Close Brothers Group plc

Pillar 3 disclosures for the year ended 31 July 2023

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

Executive Summary

Background

The aim of the capital adequacy regime is to promote safety and soundness in the financial system. It is structured around three "pillars": Pillar 1 on minimum capital requirements; Pillar 2 on the supervisory review process; and Pillar 3 on market discipline. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess key pieces of information on that firm's capital, risk exposures and risk assessment process. The disclosures contained in this document cover the qualitative and quantitative disclosure requirements of Pillar 3, set out in the Capital Requirements Regulation as implemented in the PRA Rulebook CRR Instrument and the PRA Rulebook CRR Firms: Leverage Instrument (collectively known as "CRR"), and are based on data at 31 July 2023 with comparative figures for 31 July 2022 and 31 January 2023 where relevant. Within this document are references to the Close Brothers Group plc's Annual Report which can be found at:

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

Scope

The Prudential Regulation Authority ("PRA") supervises Close Brothers Group plc ("CBG" or "the group") on a consolidated basis and receives information on the capital adequacy of, and sets capital requirements for, the group as a whole. In addition, a number of subsidiaries are regulated for prudential purposes by either the PRA or the Financial Conduct Authority ("FCA"). Close Brothers Limited ("CBL" or "the Banking division") is regulated under CRR. Close Asset Management Limited ("CBAM") and Winterflood Securities Limited ("Winterflood") are regulated under the FCA's Prudential sourcebook for Investment Firms ("IFPRU"). Details of the group's principal subsidiaries are included in note 28 of the group's Annual Report.

Summary of Key Metrics

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

The group holds two classes of own funds, comprising common equity tier 1 ("CET1") and tier 2 debt. The main features of these instruments are provided in template UK CCA on page 23. The composition of, and regulatory adjustments to, CET1 are provided in table UK CC1 on page 21.

Over the 2023 financial year, the CET1 capital ratio reduced from 14.6% to 13.3%, mainly driven by loan book growth (-c.80bps), a decrease in IFRS 9 transitional arrangements (-c.45bps), and deduction of dividends paid and foreseen (-c.105bps), partly offset by capital generation through profit (c.85bps) and a decrease in risk weighted assets ("RWAs") associated with derivatives and credit valuation adjustment ("CVA") (c.30bps).

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

RWAs increased 3% to £9.8 billion (31 July 2022: £9.6 billion), mainly driven by growth in the Commercial and Property loan books, partly offset by a decrease in RWAs associated with derivatives and CVA due to changes in the derivatives calculation to recognise netting agreements and to implement the standardised approach for counterparty credit risk ("CCR").

As a result, CET1, tier 1 and total capital ratios were 13.3% (31 July 2022: 14.6%), 13.3% (31 July 2022: 14.6%) and 15.3% (31 July 2022: 16.6%), respectively.

At 31 July 2023, the applicable minimum CET1, tier 1 and total capital ratio requirements, excluding any applicable PRA buffer, were 9.5%, 11.2% and 13.4%, respectively. Accordingly, we continue to have headroom significantly above the applicable minimum regulatory requirements of c.380bps in the CET1 capital ratio, c.210bps in the tier 1 capital ratio and c.190bps in the total capital ratio.

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

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 and leverage ratios are presented on a transitional basis after the application of these arrangements. On a fully loaded basis, without their application, the CET1, tier 1 and total capital ratios would be 13.0%, 13.0% and 15.1%, respectively and the leverage ratio would be 11.2%. Disclosure relating to the IFRS 9 transitional arrangements is shown on page 5.

We continue to make positive progress in our preparations for a transition to the Internal Ratings Based ("IRB") approach. Following the submission of our initial application to the PRA in December 2020, our application has successfully transitioned to Phase 2 of the process. Additional documentation has been submitted to the regulator and engagement continues. Our Motor Finance, Property Finance and Energy portfolios, where the use of models is most mature, were submitted with our initial application, with work on subsequent portfolios in progress.

The group continues to adopt a conservative stance on liquidity, ensuring it is comfortably ahead of both internal risk appetite and regulatory requirements. We regularly assess and stress test the group's liquidity requirements and continue to meet the liquidity coverage ratio ("LCR") regulatory requirements, with a 12-month average LCR to 31 July 2023 of 1,143% (2022: 924%). In addition to internal measures, we monitor funding risk based on the CRR rules for the net stable funding ratio ("NSFR") which became effective on 1 January 2022. The four-quarter average NSFR to 31 July 2023 was 126.0% (point in time NSFR at 31 July 2022: 118.3%).

Close Brothers Limited

For liquidity and funding, the PRA supervises CBL on an individual basis, excluding all subsidiary undertakings. For capital and leverage, the PRA supervises CBL on an individual consolidation basis as permitted under CRR article 9. The individual consolidation group does not include all subsidiary undertakings and therefore differs to the accounting consolidation group under IFRS. Details of the subsidiaries included within the individual consolidation are included in UK LIB on page 16. Differences between the group and individual consolidations relate primarily to reserves held by entities that sit outside of the scope of individual consolidation but are included in the group consolidation, and the impact from the RWAs of these entities.

The only quantitative disclosures for the individual consolidation included within this document are UK KM1 and the IFRS 9 transitional arrangements template. In line with CRR article 432, other templates are not disclosed on an individual basis as they are consistent with group disclosures or are not deemed materially different.

