Close Brothers

Close Brothers Group plc

Pillar 3 disclosures for the year ended 31 July 2020

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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 EU's Capital Requirements Regulation ("CRR"), and are based on data at 31 July 2020 with comparative figures for 31 July 2019 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 31 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 2020.

Regulatory developments

Regulatory measures announced by the European Union in light of Covid-19 accelerated the implementation of certain CRR2 amendments, including the revised small and medium-sized enterprises ("SME") supporting factor and change to treatment of software intangible assets. The benefit of the revised SME supporting factor has been recognised in the group's capital ratios for 31 July 2020 with the finalisation of the treatment of software intangible assets expected in FY21.

On 21 July, the UK Government confirmed that substantially all of these measures would be onshored to the UK regime, the only exception relevant to CBG being measures permitting the exclusion of central bank exposures from the calculation of the leverage ratio.

1. Overview continued

The group applies IFRS 9 regulatory transitional arrangements which allow banks to add back to their capital base a proportion of the IFRS 9 impairment charges during the transitional period. Our capital ratios are presented on a transitional basis after the application of these arrangements. For FY20 the IFRS 9 transitional rules allowed for relief of 85% of the day one impact of IFRS 9 and any subsequent increases in stage 1 and 2 impairment provisions since 1 August 2018 when IFRS 9 was implemented. The Covid-19 regulatory measures finalised in June 2020 will allow for 100% relief on stage 1 and stage 2 impairment provisions recognised since 1 January 2020. This additional relief will apply to the group's capital ratios throughout FY21 and FY22 before reducing on a straight line basis over the following four financial years.

The group's capital ratios remain comfortably ahead of minimum regulatory requirements. This leaves the group well placed to absorb any foreseen regulatory changes, including the proposed capital adequacy reforms, commonly referred to as Basel 3.1 which now take effect on 1 January 2023.

2. Risk management objectives and policies

The protection of our established business model is a key strategic objective. Accordingly, 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 and 13 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 Committee is responsible for reviewing risk appetite, monitoring the group's risk profile against this and reviewing the day-to-day effectiveness of the risk management framework. In addition, the Committee is responsible for overseeing the maintenance and development of an appropriate and supportive risk culture and for providing risk input into the alignment of remuneration with performance against risk appetite. The Committee's key areas of focus over the last financial year are set out on pages 79 and 80 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 14 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

Information on the number of directorships held by members of the management body, and on the recruitment and diversity policy with regards to selection of members of the management body are shown on pages 60, 61 and 70 of the group's Annual Report.

In addition, Oliver Corbett is a director of McGill and Partners Group Ltd. Geoffrey Howe is a director of Gateway Electronic Components Limited. Peter Duffy is a director of Nortonduff Ltd, Insuresupermarket.com Limited, Moneysupermarket Limited, Moneysavingexpert.com Limited, Moneysupermarket.com Financial Group Holdings Limited, Moneysupermarket.com Financial Group Limited, Townside Limited, Sellmymobile.com Limited, Decision Technologies Limited, Mortgage 2000 Limited and Travelsupermarket.com Limited. Sally Williams is a director of Family Investment Management Limited.

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.

A well-defined 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.

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.

2. Risk management objectives and policies continued

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 two principal objectives:

1. Inform capital and liquidity planning – including liquidity and funding risk assessment contingency planning and recovery and resolution planning; and
2. Supporting ongoing risk and portfolio management – including risk appetite calibration, strategic decisioning, risk / reward optimisation and business resilience planning.

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 firm-wide scenario analysis to simple portfolio sensitivity analysis.

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

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 effective risk management at each stage of the risk process lifecycle. They also provide an effective 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 strengthen its risk governance framework and specifically the organisation's risk and compliance committees, both at a group and divisional level. These 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 Remuneration Committee).

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

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 53 to 59 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, seven meetings were held during the year (six scheduled and one ad hoc). Full details of attendance by the non-executive directors at these meetings are set out on page 71 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.

As described in more detail on page 76 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 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, risk control and 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 qualitative and quantitative criteria. 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 87 to 114 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 53 to 57 of the group's Annual Report.

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, supporting organisational readiness for external volatility. A full list of emerging risks that the group faces can be found on pages 58 and 59 of the group's Annual Report.

2. Risk management objectives and policies continued

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
Capital Risk The group is required to hold sufficient regulatory capital (including equity and other loss-absorbing debt instruments) to enable it to operate effectively. This includes meeting minimum regulatory requirements, operating within risk appetites set by the board and supporting its strategic goals.	Capital risk is measured using CET1 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". 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 retains sufficient levels of capital adequacy. The group retains a range of capital risk mitigants, the most notable being its strong capital generating capacity, arising from its track record of sustained profitability. The group also maintains access to capital markets and has in recent years successfully issued Tier 2 capital instruments.	**Unchanged** While Covid-19 has affected capital generation due to lower than expected profits, the impact has been offset by a moderation in the loan book, reducing risk-weighted assets ("RWAs"). Regulatory actions to bolster capital, most notably guidance on distributions and the removal of countercyclical capital buffers, have also increased the group's capital surplus, allowing lending to continue where demand exists. Further commentary on the group's capital is outlined in note 22 on pages 156 to 158 of the group's Annual Report.

2. Risk management objectives and policies continued

Risk	Mitigation	Change
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 2020 the group had loans and advances to customers amounting to £7.6 billion. The group also has exposure to counterparties with which it places deposits or trades, and also has in place a small number of derivative contracts to hedge interest rate and foreign exchange exposures.	We seek to minimise our exposure to credit losses from our lending by: • applying strict lending criteria when testing the credit quality and covenant of the borrower; • maintaining consistent and conservative loan to value ratios with low average loan size and short-term tenors; • lending on a predominantly secured 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. Our exposure to counterparties are mitigated by: • excess liquidity of £1.4 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.	**Increased** Credit losses have increased in the year to 31 July 2020, primarily as a result of Covid-19. The macroeconomic shock resulting from the pandemic has caused increased forbearance levels and migration of accounts from Stage 1 to Stages 2 and 3. Expected Credit Loss ("ECL") has also increased as a result of the IFRS 9 macroeconomic adjustments and management has made further adjustments to modelled outputs where considered appropriate. Other counterparty exposures are broadly unchanged, with the majority of our liquidity requirements and surplus funding placed with the Bank of England. We continue to closely monitor Covid-19 impacts as well as uncertainty over Brexit and the UK economic outlook. These factors could increase the risk of higher credit losses in the future. Further commentary on the credit quality of our loan book is outlined on pages 38 to 43 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 144 to 148 of the group's Annual Report. Our approach to credit risk management and monitoring is outlined in more detail in note 28 on pages 165 to 178 of the group's Annual Report.

