.3)	H
Cash flow hedging reserve	(0.3)	(0.3)	I
Fair value through other comprehensive income	0.8	0.8	J
Share-based payments reserve ¹	(22.4)	13.6	K
of which: holdings of own capital instruments		(36.0)	L
Non-controlling interest	(1.0)	—	
Total equity	1,569.3		
Total liabilities and equity	12,034.5		
Non-balance sheet items			
Foreseeable dividend		(62.7)	M
Prudent valuation adjustment		(0.3)	N

- 1 Consists of £36.0 million relating to holdings of own capital instruments, which is shown separately in Section 4 "Capital Resources" and Appendix 4, and £13.6 million relating to a share based payments reserve as described in note 26 of the group's Annual Report.
- 2 The letters in the "Ref" column in the table above are referenced to the capital table in Appendix 4 to show how the group's regulatory capital is derived from the group's balance sheet.

Appendix 2: Capital Instruments' Key Features

Capital Instruments main features template²

1	Issuer	CBG ¹	CBG ¹	CBG
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	XS1548943221	XS2351480566	GB0007668071
3	Governing law(s) of the instrument	English	English	English
Regulatory treatment				
4	Transitional CRR rules	Tier 2	Tier 2	Common Equity Tier 1
5	Post-transitional CRR rules	Tier 2	Tier 2	Common Equity Tier 1
6	Eligible at individual/(sub-) consolidated/individual&(sub-) consolidated	Consolidated	Consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt	Subordinated debt	Ordinary Shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	£23.4 million	£200 million	£38 million
9	Nominal amount of instrument	£175 million	£200 million	£38 million
9a	Issue price	Par	Par	Par
9b	Redemption price	Par	Par	Par
10	Accounting classification	Liability – Amortised cost	Liability – Amortised cost	Equity
11	Original date of issuance	24/01/17	11/06/21	Various
12	Perpetual or dated	Dated	Dated	Perpetual
13	Original maturity date	24/01/27	11/09/31	N/A
14	Issuer call subject to prior supervisory approval	Yes	Yes	N/A
15	Optional call date, contingent call dates and redemption amount	24/01/22 Tax event or capital disqualification event	11/06/26	N/A
16	Subsequent call dates, if applicable	N/A	At any time	N/A
Coupons / dividends				
17	Fixed or floating dividend/coupon	Fixed to floating	Fixed to floating	N/A
18	Coupon rate and any related index	4.25%	2.00%	N/A
19	Existence of a dividend stopper	No	No	N/A
20a	Fully discretionary, partially discretionary or mandatory	Mandatory	Mandatory	Fully discretionary
20a	Fully discretionary, partially discretionary or mandatory	Mandatory	Mandatory	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No	No	N/A
22	Non-cumulative or cumulative	Cumulative	Cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A

Appendix 2: Capital Instruments' Key Features continued

25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down features	N/A	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior unsecured	Senior unsecured	Tier 2
36	Non-compliant transitioned features	No	No	N/A
37	If yes, specify non-compliant features	N/A	N/A	N/A

1 In parallel to the £175 million and £200 million subordinated debt instruments issued by CBG, CBL entered into subordinated debt agreements with CBG on a like-for-like basis, with identical terms and conditions.

2 Full terms and conditions for the marketed debt securities detailed above are available on the group website (www.closebrothers.com/fixed-income-investors).

Appendix 3: IFRS 9 Transitional Arrangements Disclosure

IFRS 9 transitional arrangements template ¹		31 July 2021 £ million	31 July 2020 £ million
Available capital			
1	CET1 capital	1,439.3	1,254.0
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied	1,321.5	1,153.7
3	Tier 1 capital	1,439.3	1,254.0
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	1,321.5	1,153.7
5	Total capital	1,662.7	1,441.0
6	Total capital as if IFRS 9 transitional arrangements had not been applied ²	1,544.9	1,340.7
Risk-weighted assets			
7	Total risk-weighted assets	9,105.3	8,863.2
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	9,001.1	8,785.9
Capital ratios			
9	CET1 ratio	15.8%	14.1%
10	CET1 ratio as if IFRS 9 transitional arrangements had not been applied	14.7%	13.1%
11	Tier 1 ratio	15.8%	14.1%
12	Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied	14.7%	13.1%
13	Total capital ratio	18.3%	16.3%
14	Total capital ratio as if IFRS 9 transitional arrangements had not been applied ²	17.2%	15.3%
Leverage ratio			
15	Leverage ratio total exposure measure	12,209.0	11,155.9
15a	Leverage ratio total exposure measure as if IFRS 9 transitional arrangements had not been applied	12,096.6	11,055.6
16	Leverage ratio	11.8%	11.2%
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied	10.9%	10.4%

1 The table above follows the template set out in the guidelines on uniform disclosures except for inclusion of line 15a for leverage ratio total exposure measure as if IFRS 9 transitional arrangements had not been applied.