At 31 July 2023, CBL's CET1 capital ratio was 12.4% (31 July 2022: 13.5%). CET1 capital decreased to £1,139.6 million (31 July 2022: £1,194.4 million) primarily reflecting a decrease in the transitional IFRS 9 add-back to capital and the regulatory deduction of dividends paid and foreseen, partially offset by the capital generation through profit. RWAs increased to £9,159.2 million (31 July 2022: £8,847.6 million) driven by growth in the Commercial and Property business loan books, offset by a decrease in RWAs associated with derivatives and CVA following changes to the derivatives calculation to recognise netting agreements and to implement the standardised approach to counterparty credit risk.

Regulatory Developments

On 30 November 2022, the PRA published CP 16/22 – Implementation of the Basel 3.1 standards, setting out proposals for the UK implementation of remaining elements of Basel 3.1, published by the Basel committee in December 2017. On 27 September 2023, the PRA announced an implementation date of 1 July 2025, moved six months from the original date of 1 January 2025. Additionally, the PRA announced its intention to publish the near-final rules in two parts in Q4 2023 and Q2 2024.

The Basel proposals included amendments to the standardised approaches to credit and operational risk, revocation of the small and medium-sized enterprise ("SME") supporting factor, risk parameter floors and new specialised lending risk weights under the IRB approach to credit risk, multipliers for firms applying simplified approach for market risk and introduction of an RWA output floor. The group estimates that, if implemented in its current form, the proposals would represent an increase of up to c.10% in the group's RWAs calculated under the standardised approach. This is primarily as a result of the proposed removal of the SME supporting factor and the proposed approach to the classification of Retail SMEs and associated risk weights. The group is also monitoring the impact of the proposed changes to the IRB approach to credit risk given the group's application to the PRA to move to an IRB approach. CBG has responded to the PRA's consultation and looks forward to the publication of the final regulatory rules and has sufficient management actions available to address the impact should the proposals remain unchanged.

The increase in the UK countercyclical buffer ("CCyB") to 2% came into effect on 5 July 2023. There are no further increases in the UK CCyB pending at this time. The increase in the Ireland CCyB to 0.5% came into effect on 15 June 2023. There are planned increases to the Ireland CCyB to 1% applicable from 24 November 2023 and to 1.5% applicable from 7 June 2024. These will marginally increase regulatory minimum requirements for CBG.

Pillar 3 Policy and approval

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

Full disclosures are issued as a minimum on an annual basis, with key metrics disclosed on a semi-annual basis, as the group meets the requirements of CRR article 433c. The disclosures are published on the group's website. These disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the group's Annual Report. The group's Pillar 3 disclosures have been subject to senior first line and second line review (see page 11 for further details of our "three lines of defence" model), prior to review and endorsement by the Capital Adequacy Committee ("CAC"), the Group Asset and Liability Management Committee ("GALCO") and the Remuneration Committee ("RemCo") as appropriate. Approval was given by the CBG board ("the board") on 25 September 2023.

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

Mike Morgan, Group Finance Director

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

UK KM1 – Key metrics

The table below provides a summary of the main prudential regulation ratios and measures for the group and for CBL on an individual basis.

		Group			Individual[5]		
		a[4]	c	e	a[4]	c	e
£m		**31 Jul 2023**	31 Jan 2023	31 Jul 2022	**31 Jul 2023**	31 Jan 2023	31 Jul 2022
	Available own funds (amounts)						
1	Common equity tier 1 ("CET1") capital	**1,310.8**	1,310.7	1,396.7	**1,139.6**	1,133.3	1,194.4
2	Tier 1 capital	**1,310.8**	1,310.7	1,396.7	**1,139.6**	1,133.3	1,194.4
3	Total capital	**1,510.8**	1,510.7	1,596.7	**1,339.6**	1,333.3	1,394.4
	Risk-weighted exposure amounts						
4	Total risk-weighted exposure amount	**9,847.6**	9,383.3	9,591.3	**9,159.2**	8,674.1	8,847.6
	Capital ratios (as a percentage of risk-weighted exposure amount)						
5	Common equity tier 1 ratio (%)	**13.3**	14.0	14.6	**12.4**	13.1	13.5
6	Tier 1 ratio (%)	**13.3**	14.0	14.6	**12.4**	13.1	13.5
7	Total capital ratio (%)	**15.3**	16.1	16.6	**14.6**	15.4	15.8
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)						
UK 7a	Additional CET1 SREP requirements (%)	**0.6**	0.6	0.6	**0.8**	0.8	0.8
UK 7b	Additional AT1 SREP requirements (%)	**0.2**	0.2	0.2	**0.3**	0.3	0.3
UK 7c	Additional T2 SREP requirements (%)	**0.3**	0.3	0.3	**0.3**	0.3	0.3
UK 7d	Total SREP own funds requirements (%)	**9.0**	9.0	9.0	**9.4**	9.4	9.4
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)						
8	Capital conservation buffer (%)	**2.5**	2.5	2.5	**2.5**	2.5	2.5
9	Institution specific countercyclical capital buffer (%)	**1.9**	0.9	0.0	**1.9**	0.9	0.0
11	Combined buffer requirement (%)	**4.4**	3.4	2.5	**4.4**	3.4	2.5
UK 11a	Overall capital requirements (%)	**13.4**	12.4	11.5	**13.8**	12.8	11.9
12	CET1 available after meeting total SREP own funds requirements (%)	**6.3**	7.2	7.8	**5.3**	6.0	6.4
	Leverage ratio[1]						
13	Total exposure measure excluding claims on central banks	**11,495.0**	10,963.2	11,626.6	**10,540.3**	10,081.0	10,546.9
14	Leverage ratio excluding claims on central banks (%)	**11.4**	12.0	12.0	**10.8**	11.2	11.3