2. Risk management objectives and policies continued

Risk	Mitigation	Change
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.	Our policy is to minimise interest rate risk by matching fixed and variable interest rate assets and liabilities, and using swaps where appropriate. The capital and reserves of the group do not have interest rate liabilities and as such are not hedged. When measuring interest rate risk in the Banking book the following components are considered: • repricing risk: the risk presented by assets and liabilities that reprice at different times and rates; • embedded optionality risk: the risk presented by contract terms embedded in certain assets and liabilities; and • basis risk: the risk presented when yields on assets, and costs on liabilities, are based on two different bases. Two core measures are subsequently monitored on a monthly basis: Earnings at Risk ("EaR") and Economic Value ("EV"). Foreign exchange exposures are generally hedged using foreign exchange forwards or currency swaps with exposures monitored daily against approved limits. Winterflood is a market maker providing liquidity to its clients in equity and fixed income instruments. Our trading is predominantly short term, with most transactions settling within two days. Trading positions are monitored on a real time basis.	**Increased** Interest rate risk has increased during the year with base rates currently at historic lows, increasing the potential for a negative rate environment. Where relevant, systems have been tested and confirmed as able to support negative rates. The traded market risk environment has also been affected by Covid-19 and its impact on the economy, driving elevated volatility and an increase in corporate insolvencies. Further detail on the group's exposure to market risk is outlined in note 28 on pages 175 and 176 of the group's Annual Report. The sensitivity analysis on interest rate exposures shown in note 28 on page 175 of the group's Annual Report demonstrates the limited level of exposure to interest rate and foreign exchange movements.

2. Risk management objectives and policies continued

Risk	Mitigation	Change
Operational Risk The group is exposed to various operational risks through its day-to-day operations, all of which have the potential to result in financial loss or adverse impact. Losses typically crystallise as a result of inadequate or failed internal processes, people, models and systems, or as a result of external factors. Impacts to the business, customers, third parties and the markets in which we operate are considered within a maturing framework for resilient end-to-end delivery of critical business services. Legal and regulatory risks are also considered as part of operational risk. Failure to comply with existing legal or regulatory requirements, or to react to changes to these requirements, may have negative consequences for the group. Similarly, changes to regulation can impact our financial performance, capital, liquidity and the markets in which we operate.	The group seeks to maintain its operational resilience through effective management of operational risks, including by: • sustaining robust operational risk management processes, governance and management information; • identifying key systems, third party relationships, processes and staff, informing investment decisions; • investing in technology to provide reliable and contemporary customer service offerings and effective model ouputs; • attracting, retaining and developing high-quality staff through the operation of competitive remuneration and benefit structures and an inclusive environment that embraces diversity and recognises behaviours aligned to our cultural attributes; • investing in cyber security including expertise, tools and staff engagement; • maintaining focus on personal data protection; • adopting fraud prevention and detection capabilities aligned with our risk profile; and • planning and rehearsing strategic and operational responses to severe but plausible stress scenarios. Legal and regulatory risks are mitigated by: • responding in an appropriate, risk-based and proportionate manner to any changes to the legal and regulatory environment as well as those driven by strategic initiatives;	**Increased** Existing incident and crisis management capabilities were mobilised upon the emergence of Covid-19, enabling the business to sustain operations whilst adjusting to new ways of working. Notwithstanding, the current pandemic may lead to increased risks associated with people, operational process execution, third party management, information security and fraud. The group continues to utilise its operational risk management framework to manage these risks with oversight by relevant risk committees. Despite the challenges arising from Covid-19, improvements are continuing across the operational risk framework including further enhancement of information security management and strengthening of the firm's operational resilience. The volume and complexity of regulatory and legal requirements applicable to the group also continues to increase. 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.

2. Risk management objectives and policies continued

Risk	Mitigation	Change
Operational Risk continued	• 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[1] as at 31 July 2020:

Key Metrics	**31 July 2020 £ million**	31 July 2019 £ million
Regulatory capital		
Common equity tier 1 ("CET1") capital	**1,254.0**	1,169.2
Tier 1 capital	**1,254.0**	1,169.2
Total capital	**1,441.0**	1,364.6
Total risk weighted assets ("RWAs")	**8,863.2**	8,967.4
Regulatory capital as a percentage of RWAs[2]		
CET1 capital ratio	**14.1%**	13.0%
Tier 1 capital ratio	**14.1%**	13.0%
Total capital ratio	**16.3%**	15.2%
Leverage ratio[2]	**11.2%**	11.0%
Liquidity coverage ratio ("LCR")[3]	**823%**	823%

1 Shown after applying IFRS 9 transitional arrangements and CRR transitional and qualifying own funds arrangements.
2 At 31 July 2020, the fully loaded CET1 capital ratio is 13.1%, total capital ratio is 15.1% and leverage ratio is 10.4%. Further disclosures on transitional arrangements are provided in Appendices 3 and 4.
3 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 2020 and 31 July 2019.

	31 July 2020 £ million	31 July 2019 £ million
CET1 capital		
Called up share capital	**38.0**	38.0
Retained earnings	**1,435.0**	1,392.5
Other reserves recognised for CET1 capital	**17.2**	19.0
Regulatory adjustments to CET1 capital		
Intangible assets, net of associated deferred tax liabilities	**(236.9)**	(216.1)
Foreseeable dividend[1]	**(59.8)**	(65.7)
Investment in own shares	**(33.9)**	(37.7)
Pension asset, net of associated deferred tax liabilities	**(5.7)**	(5.3)
Prudent valuation adjustment	**(0.2)**	(0.1)
IFRS 9 transitional arrangements[2]	**100.3**	44.6
CET1 capital	**1,254.0**	1,169.2
Tier 2 capital – subordinated debt[3]	**187.0**	195.4
Total regulatory capital[4]	**1,441.0**	1,364.6

1 Under the Regulatory Technical Standards on own funds, a deduction has been recognised at 31 July 2020 and 31 July 2019 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 2020, which allow the capital impact of expected credit losses to be phased in over the transition period. For 31 July 2020 relief has been applied at 85%. The Covid-19 regulatory measures finalised in June 2020 will allow for 100% relief on stage 1 and stage 2 impairment provisions recognised since 1 January 2020. This additional relief will apply to the group's capital ratios throughout FY21 and FY22 before reducing on a straight line basis over the following four financial years.
3 Shown after applying the CRR transitional and qualifying own funds arrangements. Further detail is provided in Appendix 2.
4 Total capital is shown on a transitional basis (see Section 3 "Key regulatory metrics").