2 Before application of relevant CRR qualifying own funds arrangements.

Appendix 4: Transitional Own Funds Disclosure

Transitional Own Funds Disclosure template¹

	31 July 2021	Ref ²
	£ million	
CET1 capital: instruments and reserves		
1	38.0	F
	of which: ordinary shares	
	38.0	
2	1,555.5	G
3	12.8	H+I+J+K
5a	(62.7)	M
6	1,543.6	
CET1 capital: regulatory adjustments		
7	(0.3)	N
8	(180.7)	A+B
11	0.3	I
15	(5.4)	C+D
16	(36.0)	L
	IFRS 9 transitional arrangements	
	117.8	
28	(104.3)	
29	CET1 capital	
	1,439.3	
45	Tier 1 capital	
	1,439.3	
Tier 2 capital: instruments and provisions		
46	223.4	E
58	Tier 2 capital	
	223.4	
59	Total capital	
	1,662.7	
60	Total RWAs	
	9,105.3	
Capital ratios and buffers		
61	15.8%	
62	15.8%	
63	18.3%	
64	2.5%	
65	2.5%	
66	—%	
68	6.5%	
Amounts below the thresholds for deduction (before risk weighting)		
75	59.9	
	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	

1 The table above follows the template set out in the relevant technical standard, except certain rows have been omitted that are not relevant.

2 References identify balance sheet components in Appendix 1 used in the calculation of regulatory capital.

Appendix 5: Disclosure of Non-Performing and Forborne Exposures

Credit quality of forborne exposures

	A	B	C	D	E	F	G	H
	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received, and financial guarantees received on forborne exposures	
	Performing £ million	Non-performing £ million	Of which defaulted £ million	Of which impaired £ million	On performing forborne exposures £ million	On non-performing forborne exposures £ million	Total £ million	Of which received on non-performing exposures with forbearance measures £ million
1 Loans and advances	445.2	169.8	169.8	169.8	31.6	51.2	507.3	114.7
2 Central banks	—	—	—	—	—	—	—	—
3 General governments	—	—	—	—	—	—	—	—
4 Credit institutions	—	—	—	—	—	—	—	—
5 Other financial corporations	1.0	0.1	0.1	0.1	0.1	—	1.0	0.1
6 Non-financial corporations	375.3	151.3	151.3	151.3	19.6	42.0	447.4	106.0
7 Households	68.9	18.4	18.4	18.4	11.9	9.2	58.9	8.6
8 Debt Securities	—	—	—	—	—	—	—	—
9 Loan commitments given	26.8	0.1	0.1	0.1	—	—	—	—
10 Total	472.0	169.9	169.9	169.9	31.6	51.2	507.3	114.7