		Group			Individual[5]		
		a[4]	c	e	a[4]	c	e
	£m	**31 Jul 2023**	31 Jan 2023	31 Jul 2022	**31 Jul 2023**	31 Jan 2023	31 Jul 2022
	Liquidity coverage ratio[2]						
15	Total high-quality liquid assets ("HQLA") (Weighted value - average)	**1,931.8**	1,500.6	1,259.9	**1,931.8**	1,500.6	1,259.9
UK 16a	Cash outflows - Total weighted value	**676.2**	580.4	545.1	**698.4**	589.7	569.7
UK 16b	Cash inflows - Total weighted value	**1,183.9**	1,050.7	938.7	**2,036.1**	1,901.7	1,778.9
16	Total net cash outflows (adjusted value)	**169.0**	145.1	136.3	**174.6**	147.4	142.4
17	Liquidity coverage ratio (%)	**1,142.8**	1,034.2	924.5	**1,106.4**	1,017.9	884.7
	Net stable funding ratio[3]						
18	Total available stable funding	**9,433.6**	8,981.6		**9,139.8**	8,673.8	
19	Total required stable funding	**7,483.5**	7,217.5		**6,505.1**	6,422.2	
20	Net stable funding ratio (%)	**126.0**	124.4		**140.5**	135.1	

1 Rows 14a-14e have been removed as only LREQ firms are required to disclose this information.
2 Figures presented are for the 12 month average to the period end.
3 Figures presented are for the four-quarter average to the period end. NSFR was implemented under CRR on 1 January 2022 and as such no comparative has been provided for the four-quarter average to 31 July 2022. The point in time NSFR at 31 July 2022 was 118.3% for the CBG group and 133.6% for CBL.
4 Columns b and d have been removed as only required to disclose information on a semi-annual basis.
5 For capital and leverage, the PRA supervises CBL on an individual consolidation basis as permitted under CRR article 9. For liquidity and funding, the PRA supervises CBL on an individual basis, excluding all subsidiary undertakings.

Regulatory capital and RWAs

Over the 2023 financial year, the group's CET1 capital ratio reduced from 14.6% to 13.3%, mainly driven by loan book growth (-c.80bps), a decrease in IFRS 9 transitional arrangements (-c.45bps), and deduction of dividends paid and foreseen (-c.105bps), partly offset by capital generation through profit (c.85bps) and a decrease in RWAs associated with derivatives and CVA (c.30bps).

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

RWAs increased 3% to £9.8 billion (31 July 2022: £9.6 billion), mainly driven by growth in the Commercial and Property loan books, partly offset by a decrease in RWAs associated with derivatives and CVA due to changes in the derivatives calculation to recognise netting agreements and to implement the standardised approach for counterparty credit risk.

During the 2023 financial year higher countercyclical buffer rates for our UK and Irish exposures have come into force, increasing the group’s applicable countercyclical buffer to 1.9%. As a result, the applicable minimum total capital ratio requirement, excluding any applicable PRA buffer, was 13.4% at 31 July 2023.

For more information on the CET1 capital, RWAs and capital ratios, see template UK OV1 and Annex VII.

Leverage

The leverage ratio, which is a transparent measure of capital strength not affected by risk weightings, remains strong at 11.4% (31 July 2022: 12.0%). The leverage ratio decreased on the position at the end of the 2022 financial year, primarily due to the reduction in tier 1 capital as described above. For more information on leverage see Annex XI.

Liquidity and funding

The 12-month average LCR has increased to 1,143% (31 July 2022: 924%) due to net outflows increasing at a lower rate than the liquid asset buffer. High quality liquid assets ("HQLAs") increased 53% to £1,931.8 million (31 July 2022: £1,259.9 million) due to an increase in cash held at the Bank of England. Net cash outflows increased 24% to £169.0 million (31 July 2022: £136.3 million) driven by higher outflows on derivatives and an increase in outflows from deposits. For more information on the LCR see Annex XIII.

The four-quarter average NSFR remained stable over the year at 126.0% (four-quarter average to 31 January 2023: 124.4%). For more information on the NSFR see Annex XIII.

IFRS 9 transitional arrangements disclosure

The following table shows the capital, RWA and leverage positions with and without the application of IFRS 9 transitional arrangements for the group and for CBL on an individual basis.

		Group		Individual	
		a	b	a	b
£m		**31 Jul 2023**	31 Jul 2022	**31 Jul 2023**	31 Jul 2022
	Available capital				
1	CET1 capital	**1,310.8**	1,396.7	**1,139.6**	1,194.4
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied	**1,278.9**	1,313.7	**1,107.7**	1,111.3
3	Tier 1 capital	**1,310.8**	1,396.7	**1,139.6**	1,194.4
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**1,278.9**	1,313.7	**1,107.7**	1,111.3
5	Total capital	**1,510.8**	1,596.7	**1,339.6**	1,394.4
6	Total capital as if IFRS 9 transitional arrangements had not been applied	**1,478.9**	1,513.7	**1,307.7**	1,311.3
	Risk-weighted assets				
7	Total risk-weighted assets	**9,847.6**	9,591.3	**9,159.2**	8,847.6
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	**9,818.8**	9,508.3	**9,130.3**	8,771.7
	Capital ratios (%)				
9	CET1 ratio	**13.3**	14.6	**12.4**	13.5
10	CET1 ratio as if IFRS 9 transitional arrangements had not been applied	**13.0**	13.8	**12.1**	12.7
11	Tier 1 ratio	**13.3**	14.6	**12.4**	13.5
12	Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied	**13.0**	13.8	**12.1**	12.7
13	Total capital ratio	**15.3**	16.6	**14.6**	15.8
14	Total capital ratio as if IFRS 9 transitional arrangements had not been applied	**15.1**	15.9	**14.3**	14.9
	Leverage ratio				
15	Leverage ratio total exposure measure	**11,495.0**	11,626.6	**10,540.3**	10,546.9
15a	Leverage ratio total exposure measure as if IFRS 9 transitional arrangements had not been applied	**11,463.2**	11,543.6	**10,508.4**	10,463.8
16	Leverage ratio (%)	**11.4**	12.0	**10.8**	11.3
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)	**11.2**	11.4	**10.5**	10.6