4. Capital resources continued

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

	31 July 2020 £ million	31 July 2019 £ million
Equity	**1,449.6**	1,406.4
Regulatory deductions to CET1 capital:		
Intangible assets, net of associated deferred tax liabilities	**(236.9)**	(216.1)
Foreseeable dividend[1]	**(59.8)**	(65.7)
IFRS 9 transitional arrangements[2]	**100.3**	44.6
Pension asset, net of associated deferred tax liabilities	**(5.7)**	(5.3)
Prudent valuation adjustment	**(0.2)**	(0.1)
Other reserves not recognised for CET1 capital:		
Cash flow hedging reserve	**5.7**	4.4
Non-controlling interests	**1.0**	1.0
CET1 capital	**1,254.0**	1,169.2

1 Under the Regulatory Technical Standards on own funds, a deduction has been recognised at 31 July 2020 and 31 July 2019 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 2020, 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:

	31 July 2020 £ million
CET1 capital at 31 July 2019	**1,169.2**
Profit in the period attributable to shareholders	**109.5**
Dividends paid and foreseen	**(59.9)**
IFRS 9 transitional arrangements	**55.7**
Increase in intangible assets, net of associated deferred tax liabilities	**(20.8)**
Other movements in reserves recognised for CET1 capital	
Other movements in retained reserves	**(1.2)**
Decrease in share-based payments reserve	**(1.2)**
Increase in fair value through other comprehensive income reserves	**(0.6)**
Other movements in deductions from CET1 capital	
Increase in pension assets, net of associated deferred tax liabilities	**(0.4)**
Investment in own shares	**3.8**
Prudent valuation adjustment	**(0.1)**
CET1 capital at 31 July 2020	**1,254.0**

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") and additional Capital Requirements Directive buffers at all times.

Our total Pillar 2 add-on is 1.8%, of which 1.0% 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 8.0% and a minimum total capital ratio of 12.3%.

The minimum requirements are both inclusive of TCR, the capital conservation buffer ("CCB", currently 2.5% for both CET1 capital and total capital) and the countercyclical capital buffer ("CCyB"). In March 2020 the UK CCyB rate decreased from 1% to 0% and in April 2020 the Ireland CCyB rate also decreased from 1% to 0%. This results in an effective weighted buffer of 0% for the group. 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 output from the process is 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 Group Risk and Compliance Committee ("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 based on 8% of the RWAs for each of the following standardised exposure classes.

	2020 £ million	2019 £ million
Credit risk - standardised approach		
Central governments or central banks	**9.2**	10.0
Regional governments or local authorities	**0.1**	0.1
Public sector entities	**0.3**	0.1
Institutions	**9.4**	8.2
Corporates	**131.6**	150.6
Retail	**212.5**	206.6
Secured by mortgages on immovable property	**17.9**	18.6
Exposures in default	**16.2**	10.6
Items associated with particularly high risk	**178.4**	192.6
Equity	**0.1**	0.1
Other items	**43.3**	34.6
	619.0	632.1
Operational risk - standardised approach[1,2]	**75.7**	70.8
Counterparty credit risk	**4.1**	2.3
Market risk - trading book[2]		
Interest rate PRR[3]	**0.3**	0.3
Equity PRR[3]	**3.3**	3.3
Collective investment undertakings PRR[3]	**4.5**	6.5
Market risk - non-trading book[2]		
Foreign currency PRR[3]	**2.2**	2.1
Total Pillar 1 capital requirement	**709.1**	717.4

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 decrease of £8.3 million in the capital requirements during the year was driven by a fall in credit risk associated with the loan book, including the impact of the accelerated implementation of the CRR2 SME supporting factor. Capital requirements for operational risk increased reflecting increased revenues and loan book growth over recent years.

6. Regulatory capital buffers

The following regulatory capital buffers apply to CBG:

Capital conservation buffer

The CCB, 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 countercyclical buffer 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. In March 2020 the UK CCyB rate decreased from 1% to 0% and in April 2020 the Irish CCyB rate also reduced to 0%.

The table below shows the geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer as at 31 July 2020[1]:

	General credit exposures	Trading book exposures	Own funds requirements				
Breakdown by country[2]	*Exposure value* £ million	*Sum of long and short trading book positions* £ million	*Of which: General credit exposures* £ million	*Of which: Trading book exposures* £ million	*Total* £ million	Own funds requirement weighting	CCyB rate %
United Kingdom	7,330.1	36.6	534.7	3.0	537.7	0.90	0.0%
Ireland	721.1	0.3	43.4	-	43.4	0.08	0.0%
Jersey	110.3	0.1	7.4	-	7.4	0.01	0.0%
Isle of Man	47.4	-	4.9	-	4.9	0.01	0.0%
Germany	35.8	-	2.6	-	2.6	0.00	0.0%
Guernsey	30.5	0.2	1.8	-	1.8	0.00	0.0%
Monaco	15.1	-	1.2	-	1.2	0.00	0.0%
Malta	14.6	-	1.1	-	1.1	0.00	0.0%
British Virgin Islands	13.1	-	1.5	-	1.5	0.00	0.0%
Luxembourg	5.6	0.4	0.4	-	0.4	0.00	0.0%
Cayman Islands	3.5	-	0.3	-	0.3	0.00	0.0%
Cyprus	2.8	-	0.2	-	0.2	0.00	0.0%
Gibraltar	2.2	-	0.3	-	0.3	0.00	0.0%
Others	2.7	0.3	0.2	-	0.2	0.00	0.0%
Total	**8,334.8**	**37.9**	**600.0**	**3.0**	**603.0**	**1.00**	

The table below shows the amount of institution-specific CCyB as at 31 July 2020[1]:

	2020 £ million
Total risk exposure amount[3]	**8,863.2**
Institution-specific CCyB rate (%)	**0%**
Institution-specific CCyB requirement	**0.0**

1 The two tables above follow the templates set out in the relevant EU Delegated Act, except certain columns have been omitted that are not relevant. In accordance with the Delegated Act and CRR requirements, 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 ‘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% (2019: 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 EBA's EBA/GL/2014/14 guidance.

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:

	2020 **£ million**	2019 £ million	Average exposure in 2020 £ million
Central governments or central banks	**1,494.2**	1,204.7	1,225.1
Regional governments or local authorities	**3.2**	5.8	5.2
Public sector entities	**16.5**	6.7	10.9
Institutions	**411.9**	349.7	432.8
Corporates	**1,954.0**	2,009.6	2,012.1
Retail	**3,948.2**	3,799.8	3,843.2
Secured by mortgages on immovable property	**239.4**	241.1	230.0
Exposures in default	**165.1**	107.2	126.2
Items associated with particularly high risk	**1,486.4**	1,604.9	1,548.3
Equity	**0.8**	0.9	0.8
Other items	**540.9**	432.6	517.3
	10,260.6	9,763.0	9,951.9

The exposures are after specific credit risk adjustments, before applying risk weightings 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 2020, the group's exposure to SMEs is £4,786 million (including undrawn commitments) (2019: £4,829 million).