Appendix 5: Disclosure of Non-Performing and Forborne Exposures continued

Credit quality of performing and non-performing exposures by past due days

	A	B	C	D	E	F	G	H	I	J	K	L	
	Gross carrying amount/nominal amount												
	Performing exposures				Non-performing exposures								
	Total performing £ million	Not past due or past due ≤ 30 days £ million	Past due > 30 days ≤ 90 days £ million	Total non-performing £ million	Unlikely to pay that are not past due or are past due ≤ 90 days £ million	Past due > 90 days ≤ 180 days £ million	Past due > 180 days ≤ 1 year £ million	Past due > 1 year ≤ 2 years £ million	Past due > 2 years ≤ 5 years £ million	Past due > 5 years ≤ 7 years £ million	Past due > 7 years £ million	Of which defaulted £ million	
1	Loans and advances	9,232.4	9,055.8	176.6	335.4	99.0	50.5	45.8	102.0	17.6	0.9	19.6	335.4
2	Central banks	16.3	16.3	—	—	—	—	—	—	—	—	—	—
3	General governments	36.8	36.8	—	—	—	—	—	—	—	—	—	—
4	Credit institutions	144.4	144.4	—	—	—	—	—	—	—	—	—	—
5	Other financial corporations	696.9	695.5	1.4	2.0	0.1	0.3	0.3	0.9	0.3	0.1	—	2.0
6	Non-financial corporations	5,517.7	5,412.7	105.0	260.7	66.3	40.6	38.7	85.9	9.8	—	19.4	260.7
7	<i>Of which SMEs</i>	4,628.0	4,543.1	84.9	254.2	63.9	38.9	36.5	85.8	9.7	—	19.4	254.2
8	Households	2,820.3	2,750.1	70.2	72.7	32.6	9.6	6.8	15.2	7.5	0.8	0.2	72.7
9	Debt Securities	457.7	457.7	—	—	—	—	—	—	—	—	—	—
10	Central banks	—	—	—	—	—	—	—	—	—	—	—	—
11	General governments	192.6	192.6	—	—	—	—	—	—	—	—	—	—
12	Credit institutions	265.1	265.1	—	—	—	—	—	—	—	—	—	—
13	Other financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
14	Non-financial corporations	—	—	—	—	—	—	—	—	—	—	—	—
15	Off-balance-sheet exposures	1,421.8			1.5								1.5
16	Central banks	—			—								—
17	General governments	—			—								—
18	Credit institutions	106.7			—								—
19	Other financial corporations	—			—								—
20	Non-financial corporations	1,222.2			1.4								1.4
21	Households	92.9			0.1								0.1
22	Total	11,111.9	9,513.5	176.6	336.9	99.0	50.5	45.8	102.0	17.6	0.9	19.6	336.9

Appendix 5: Disclosure of Non-Performing and Forborne Exposures continued

Performing and non-performing exposures and related provisions

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	
	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received		
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures	
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3				
1	Loans and advances	9,232.4	8,269.1	963.3	335.4	—	335.4	164.8	80.2	84.6	119.2	—	119.2	3.2	7,151.6	204.2
2	Central banks	16.3	16.3	—	—	—	—	—	—	—	—	—	—	—	—	—
3	General governments	36.8	36.5	0.3	—	—	—	0.2	0.2	—	—	—	—	—	27.1	—
4	Credit institutions	144.4	144.4	—	—	—	—	—	—	—	—	—	—	—	—	—
5	Other financial corporations	696.9	693.7	3.2	2.0	—	2.0	0.3	0.2	0.1	0.3	—	0.3	—	22.7	0.1
6	Non-financial corporations	5,517.7	4,808.5	709.2	260.7	—	260.7	65.7	32.0	33.7	66.5	—	66.5	—	4,679.2	185.5
7	Of which SMEs	4,628.0	3,999.5	628.5	254.2	—	254.2	56.1	26.8	29.3	61.2	—	61.2	—	3,995.5	184.5
8	Households	2,820.3	2,569.7	250.6	72.7	—	72.7	98.6	47.8	50.8	52.4	—	52.4	3.2	2,422.6	18.6
9	Debt securities	457.7	457.7	—	—	—	—	0.5	0.5	—	—	—	—	—	—	—
10	Central banks	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
11	Central governments	192.6	192.6	—	—	—	—	0.1	0.1	—	—	—	—	—	—	—
12	Credit institutions	265.1	265.1	—	—	—	—	0.4	0.4	—	—	—	—	—	—	—
13	Other financial corporations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
14	Non-financial corporations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
15	Off-balance-sheet exposures	1,421.8	1,413.2	8.6	1.5	—	1.5	0.1	0.1	—	—	—	—	—	—	—
16	Central banks	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
17	General governments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
18	Credit institutions	106.7	106.7	—	—	—	—	—	—	—	—	—	—	—	—	—
19	Other financial corporations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
20	Non-financial corporations	1,222.2	1,214.5	7.7	1.4	—	1.4	—	—	—	—	—	—	—	—	—
21	Households	92.9	92.0	0.9	0.1	—	0.1	0.1	0.1	—	—	—	—	—	—	—
22	Total	11,111.9	10,140.0	971.9	336.9	—	336.9	165.4	80.8	84.6	119.2	—	119.2	3.2	7,151.6	204.2

Appendix 5: Disclosure of Non-Performing and Forborne Exposures continued

Collateral obtained by taking possession and execution processes

		A	B
		Collateral obtained by taking possession	
		Value at initial recognition £ million	Accumulated negative changes £ million
1	Property, plant and equipment (PP&E)	—	—
2	Other than PP&E	15.8	3.8
3	Residential immovable property	—	—
4	Commercial Immovable property	—	—
5	Movable property (auto, shipping, etc.)	15.8	3.8
6	Equity and debt instruments	—	—
7	Other	—	—
8	Total	15.8	3.8



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