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. In accordance with the CRR, during the 2023 financial year a transitional percentage of 25% has been applied for relevant IFRS 9 provisions raised before 1 January 2020 and 75% for relevant provisions raised after 1 January 2020 (31 July 2022: 50% and 100% respectively).

UK KM2 – Key metrics – MREL

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

UK OV1 – Overview of risk weighted exposure amounts

The table below shows risk weighted assets, here referred to as risk weighted exposure amounts ("RWEAs") and own funds requirements, calculated as 8% of RWAs, by risk type and approach.

		a	b	c
		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
£m		**31 Jul 2023**	31 Jul 2022	**31 Jul 2023**
1	Credit risk (excluding CCR)	**8,603.5**	8,118.2	**688.3**
2	*Of which the standardised approach*	**8,603.5**	8,118.2	**688.3**
3	*Of which the foundation IRB (FIRB) approach*	**—**	—	**—**
4	*Of which slotting approach*	**—**	—	**—**
UK 4a	*Of which equities under the simple risk weighted approach*	**—**	—	**—**
5	*Of which the advanced IRB (AIRB) approach*	**—**	—	**—**
6	Counterparty credit risk - CCR[1]	**49.7**	259.1	**4.0**
7	*Of which the standardised approach*	**16.8**	—	**1.3**
8	*Of which internal model method (IMM)*	**—**	—	**—**
UK 8a	*Of which exposures to a CCP*	**—**	—	**—**
UK 8b	*Of which credit valuation adjustment - CVA*	**27.1**	135.8	**2.2**
9	*Of which other CCR*	**5.8**	123.3	**0.5**
15	Settlement risk	**2.2**	11.7	**0.2**
16	Securitisation exposures in the non-trading book (after the cap)	**—**	—	**—**
17	*Of which SEC-IRBA approach*	**—**	—	**—**
18	*Of which SEC-ERBA (including IAA)*	**—**	—	**—**
19	*Of which SEC-SA approach*	**—**	—	**—**
UK 19a	*Of which 1250%/ deduction*	**—**	—	**—**
20	Position, foreign exchange and commodities risks (Market risk)	**108.2**	116.5	**8.7**
21	*Of which the standardised approach*	**108.2**	116.5	**8.7**
22	*Of which IMA*	**—**	—	**—**
UK 22a	Large exposures	**—**	—	**—**
23	Operational risk	**1,084.0**	1,085.8	**86.7**
UK 23a	*Of which basic indicator approach*	**—**	—	**—**
UK 23b	*Of which standardised approach*	**1,084.0**	1,085.8	**86.7**
UK 23c	*Of which advanced measurement approach*	**—**	—	**—**
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	**—**	—	**—**
29	**Total[2]**	**9,847.6**	**9,591.3**	**787.8**

1 At 31 July 2023, CBL calculated derivative exposure amounts under the standardised approach as the size of derivative business exceeded the thresholds set out in CRR article 273a. At 31 July 2022, the original exposure method was used as the size of derivative business was below those thresholds.
2 For more information on movements in RWAs and the CET1 capital ratio, see template 'Regulatory capital' in Annex VII.

RWAs increased to £9,847.6 million (31 July 2022: £9,591.3 million), driven by growth in the Commercial and Property loan books subject to credit risk calculated under the standardised approach and the annual update to operational risk. During the 2023 financial year, the standardised approach for counterparty credit risk was implemented for the CBL derivative portfolio as the size of the derivative business exceeded the thresholds set out in CRR article 273a. Together with the recognition of derivative netting arrangements during the year, this resulted in a decrease in counterparty credit risk RWAs.

UK INS1 – Insurance participation

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

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

The group does not qualify as a financial conglomerate so this template has not been presented.

UK OVC – Internal capital adequacy assessment process ("ICAAP") information

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

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

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

(b) Result of the group's internal capital adequacy assessment process (Article 438(a) CRR)

The group ordinarily is subject to the PRA's supervisory review and evaluation process ("SREP") on a regular basis and this is next expected in late 2023. Following the last SREP, the group was set a total capital requirement of 9.0% of which 5.1% must be met with CET1 capital.

Annex III: Risk management policies and objectives

UK OVA – Risk management approach

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

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

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

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

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

The framework is founded on a three lines of defence model and details the core risk management components and structures used across the firm, and defines a consistent and measurable approach to identifying, assessing, controlling and mitigating, reviewing and monitoring, and reporting risk – the risk process lifecycle. The framework is purposely designed to allow the capture of business opportunities whilst maintaining an appropriate balance of risk and reward within the group's agreed risk appetite.