8. Credit risk continued

Geographic distribution of exposures[1] by regulatory exposure asset class at 31 July 2020:

	United Kingdom[2] £ million	Europe £ million	Rest of world £ million	**Total £ million**
Central governments or central banks	1,420.1	74.1	-	**1,494.2**
Regional governments or local authorities	3.2	-	-	**3.2**
Public sector entities	16.5	-	-	**16.5**
Institutions	339.2	43.7	29.0	**411.9**
Corporates	1,795.7	154.8	3.5	**1,954.0**
Retail	3,338.5	609.7	-	**3,948.2**
Secured by mortgages on immovable property	231.7	7.2	0.5	**239.4**
Exposure in default	139.6	24.7	0.8	**165.1**
Items associated with particularly high risk	1,472.4	2.2	11.8	**1,486.4**
Equity	0.8	-	-	**0.8**
Other items	539.6	1.3	-	**540.9**
Total	**9,297.3**	**917.7**	**45.6**	**10,260.6**

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 basis[1] at 31 July 2020:

	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	1,362.7	4.4	11.3	30.4	72.2	13.2	**1,494.2**
Regional governments or local authorities	-	0.1	0.1	3.0	-	-	**3.2**
Public sector entities	-	0.4	0.5	12.6	3.0	-	**16.5**
Institutions	100.2	76.0	235.7	-	-	-	**411.9**
Corporates	-	609.5	227.2	884.3	233.0	-	**1,954.0**
Retail	-	167.5	1,048.3	2,639.7	92.7	-	**3,948.2**
Secured by mortgages on immovable property	-	52.7	73.9	112.8	-	-	**239.4**
Items associated with particularly high risk	-	630.0	661.1	195.3	-	-	**1,486.4**
Other items	-	232.8	18.5	110.4	0.2	179.0	**540.9**
Total	1,462.9	1,773.4	2,276.6	3,988.5	401.1	192.2	**10,094.7**
Exposures in default							**165.1**
Equity							**0.8**
							10,260.6

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 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:

- Quantative assessment: the lifetime PD has increased by more than an agreed threshold relative to the equivalent at origination. Thresholds are based on a fixed number of risk grade movements which are bespoke to the business to ensure that the increased risk since origination is appropriately captured;
- Qualitative assessment: events or observed behaviour indicate credit 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 the 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, it has been necessary to enhance the approach to determining whether a significant increase in credit risk has occurred for certain loans. A number of enhancements have been made to the above mentioned staging approach to fully incorporate the effects of Covid-19 into the significant increase in credit risk assessment:

- A Covid-19 payment concession or loan extension has not in itself constituted a significant increase in credit risk (transfer to Stage 2). Instead Covid-19 related forbearance has been considered alongside usual indicators of a significant increase in credit risk, knowledge of recent customer payment history and whether the customer was up-to-date at the time of requesting such a concession.
- In line with regulatory guidance a distinction has been drawn between the impact of Covid-19 on consumers and businesses, with businesses expected to be more materially impacted in the short and medium term therefore influencing the staging of these loans.

When objective evidence exists that a financial asset is credit impaired, such as the occurrence of a credit default event or identification of an unlikeness to pay indicator then 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.

8. Credit risk continued

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 probability of default ("PD"), the estimated exposure at default ("EAD") and the estimated loss given default ("LGD"), and includes forward-looking macroeconomic information where appropriate. The EAD and LGD are adjusted to account for the impact of discounting using the effective interest.

The PD represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months or over the remaining lifetime of the obligation. EAD is based on the amounts expected to be owed at the time of default. LGD represents an expectation of the extent of loss on a defaulted exposure after taking into account cash recoveries including the value of collateral held. Collateral value represents the value of charged assets and generally excludes any value attributed to financial guarantees. For further details see pages 130 to 131 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 unlikeliness 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 2020.

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 2020:

	A	B	C	D	E
	Gross carrying values of				
	Defaulted exposures[1]	Non-defaulted exposures	Specific credit risk adjustments[3]	Net values (A+B-C)	Credit risk adjustment charges in the period
	Stage 3 £ million	Stages 1 & 2 £ million	All stages £ million	£ million	£ million
Regional governments or local authorities	-	3.2	-	**3.2**	-
Public sector entities	-	16.5	-	**16.5**	-
Corporates	-	1,966.8	20.8	**1,946.0**	24.5
Retail	-	4,001.6	53.4	**3,948.2**	52.5
Secured by mortgages on immovable property	-	243.1	3.7	**239.4**	7.0
Exposures in default	208.0	-	42.9	**165.1**	68.0
Items associated with particularly high risk	166.6	1,338.8	19.0	**1,486.4**	20.7
Total loans and advances to customers	**374.6**	**7,570.0**	**139.8**	**7,804.8**	**172.7**
Other credit risk exposures[2]				2,455.8	
Total				**10,260.6**	

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.
3 Specific credit risk adjustments exclude provisions derecognised under IFRS 9 transitional arrangements.

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 2020:

	A	B	C	D	E
	Gross carrying value of				
	Defaulted exposures	**Non-defaulted exposures**	**Specific credit risk adjustments[2]**	**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	-	3.2	-	**3.2**	-
Public sector entities	-	16.5	-	**16.5**	-
Financial corporations	1.1	49.8	0.4	**50.5**	0.3
Non-financial corporations	306.0	4,849.1	90.2	**5,064.9**	109.8
Households	67.5	2,651.4	49.2	**2,669.7**	62.6
Total loans and advances to customers	**374.6**	**7,570.0**	**139.8**	**7,804.8**	**172.7**
Other credit risk exposures[1]				2,455.8	
Total				**10,260.6**	

1 Includes central governments, central banks, institutions, equity and other assets.
2 Specific credit risk adjustments exclude provisions derecognised under IFRS 9 transitional arrangements.

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 2020:

	A	B	C	D	E
	Gross carrying value of				
	Defaulted exposures	**Non-defaulted exposures**	**Specific credit risk adjustments[3]**	**Net values (A+B-C)**	**Credit risk adjustment charges in the period**
	Stage 3	**Stages 1 & 2**	**All stages**		
	£ million	**£ million**	**£ million**	**£ million**	**£ million**
United Kingdom[1]	343.8	6,777.8	132.0	**6,989.6**	161.1
Europe	30.1	776.2	7.7	**798.6**	11.5
Rest of the world	0.7	16.0	0.1	**16.6**	0.1
Total loans and advances to customers	**374.6**	**7,570.0**	**139.8**	**7,804.8**	**172.7**
Other credit risk exposures[2]				2,455.8	
Total				**10,260.6**	

1 Includes Crown dependencies.
2 Includes central governments, central banks, institutions, equity and other assets.
3 Specific credit risk adjustments exclude provisions derecognised under IFRS 9 transitional arrangements.