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

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

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

Principal risks relating to Pillar 1 minimum capital requirements

The following table sets out the principal risks in relation to the group's Pillar 1 minimum capital requirements that may impact the group's ability to deliver its strategy, the frameworks in place to mitigate them, and relevant key developments, both over the last year and anticipated for the next financial year. A full list of the principal risks that the group faces can be found on pages 92 to 130 of the group's Annual Report covering business and strategic risk; capital risk; conduct risk; credit risk; funding and liquidity risk; legal and regulatory risk; non-traded market risk; operational risk; reputational risk and traded market risk. Please refer to Annex XIII, liquidity requirements, for further detail on the risk management of the group's liquidity.

Risk	Mitigation
Capital risk	The group's exposure to capital risk principally arises from its requirement to meet minimum regulatory requirements set out in the CRR and from related additional requirements and guidelines specified by the PRA, and is usually specified in terms of minimum capital ratios which assess the level of regulatory capital and risk weighted assets. The group operates a prudent business model which results in comparatively low levels of leverage and so risk-based capital requirements are, and are likely to remain, the group's binding constraint. The group's policy is to be well capitalised and its approach to capital management is driven by strategic and organisational requirements, while also taking into account the regulatory and commercial environments in which it operates. Accordingly, a prudent capital position is a core part of the group's business model, allowing it to grow and invest in the business, support paying dividends to shareholders and meet regulatory requirements. Capital risk is measured using CET1, tier 1 and total capital ratios, determined in line with regulatory capital adequacy requirements. These ratios, and associated metrics, are actively monitored, and reported quarterly to the regulator. These are also disclosed in the group's Annual Report as well as in these Pillar 3 disclosures – see Annex I. Both actual and forecast capital adequacy are reported through the group's governance framework with oversight from the Capital Adequacy Committee. Annually, as part of the ICAAP, the group also undertakes its own assessment of its capital requirements against its principal risks (Pillar 2a) together with an assessment of how capital adequacy could be impacted in a range of stress scenarios (Pillar 2b). Under both assessments, the group ensures that it maintains sufficient levels of capital adequacy. The group retains a range of capital risk mitigants, the most notable being its strong capital generating capacity, as evidenced by its track record of sustained profitability. It also maintains access to capital markets and in recent years has successfully renewed and increased its tier 2 capital instrument.

<table>
<tr><th>Risk</th><th>Mitigation</th></tr>
<tr><td>Credit risk</td><td>As a lender to businesses and individuals, the group is exposed to credit losses if customers are unable to repay loans and outstanding interest and fees.

The Banking division's general approach to credit mitigation is based on the provision of affordable lending on a secured or structurally protected basis, against assets that are known and understood. These assets are typically easily realisable with strong secondary markets and predictable values and spread across a broad range of classes within established sectors.

Whilst diverse, the businesses adhere to a set of common lending principles resulting in stable portfolio credit quality and consistently low loss rates through the cycle.

The common lending principles are as follows:
1. Predominantly secured lender: 97.9% of loan book secured or structurally protected.
2. Short average tenor: portfolio residual maturity of 16 months.
3. Small average loan size with low single-name concentration risk with balance for top 10 facility limits representing less than 6% of loan book.
4. Further diversification by sector, asset class and UK geography.
5. Local underwriting expertise with central oversight: focus on assets that are known and understood, with continued investments in people and systems.

Exposure to credit losses is minimised by applying these strict lending criteria when testing the credit quality of the borrower and maintaining consistent and conservative LTV ratios with low average loan size and short-term tenors. All lending criteria and assessment procedures are thoroughly documented in robust credit policies and standards, at both a bank and business level.</td></tr>
<tr><td>Non-traded market risk</td><td>Non-traded market risk is the risk to the value of assets or liabilities outside the trading book that arises from changes in market prices such as interest rates, credit spreads and foreign exchange rates.

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

The group has a limited appetite for credit spread risk which occurs due to its holdings of high-quality liquid assets ("HQLA"), which primarily comprise highly rated UK and European supranational debt, sovereign debt, agency bonds and UK covered bonds.

The group has a limited appetite for interest rate risk with simple hedging strategies in place to mitigate risk. The group's policy is to match repricing characteristics of assets and liabilities naturally where possible or use interest rate swaps to secure the margin on its loans and advances to customers. The Banking division's treasury is responsible for hedging the non-traded interest rate risk. Any residual risk which cannot be naturally matched is hedged utilising vanilla derivative transactions to remain within prescribed risk limits.

The group recognises three main sources of IRRBB which could adversely impact future income or the value of the balance sheet:
• repricing risk: the risk presented by assets and liabilities that reprice at different times and rates;
• embedded optionality risk: the risk presented by contract terms embedded 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.</td></tr>
<tr><td>Traded market risk</td><td>Traded market risk is the risk that a change in the value of an underlying market variable will give rise to an adverse movement in the value of the group's assets.

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

Winterflood is a market maker providing liquidity to its clients in equity and fixed income instruments. Building on the use of real-time limit monitoring, the monitoring of traded market risk is embedded across all three lines of defence. Top-down visibility is exercised via the Winterflood Risk and Compliance Committee, which retains regular oversight of core traded market risk management information and key risk indicators, as well as stress testing outputs and policies and standards. The management of traded market risk is fully embedded within Winterflood's training and governance framework</td></tr>
</table>

<table>
<tr><th>Risk</th><th>Mitigation</th></tr>
<tr><td>Operational risk</td><td>The group is exposed to various operational risks through its day-to-day operations, all of which have the potential to result in financial loss or adverse impact.

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

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

The group seeks to maintain its operational resilience through effective management of operational risks, including by:
• sustaining robust operational risk management processes, governance and management information;
• investment decisions that prioritise risk benefits via key systems, third party relationships, processes and teams;
• investing in technology to provide reliable and contemporary customer service offerings and effective model outputs;
• attracting, retaining and developing high-quality staff through the operation of competitive remuneration and benefit structures and an inclusive environment that embraces diversity and recognises behaviours aligned to our cultural attributes;
• investing in cyber security including expertise, tools and staff engagement;
• maintaining focus on personal data protection;
• adopting fraud prevention and detection capabilities aligned with our risk profile; and
• planning and rehearsing strategic and operational responses to severe but plausible stress scenarios.</td></tr>
</table>

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

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

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

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

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

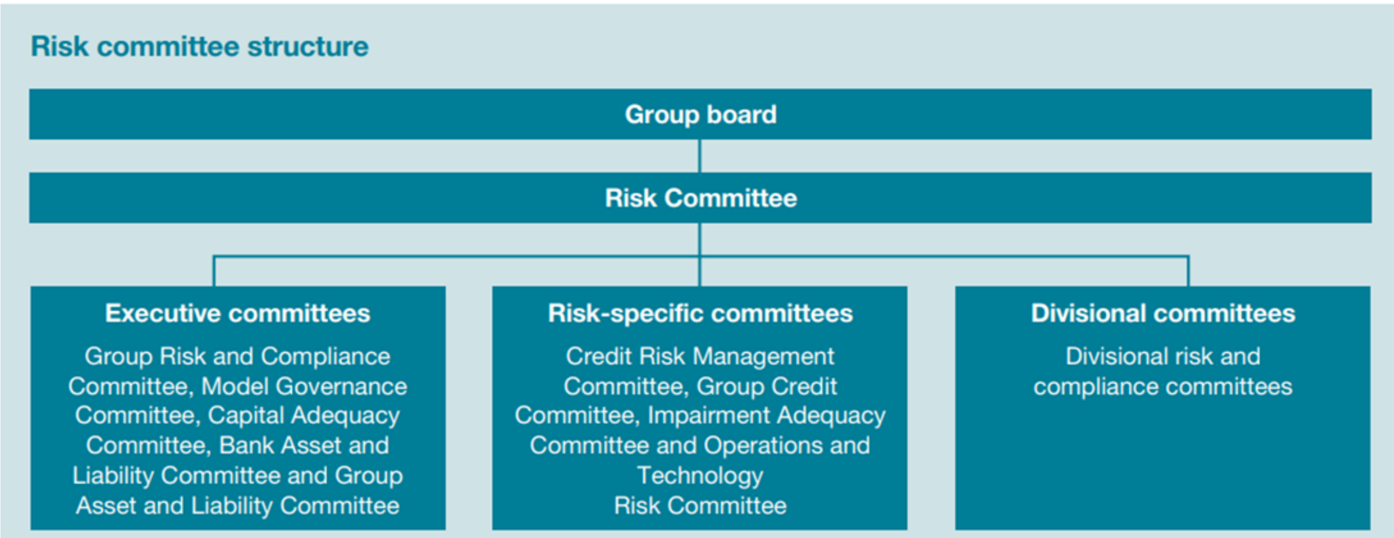
Risk Governance

The group's risk management approach is underpinned by a strong governance framework founded on a three lines of defence model. The governance framework is considered appropriate to both the size and strategic intentions of the group.The key principles underlying this approach are that:

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

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

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



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

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

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

Risk Committee Roles and Responsibilities

The Risk Committee's key responsibilities are to:

- oversee the maintenance and development of a supportive culture and "tone from the top" in relation to the management of risk;
- review and recommend to the board for approval the group's risk appetite, which is the level of risk the group is willing to take in pursuit of its strategic objectives;
- monitor the group's risk profile against the prescribed appetite;
- review the effectiveness of the risk management framework to ensure that key risks are identified and appropriately managed;
- provide input from a risk perspective into the alignment of remuneration with performance against risk appetite (through the Remuneration Committee); and
- undertake a robust assessment of both the principal and emerging risks facing the group over the course of the year, and review reports from the risk and compliance functions on the effectiveness of the processes that support the management and mitigation of those risks.

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

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

As described in more detail on page 158 of the group's Annual Report, an evaluation of the effectiveness of the board and its committees was undertaken during the year in line with the requirements of the UK Corporate Governance Code. The results confirm that the Risk Committee is operating effectively. The Risk Committee considers that during the year it continued to have access to sufficient resources to enable it to carry out its duties and has continued to perform effectively.

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

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

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

The board, assisted by the Risk Committee and the Audit Committee, monitors the group's risk management and internal control systems and reviews their effectiveness throughout the year. The assessment is informed through various sources of information, both internal and external and may include but is not limited to:

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

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

The ERMF details the core risk management components and structures used across the firm. The framework sets out the activities, tools, techniques and organisational arrangements that ensure all principal risks facing the group are identified and understood; and that appropriate responses are in place to protect the group and prevent detriment to its customers and colleagues. This enables the group to meet its goals and enhances its ability to respond to new opportunities. For more information on the ERMF see the Risk Report on pages 83 to 130 in the group's Annual Report.

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;
- improves the group’s control environment; and
- assists in the planning and prioritisation of key projects and initiatives.

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

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

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

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

For further information on our approach to remuneration for the group’s directors see pages 167 to 189 of the group’s Annual Report.

Stress Testing

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

Internal Control System

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

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

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

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

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

The group employs an ERMF designed to provide the board and senior management with oversight of the group’s financial position as well as the risks that might adversely affect it.