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
At 31 July 2019 under IFRS 9 rules	104.3
Charge to the income statement	172.7
Write offs	(38.3)
As 31 July 2020 under IFRS 9 rules	**238.7**
Derecognised under IFRS 9 transitional arrangements	(98.9)
As 31 July 2020 under CRR rules	**139.8**

	£ million
Impairment losses relating to loans and advances to customers	
Charge to income statement arising from movement in impairment provisions	172.7
Amount written off directly to income statement, net of recoveries and other costs	7.8
	180.5
Impairment losses relating to other financial assets	3.2
Impairment losses on financial assets	**183.7**

Forbearance

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

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

The economic conditions resulting from Covid-19 have been unprecedented in terms of the financial support required by our customers who find themselves in difficulty, and we have introduced a range of additional forbearance measures to support them. Concessions granted to customers as a consequence of Covid-19 are varied across our lending businesses. In all instances, where further support is 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 increased to 66,153.

Further information on forbearance is on pages 170 and 171 of the group's Annual Report.

Further analysis of non-performing and forborne 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 2020 (only credit quality steps with exposures are shown):

Institutions

Credit quality step	Moody's rating	Risk weight	Exposure £ million
1	Aaa to Aa3	20%	**208.1**
2	A1 to A3	50% / 20%[1]	**202.6**
Total rated exposures			**410.7**

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

Corporates

As at 31 July 2020 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"), the Coronavirus Large Business Interruption Loan Scheme ("CLBILS") and the Bounce Back Loan Scheme ("BBLS"). 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 £154.8m. This has been reflected in the table below, which analyses the exposure value that has been covered by the government guranatees resulting in credit risk mitigation.

	Exposure value covered by eligible financial collateral £ million	Exposure value covered by guarantees £ million	Total exposure value covered by credit risk mitigation £ million
Credit risk - standardised approach			
Corporate	-	91.9	**91.9**
Retail	-	62.9	**62.9**
Total credit risk mitigation	**-**	**154.8**	**154.8**

11. Non-trading book exposures in equities

At 31 July 2020, the group had £0.8 million of equity investments, all of which are unlisted. Under IFRS 9 all non-trading book equity shares are classified as fair value through profit or loss (“FVTPL”).

For regulatory purposes £0.8 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 losses recognised were £0.1 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 fair value through profit or loss ("FVTPL”).

Financial assets are classified at fair value through profit or loss where they do not meet the criteria to be measured at amortised cost or fair value through other comprehensive income or where they are designated at fair value through profit or loss to reduce an accounting mismatch. Financial assets at fair value through profit or loss 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 2020 were as follows:

	FVTPL £ million
At 31 July 2019	**1.0**
Disposals	**-**
Equity shares classified as FVTPL	**(0.2)**
At 31 July 2020	**0.8**

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.

12. Interest rate risk in the non-trading book continued

Interest rate risk within the Banking book 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 regulatoy prescribed and internal interest rate shocks approved by ALCO.

The table below sets out the earnings at risk ("EaR") due to a parallel shift in interest rates at 31 July 2020:

	2020 £ million
0.5% increase	**(9.8)**
0.5% decrease	**1.7**

The average impact in 2020 on our EaR measure due to a parallel 0.5% increase or decrease in interest rates was a £8.2 million decrease and £5.7 million increase respectively.

In March 2020 the Bank of England reduced the base rate twice from 0.75% to 0.10% following the onset of Covid-19 causing market rates to fall. This resulted in an increase in EaR under a 0.5% increase due to embedded floors on some variable rate loans becoming more profitable in the lower rate environment. This additional profit is at risk should rates rise back up and is reflected in a higher EaR measure. In the event of market rates decreasing further, additional profits would be generated primarily due to the optionality within some variable rate loans. No floor is applied to the stressed yield curves.

The table below sets out the assessed impact on our base case economic value ("EV") due to a shift in interest rates at 31 July 2020:

	2020 £ million
0.5% increase	**(3.1)**
0.5% decrease	**3.3**

The average impact in 2020 on our base case EV measure due to a parallel 0.5% increase or decrease in interest rates was a £2.2 million increase and £2.2 million decrease respectively.

The EV measure used for monitoring was changed from a "parallel shift up 0.5%" to a "Short rates down, long rates up" yield curve stress in 2019 to reflect the bank's repricing profile and external interest rate environment. The impact on our base case EV due to a "Short rates down, long rates up" shift in interest rates at 31 July 2020 was a reduction in the EV of £3.4 million.

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 Capital Adequacy Committee on a monthly basis. During the year the group's leverage ratio increased from 11.0% to 11.2%, against a minimum requirements of 3.0%. This movement reflects the increase in Tier 1 capital partially offset by growth in total balance sheet assets largely due to cash and balances at central banks."

13. Leverage continued

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

	CRR leverage ratio exposure 2020 £ million
Total assets as per published financial statements	**11,071.5**
Adjustments for derivative financial instruments	27.3
Adjustments for securities financing transactions ("SFTs")	10.8
Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	194.9
Other adjustments	(148.6)
Total leverage exposure	**11,155.9**

Table LRCom: Leverage ratio common disclosure[1]:

	CRR leverage ratio exposure 2020 £ million
On-balance sheet exposures (excluding derivatives and SFTs):	
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	11,031.6
Asset amounts deducted in determining Tier 1 capital[2]	(148.6)
Total on-balance sheet exposures (excluding derivatives and SFTs)	**10,883.0**
Derivative exposures:	
Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	45.6
Add-on amounts for potential future exposure associated with all derivatives transactions (mark-to-market method)	21.6
Total derivative exposures	**67.2**
Securities financing transaction exposures:	
Counterparty credit risk exposure for SFT assets	10.8
Total securities financing transaction exposures	**10.8**
Other off-balance sheet exposures:	
Off-balance sheet exposures at gross notional amount	1,202.3
Adjustments for conversion to credit equivalent amounts	(1,007.4)
Other off-balance sheet exposures	**194.9**
Capital and total exposures:	
Tier 1 capital	1,254.0
Total leverage ratio exposure	11,155.9
Leverage ratio[3]	**11.2%**

1 The table above follows the template set out in the relevant EU guidance, except certain irrelevant rows have been omitted.
2 Includes intangible assets and IFRS 9 transitional arrangements.
3 The leverage ratio is calculated on a transitional basis. The fully loaded leverage ratio is 10.4%.