The framework details the core risk management components and structures used across the group, and defines a consistent and measurable approach to identifying, assessing, controlling and mitigating, reviewing and monitoring, and reporting risk – the risk process 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 group's suite of principal risks is accompanied by a portfolio of emerging risks reflecting broader market uncertainties. The group defines an emerging risk as a risk that may potentially become material in the delivery of the group's strategic objectives but the risk and its applicability to the group may not yet be fully understood or assessed. This incorporates input and insight from both a top-down and bottom-up perspective.

A full list of emerging risks and uncertainties that the group faces can be found on pages 94 to 95 of the group's Annual Report covering economic uncertainty; geopolitical uncertainty; legal and regulatory change; supply chain risk; medium -term transitional climate risks, strategic disruption and change execution risk.

The group's activities, business model and strategy remain unchanged; as a result, several of the principal risks faced and the approach to mitigating them remains broadly consistent with prior years. However, reflective of the current environment, legal and regulatory risk has been added as a principal risk and business and strategic risk has been updated (previously business risk). Three risks previously included have been reclassified to non-principal risks to reflect their relative immateriality to the group risk profile. Climate risk remains a cross-cutting risk that could impact across all principal risks.

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

UK OVB – Governance arrangements

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

In addition to their roles within the group, the number of external directorships[1] held by members of the management body are detailed in the table below. Further details on the board of directors can be found on page 138 of the group's Annual Report.

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

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

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

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

The board maintains a board diversity and inclusion policy, which is reviewed annually by the Nomination and Governance Committee. The policy recognises the importance of ensuring its members collectively possess the appropriate range and balance of skills, knowledge and expertise, and embrace the advantages to be derived from having a diversity of gender, social and ethnic backgrounds represented by the Board, bringing different perspectives and the challenge needed to ensure effective decision-making. Following review by the Nomination and Governance Committee and the board during the year, a number of enhancements in line with the FTSE Women Leaders Review (previously the Hampton-Alexander Review) and the Parker Review were made to the policy.

More information on the recruitment and diversity policies and practices for the selection of members of the management body can be found in the Nomination and Governance Committee Report on pages 154 and 158 of the group's Annual Report.

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

The Risk Committee comprises all CBG independent non-executive directors and Patricia Halliday as chair.

Six scheduled meetings were held during the year. Full details of attendance by the non-executive directors at scheduled meetings are set out on page 143 of the group's Annual Report.

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

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

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

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

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

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

Annex V: Scope of application

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

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

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

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

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

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

UK LIB – Other qualitative information on the scope of application

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

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

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

There are no subsidiaries excluded from the consolidation.

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

CBL makes use of the provisions laid down in CRR article 9 and reports to the PRA on an individual consolidated basis. Entities included in the individual consolidation at 31 July 2023 are:

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

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

There are no subsidiaries excluded from the consolidation.

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

		a	b	c	d	e	f	g
				Carrying values of items				
£m		**Carrying values as reported in published financial statements**	**Carrying values under scope of regulatory consolidation**	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
	Breakdown by asset class according to the balance sheet in the published financial statements							
1	Cash and balances at central banks	**1,937.0**	**1,937.0**	1,937.0	—	—	—	—
2	Settlement balances	**707.0**	**707.0**	—	21.7	—	685.3	—
3	Loans and advances to banks	**330.3**	**330.3**	330.3	—	—	—	—
4	Loans and advances to customers	**9,255.0**	**9,255.0**	9,255.0	—	—	—	—
5	Debt securities	**307.6**	**307.6**	292.3	—	—	15.3	—
6	Equity shares	**29.3**	**29.3**	1.5	—	—	27.8	—
7	Loans to money brokers against stock advanced	**37.6**	**37.6**	—	37.6	—	—	—
8	Derivative financial instruments	**88.5**	**88.5**	—	88.5	—	—	—
9	Intangible assets	**263.7**	**263.7**	—	—	—	—	263.7
10	Property, plant and equipment	**357.1**	**357.1**	357.0	—	—	—	—
11	Current tax assets	**42.3**	**42.3**	42.3	—	—	—	—
12	Deferred tax assets[2]	**10.8**	**10.8**	12.1	—	—	—	(1.3)
13	Prepayments, accrued income and other assets	**184.1**	**184.1**	182.8	—	—	—	1.3
14	**Total assets**	**13,550.3**	**13,550.3**	12,410.4	147.8	—	728.4	263.7
	Breakdown by liability classes according to the balance sheet in the published financial statements							
1	Settlement balances and short positions	**695.9**	**695.9**	—	—	—	—	695.9
2	Deposits by banks	**141.9**	**141.9**	—	—	—	—	141.9
3	Deposits by customers	**7,724.5**	**7,724.5**	—	—	—	—	7,724.5
4	Loans and overdrafts from banks	**651.9**	**651.9**	—	—	—	—	651.9
5	Debt securities in issue	**2,012.6**	**2,012.6**	—	—	—	—	2,012.6
6	Loans from money brokers against stock advanced	**4.8**	**4.8**	—	—	—	—	4.8
7	Derivative financial instruments	**195.9**	**195.9**	—	195.9	—	—	—
8	Current tax liabilities	**—**	**—**	—	—	—	—	—
9	Accruals, deferred income and other liabilities	**303.0**	**303.0**	—	—	—	—	303.0
10	Subordinated loan capital	**174.9**	**174.9**	—	—	—	—	174.9
11	**Total liabilities**	**11,905.4**	**11,905.4**	—	195.9	—	—	11,709.5

1 As explained in UK LIA, there are no differences between the accounting and regulatory scopes of consolidation.
2 Accounting value for deferred tax assets is net of deferred tax liabilities in row 12, column a and b. £12.1m of deferred tax assets are subject to the credit risk framework with £(1.3)m of deferred tax liabilities net against associated intangible assets and pension assets that are subject to regulatory capital deductions from own funds and therefore shown in column g.