13. Leverage continued

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

	CRR Leverage Ratio Exposure 2020 £ million
Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	**10,883.0**
Trading book exposures	719.1
Banking book exposures, of which:	10,163.9
Exposures treated as sovereigns	1,649.0
Exposures to regional governments, local authorities and public sector entities not treated as sovereigns	19.7
Institutions	411.9
Secured by mortgages of immovable property	239.2
Retail exposures	3,835.9
Corporates	1,823.8
Exposures in default	165.1
Exposures associated with a particularly high risk	1,477.6
Other exposures (e.g. equity, securitisation, and other non-credit obligation assets)	541.7

14. Funding and liquidity

The group's Treasury function manages the funding and liquidity required to support our business. 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 securitising our insurance premium and motor loan receivables. 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 pages 36 and 37 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 2020.

	12 month average 2020 £ million
Liquidity buffer[1]	**1,162.8**
Total net cash outflows[2]	**141.4**
Liquidity coverage ratio (%)	**823%**

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 £1,601.1 million (31 July 2019: restated £1,418.9 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £1,037.1 million (31 July 2019: £949.8 million). This includes £109.0 million (31 July 2019: £35.4 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 EBA regulatory reporting requirements. 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 value[1]):

	Carrying amount: encumbered assets		Carrying amount: unencumbered assets	
		of which HQLA[2]		of which HQLA
	2020 £ million	2020 £ million	2020 £ million	2020 £ million
Assets of the reporting institution	**2,202**	**-**	**8,479**	**1,029**
Equity instruments[3]	2	-	26	-
Debt securities[3]	14	-	351	57
of which: issued by general governments	14	-	67	57
of which: issued by financial corporations	-		281	-
of which: issued by non-financial corporations	-		-	-
Other assets	2,186	-	8,144	975

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.

Template B: Collateral received (median value[1]):

	Fair value of encumbered collateral received		Unencumbered: Fair value of collateral received available for encumbrance	
		of which HQLA[2]		of which HQLA
	2020 £ million	2020 £ million	2020 £ million	2020 £ million
Collateral received by the reporting institution	**61**	**23**	**38**	**14**
Equity instruments	25	-	7	-
Debt securities	28	23	19	14
of which: issued by general governments	28	23	19	14
Other collateral received	-	-	13	-
Total assets, collateral received and own debt securities issued	**2,270**	**23**		

1 Calculated on the last reporting date of each calendar quarter.
2 Notionally eligible HQLA.

16. Asset encumbrance continued

Template C: Encumbered Assets, Collateral Received and Associated Liabilities (median value[1]):

	Matching liabilities, contingent liabilities or securities lent 2020 £ million	Encumbered assets and collateral received 2020 £ million
Carrying amount of selected financial liabilities	1,421	2,191

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 (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.

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 84 individuals who were identified as MRTs for the year ended 31 July 2020.

Remuneration Committee ("RemCo") Membership

The membership of the RemCo is comprised of four non-executive directors. They are Bridget Macaskill, Oliver Corbett, Geoffrey Howe and Lesley Jones. The Committee met seven times during the year.

17. Remuneration continued

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.

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.

17. Remuneration continued

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 Remuneration Committee.

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

The Committee believes the remuneration policies balance the requirements of all key stakeholders, including clients, shareholders, regulators and employees. The main metrics used to ensure an appropriate balance between shareholders and employees are (a) the ratio of total compensation to adjusted operating income, which has remained within the narrow band of 36% to 37% 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 this year to approximately 20%, as a result of the interim dividend being cancelled.

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

Remuneration Schemes for code staff

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

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

17. Remuneration continued

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 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. The deferred awards for code staff are subject to forfeiture and malus provisions. The malus provisions mean that the awards may be subject to forfeiture or may be reduced after grant in certain adverse circumstances. The deferred awards for executive directors are also subject to clawback provisions which means 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 275% of base salary for the incoming group chief executive officer and 175% for the group finance director. Group Executive Committee members are generally eligible to receive an award of between 100% - 200% of base salary and other senior employees an award of up to 100% 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 2020 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 2020 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 Executive Committee 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 and malus provisions. In addition, LTIP awards for executive directors are subject to clawback provisions.

Risk Management Objectives

There are two objectives, with equal weighting of each:

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

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

17. Remuneration continued

(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 outputs of Audit, Risk and Compliance Committee papers, which would identify areas of concern and areas of achievement. It also considers the concept of ‘tone from the top’.

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

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

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

Recovery and Withholding

As outlined in the sections above, variable remuneration for code staff is subject to malus, and variable remuneration for executive directors is subject to both malus and clawback.

The cash bonus for executive directors is subject to clawback for a period of three years from award.

The deferred bonuses for code staff and executive directors are subject to malus prior to vesting. In addition, the deferred bonuses for executive directors 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 for executive directors is subject to clawback for four years from the date of grant.

17. Remuneration continued

The events which may trigger malus are as follows:

- The employees 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 Committee 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 Committee 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 mis-statement 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 Committee 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 2020

The group's financial results have been resilient over this unprecedented period, however due to higher impairment charges in Banking, adjusted operating profit decreased by 47% from 2019 to £144.0m. Asset Management adjusted operating profit remained broadly flat £20.4m (2019: £21.8m) and the Securities division delivered an impressive financial performance with adjusted operating profit increasing to £47.9m (2019: £20.0m). Return on Equity is at a solid 8% this year (2019: 15.7%).

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

2020 Aggregate Remuneration[1] in respect of MRTs by business

Banking £ million	Securities £ million	Asset Management £ million	Group £ million
10.0	14.6	10.9	6.6

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

2020 Aggregate Remuneration in respect of MRTs split into fixed and variable remuneration

	Senior Management	Other MRTs
Number of MRTs	39	45
Fixed remuneration (£ million)[1]	9.7	8.2
Variable remuneration (£ million)[2]	15.3	8.9

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 2020 financial year.

Appendix 1: EBA regulatory capital balance sheet reconciliation

	Balance sheet extract 31 July 2020 £ million	Components used in regulatory capital 31 July 2020 £ million	Ref[2]
Assets			
Intangible assets	240.1		
of which: deduction from common equity tier 1 capital		240.1	A
Deferred tax asset	47.3		
of which: deferred tax liability - intangible assets		(3.2)	B
of which: deferred tax liability - pension related		(1.7)	C
Prepayments, accrued income and other assets	209.5		
of which: defined-benefit pension fund assets		7.4	D
Total assets	**11,071.5**		
Liabilities			
Subordinated loan capital	223.0		
of which: Tier 2 capital issued by Close Brothers Group plc		175.0	E
of which: Tier 2 capital issued by Close Brothers Limited		12.0	F
Total liabilities	**9,621.9**		
Equity			
Called up share capital	38.0		
of which: amount eligible for common equity tier 1 capital		38.0	G
Retained earnings	1,435.0	1,435.0	H
Exchange movements reserve	(1.3)	(1.3)	I
Cash flow hedging reserve	(5.7)	(5.7)	J
Fair value through other comprehensive income	0.2	0.2	K
Share-based payments reserve[1]	(15.6)	18.3	L
of which: holdings of own capital instruments		(33.9)	M
Non-controlling interest	(1.0)	-	
Total equity	**1,449.6**		
Total liabilities and equity	**11,071.5**		
Non balance sheet items			
Foreseeable dividend		(59.8)	N
Prudent valuation adjustment		(0.2)	O

1 Consists of £33.9 million relating to holdings of own capital instruments, which is shown separately in Section 4 “Capital Resources” and Appendix 4, and £18.3 million relating to a share based payments reserve as described in note 25 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: EBA capital instruments' key features

Capital Instruments main features template

1	Issuer	CBL	CBL	CBG[1]	CBG
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	None	None	XS1548943221	GB0007668071
3	Governing law(s) of the instrument	English	English	English	English
	Regulatory treatment				
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Common Equity Tier 1
5	Post-transitional CRR rules	Ineligible	Ineligible	Tier 2	Common Equity Tier 1
6	Eligible at individual/(sub-) consolidated/ individual&(sub-) consolidated	Individual and consolidated	Individual and consolidated	Consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt	Subordinated debt	Subordinated debt	Ordinary Shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	£4.0 million	£8.0 million	£175 million	£38 million
9	Nominal amount of instrument	£15 million	£30 million	£175 million	£38 million
9a	Issue price	Par	Par	Par	Par
9b	Redemption price	Par	Par	Par	Par
10	Accounting classification	Liability - Amortised cost	Liability - Amortised cost	Liability – Amortised cost	Equity
11	Original date of issuance	02/03/01	01/03/01	24/01/17	Various
12	Perpetual or dated	Dated	Dated	Dated	Perpetual
13	Original maturity date	02/03/26	01/03/26	24/01/27	N/A
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	N/A
15	Optional call date, contingent call dates and redemption amount	02/03/21 Tax event call	01/03/21 Tax event call	24/01/22 Tax event or capital disqualification event	N/A
16	Subsequent call dates, if applicable	At any time	At any time	N/A	N/A
	Coupons / dividends				
17	Fixed or floating dividend/coupon	Fixed to floating	Fixed to floating	Fixed to floating	N/A
18	Coupon rate and any related index	7.42%	7.62%	4.25%	N/A
19	Existence of a dividend stopper	No	No	No	N/A
20a	Fully discretionary, partially discretionary or mandatory	Mandatory	Mandatory	Mandatory	Fully discretionary

Appendix 2: EBA capital instruments' key features continued

20a	Fully discretionary, partially discretionary or mandatory	Mandatory	Mandatory	Mandatory	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	Yes	Yes	No	N/A
22	Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-covertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A
30	Write-down features	N/A	N/A	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior unsecured	Senior unsecured	Senior unsecured	Tier 2
36	Non-compliant transitioned features	Yes	Yes	No	N/A
37	If yes, specify non-compliant features	Step up reset rate	Step up reset rate	N/A	N/A

1 In parallel to the £175 million subordinated debt issue by CBG, CBL entered into a £175 million subordinated debt agreement 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: EBA IFRS 9 transitional arrangements disclosure

	IFRS 9 transitional arragements template[1]	**31 July 2020 £ million**	31 July 2019 £ million
	Available capital		
1	CET1 capital	**1,254.0**	1,169.2
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied	**1,153.8**	1,124.6
3	Tier 1 capital	**1,254.0**	1,169.2
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**1,153.8**	1,124.6
5	Total capital	**1,441.0**	1,364.6
6	Total capital as if IFRS 9 transitional arrangements had not been applied[2]	**1,340.7**	1,320.0
	Risk-weighted assets		
7	Total risk-weighted assets	**8,863.2**	8,967.4
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	**8,785.9**	8,942.2
	Capital ratios		
9	CET1 ratio	**14.1%**	13.0%
10	CET1 ratio as if IFRS 9 transitional arrangements had not been applied	**13.1%**	12.6%
11	Tier 1 ratio	**14.1%**	13.0%
12	Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied	**13.1%**	12.6%
13	Total capital ratio	**16.3%**	15.2%
14	Total capital ratio as if IFRS 9 transitional arrangements had not been applied[2]	**15.3%**	14.8%
	Leverage ratio		
15	Leverage ratio total exposure measure	**11,155.9**	10,584.0
15a	Leverage ratio total exposure measure as if IFRS 9 transitional arrangements had not been applied	**11,055.6**	10,546.7
16	Leverage ratio	**11.2%**	11.0%
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied	**10.4%**	10.7%

1 The table above follows the template set out in the EU 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 After application of CRR qualifying own funds arrangements.

Appendix 4: EBA transitional own funds disclosure

	Transitional Own Funds Disclosure template[1]	31 July 2020 £ million	Ref [2]
	CET1 capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	38.0	G
	of which: ordinary shares	38.0	
2	Retained earnings	1,435.0	H
3	Accumulated other comprehensive income and other reserves	11.5	I+J+K+L
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	(59.8)	N
6	CET1 capital before regulatory adjustments	1,424.7	
	CET1 capital: regulatory adjustments		
7	Additional value adjustments	(0.2)	O
8	Intangible assets (net of related tax liability)	(236.9)	A+B
11	Fair value reserves related to gains or losses on cash flow hedges	5.7	J
15	Defined-benefit pension fund assets	(5.7)	C+D
16	Direct and indirect holdings of own CET 1 capital instruments	(33.9)	M
	IFRS 9 transitional arrangements	100.3	
28	Total regulatory adjustments to common equity tier 1 capital	(170.7)	
29	**CET1 capital**	**1,254.0**	
45	**Tier 1 capital**	**1,254.0**	
	Tier 2 capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	175.0	E
48	Qualifying own funds instruments included in consolidated tier 2 capital issued by subsidiaries and held by third parties	12.0	F
49	of which: instruments issued by subsidiaries subject to phase out	12.0	
51	Tier 2 capital before regulatory adjustments	187.0	
58	**Tier 2 capital**	**187.0**	
59	**Total capital**	**1,441.0**	
60	**Total RWAs**	**8,863.2**	
	Capital ratios and buffers		
61	CET1 ratio	14.1%	
62	Tier 1 ratio	14.1%	
63	Total capital ratio	16.3%	
64	Institution specific buffer requirement	2.5%	
65	of which: capital conservation buffer requirement	2.5%	
66	of which: countercyclical buffer requirement	0.0%	
68	CET1 available to meet buffers	6.4%	
	Amounts below the thresholds for deduction (before risk weighting)		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	52.3	
	Capital instruments subject to phase-out arrangements		
84	Current cap on tier 2 capital instruments subject to phase out arrangements	15.0	
85	Amount excluded from tier 2 capital due to cap (excess over cap after redemptions and maturities)	30.0	

1 The table above follows the template set out in the relevant EU Delegated Act, 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**	**1,410.6**	**185.6**	***185.6***	***185.6***	**68.6**	**40.3**	**1,064.4**	***37.3***
2	Central banks	-	-	-	-	-	-	-	-
3	General governments	-	-	-	-	-	-	-	-
4	Credit institutions	-	-	-	-	-	-	-	-
5	Other financial corporations	3.2	0.9	*0.9*	*0.9*	0.1	0.2	3.7	*0.9*
6	Non-financial corporations	1,137.5	162.8	*162.8*	*162.8*	46.6	35.8	838.5	*25.7*
7	Households	269.9	21.9	*21.9*	*21.9*	21.9	4.3	222.2	*10.7*
8	**Debt Securities**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
9	**Loan commitments given**	**36.4**	**0.2**	***0.2***	***0.2***	**-**	**-**	**-**	**-**
10	**Total**	**1,447.0**	**185.8**	***185.8***	***185.8***	**68.6**	**40.3**	**1,064.4**	***37.3***

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**	**8,235.7**	***8,076.8***	***158.9***	**379.5**	***72.7***	***139.9***	***89.1***	***46.1***	***11.6***	***0.7***	***19.4***	***379.5***
2	Central banks	**13.2**	*13.2*	-	-	-	-	-	-	-	-	-	-
3	General governments	**19.8**	*19.8*	-	-	-	-	-	-	-	-	-	-
4	Credit institutions	**90.5**	*90.5*	-	-	-	-	-	-	-	-	-	-
5	Other financial corporations	**685.4**	*684.5*	*0.9*	**3.4**	*0.1*	*1.2*	*1.2*	*0.1*	*0.5*	-	*0.3*	*3.4*
6	Non-financial corporations	**4,784.3**	*4,684.5*	*99.8*	**306.0**	*54.9*	*112.1*	*76.1*	*38.1*	*5.8*	-	*19.0*	*306.0*
7	*Of which SMEs*	***4,164.7***	*4,069.9*	*94.8*	***297.6***	*52.7*	*109.5*	*73.6*	*37.1*	*5.7*	-	*19.0*	*297.6*
8	Households	**2,642.5**	*2,584.3*	*58.2*	**70.1**	*17.7*	*26.6*	*11.8*	*7.9*	*5.3*	*0.7*	*0.1*	*70.1*
9	**Debt Securities**	**358.5**	***358.5***	-	-	-	-	-	-	-	-	-	-
10	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
11	General governments	**72.2**	*72.2*	-	-	-	-	-	-	-	-	-	-
12	Credit institutions	**286.3**	*286.3*	-	-	-	-	-	-	-	-	-	-
13	Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
14	Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
15	**Off-balance-sheet exposures**	**1,300.3**			**11.9**								***11.9***
16	Central banks	-			-								-
17	General governments	-			-								-
18	Credit institutions	**106.7**			-								-
19	Other financial corporations	-			-								-
20	Non-financial corporations	**1,083.2**			**11.7**								*11.7*
21	Households	**110.4**			**0.2**								*0.2*
22	**Total**	**9,894.5**	***8,435.3***	***158.9***	**391.4**	***72.7***	***139.9***	***89.1***	***46.1***	***11.6***	***0.7***	***19.4***	***391.4***

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**							**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**			**Accumu-lated partial write-off**	**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**	**8,235.7**	***6,654.1***	***1,578.9***	**379.5**	**-**	***379.5***	**145.8**	***57.8***	***88.0***	**95.8**	**-**	***95.8***	**0.7**	**6,404.8**	**261.9**
2	Central banks	13.2	*13.2*	-	-	-	-	-	-	-	-	-	-	-	-	-
3	General governments	19.8	*19.8*	-	-	-	-	-	-	-	-	-	-	-	19.2	-
4	Credit institutions	90.5	*90.5*	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Other financial corporations	685.4	*677.7*	*5.0*	3.4	-	*3.4*	0.5	*0.2*	*0.3*	0.4	-	*0.4*	-	26.2	0.8
6	Non-financial corporations	4,784.3	*3,490.7*	*1,293.6*	306.0	-	*306.0*	93.6	*31.1*	*62.5*	63.3	-	*63.3*	-	4,099.8	229.8
7	Of which SMEs	4,164.7	*3,012.8*	*1,151.9*	297.6	-	*297.6*	82.5	*26.4*	*56.1*	59.1	-	*59.1*	-	3,588.7	227.6
8	Households	2,642.5	*2,362.2*	*280.3*	70.1	-	*70.1*	51.7	*26.5*	*25.2*	32.1	-	*32.1*	0.7	2,259.6	31.3
9	**Debt securities**	**358.5**	***358.5***	**-**	**-**	**-**	**-**	**0.4**	***0.4***	**-**	**-**	**-**	**-**	**-**	**-**	**-**
10	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Central governments	72.2	*72.2*	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Credit institutions	286.3	*286.3*	-	-	-	-	0.4	*0.4*	-	-	-	-	-	-	-
13	Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	**Off-balance-sheet exposures**	**1,300.3**	***1,278.5***	***18.9***	**11.9**	**-**	***11.9***	**-**	**-**	**-**	**-**	**-**	**-**		**-**	**-**
16	Central banks	-	-	-	-	-	-	-	-	-	-	-	-		-	-
17	General governments	-	-	-	-	-	-	-	-	-	-	-	-		-	-
18	Credit institutions	106.7	*106.7*	-	-	-	-	-	-	-	-	-	-		-	-
19	Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-		-	-
20	Non-financial corporations	1,083.2	*1,064.5*	*15.8*	11.7	-	*11.7*	-	-	-	-	-	-		-	-
21	Households	110.4	*107.3*	*3.1*	0.2	-	*0.2*	-	-	-	-	-	-		-	-
22	**Total**	**9,894.5**	***8,291.1***	***1,597.8***	**391.4**	**-**	***391.4***	**146.2**	***58.2***	***88.0***	**95.8**	**-**	***95.8***	**0.7**	**6,404.8**	**261.9**

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	38.6	21.8
3	Residential immovable property	-	-
4	Commercial Immovable property	-	-
5	Movable property (auto, shipping, etc.)	37.3	21.8
6	Equity and debt instruments	-	-
7	Other	1.3	-
8	**Total**	**38.6**	**21.8**

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