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

		a	b	c	d	e
		Total	Items subject to			
£m			Credit risk framework	Securitisation framework	CCR framework	Market risk framework
1	**Assets carrying value amount under the scope of regulatory consolidation (as per UK LI1)**	**13,286.6**	12,410.4	—	147.8	728.4
2	**Liabilities carrying value amount under the regulatory scope of consolidation (as per UK LI1)**	**(195.9)**	—	—	(195.9)	—
3	**Total net amount under the regulatory scope of consolidation**	**13,090.7**	**12,410.4**	**—**	**(48.1)**	**728.4**
4	**Off-balance-sheet amounts**	**1,222.9**	1,222.9	—	—	
5	Differences in valuations	**—**	—	—	—	
6	Differences due to different netting rules, other than those already included in row 2	**—**	—	—	—	
7	Differences due to consideration of provisions	**—**	—	—	—	
8	Differences due to the use of credit risk mitigation techniques (CRMs)	**—**	—	—	—	
9	Differences due to credit conversion factors	**(1,125.5)**	(1,125.5)	—	—	
10	Differences due to Securitisation with risk transfer	**—**	—	—	—	
11	Other differences	**143.6**	30.9	—	112.7	
12	**Exposure amounts considered for regulatory purposes**	**13,331.7**	**12,538.7**	**—**	**64.6**	**728.4**

1 Differences are explained in UK LIA.

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

There are no differences in the methods of accounting and regulatory consolidation as all entities within the group are fully consolidated and so this template has not been presented. A list of the group's subsidiaries at 31 July 2023, which are all wholly owned and incorporated, can be found in note 28 of the group's Annual Report. For more information on the differences between accounting and regulatory exposure amounts, see UK LIA.

UK PV1 – Prudent valuation adjustments

		a	b	c	d	e	UK e1	UK e2	f	g	h
		Risk category					Category level AVA - Valuation uncertainty		**Total category level post-diversification**		
£m	Category level AVA	Equity	Interest Rates	Foreign exchange	Credit	Commodities	Unearned credit spreads AVA	Investment and funding costs AVA		Of which: Total core approach in the trading book	Of which: Total core approach in the banking book
1	Market price uncertainty	—	—	—	—	—	—	—	—	—	—
3	Close-out cost	—	—	—	—	—	—	—	—	—	—
4	Concentrated positions	—	—	—	—	—	—	—	—	—	—
5	Early termination	—	—	—	—	—	—	—	—	—	—
6	Model risk	—	—	—	—	—	—	—	—	—	—
7	Operational risk	—	—	—	—	—	—	—	—	—	—
10	Future administrative costs	—	—	—	—	—	—	—	—	—	—
12	**Total Additional Valuation Adjustments (AVAs)**								**0.4**	**—**	**—**

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

Annex VII: Own funds

Regulatory capital

The table below summarises the composition of regulatory capital and shows a reconciliation between shareholders' equity and CET1 capital after adjustments.

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

1 Under the CRR article 26, a deduction has been recognised at 31 July 2023 and 31 July 2022 for a foreseeable dividend, being the proposed final dividend as set out in note 8 of the group's Annual Report.
2 In line with CRR, effective on 1 January 2022, the CET1 capital includes a regulatory deduction where there is insufficient coverage for non-performing exposures, amounting to £0.4 million as at 31 July 2023.
3 The group has elected to apply IFRS 9 transitional arrangements for 31 July 2023, which allow the capital impact of expected credit losses to be phased in over the transitional period.
4 Shown after applying IFRS 9 transitional arrangements and CRR transitional and qualifying own funds arrangements in force at the time. See template 'IFRS 9 transitional arrangements disclosure' in Annex I for the impact on the capital ratios without their application.
5 Operational and market risk include an adjustment at 8% in order to determine notional RWAs.

Movement in CET1 capital

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

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

1 Upon implementation of CRR, effective 1 January 2022, the CET1 ratio no longer included the benefit related to software assets which were previously exempt from the deduction requirements for intangible assets from CET1.

UK CC1 – Composition of regulatory own funds[7]

The table below shows the composition of the group's regulatory capital position at 31 July 2023 in the disclosure format required by the CRR. References identify balance sheet components within UK CC2 that are used in the calculation of regulatory capital. Certain rows of this table have not been presented as they are not applicable to the group.

		a	b
£m		**Amounts**	Reference to UK CC2
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	**38.0**	(d)
	of which: called up share capital	**38.0**	(d)
2	Retained earnings	**1,543.4**	(e)[1]
3	Accumulated other comprehensive income (and other reserves)	**36.5**	(f)[2]
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,617.9**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	**(0.4)**	
8	Intangible assets (net of related tax liability) (negative amount)	**(262.8)**	(a)[3]
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	**(34.4)**	
15	Defined-benefit pension fund assets (negative amount)	**(1.0)**	(b)[4]
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	**(40.0)**	(g)[5]
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	**31.5**	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(307.1)**	
29	**Common Equity Tier 1 (CET1) capital**[8]	**1,310.8**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**1,310.8**	
	Tier 2 (T2) capital: instruments		
46	Capital instruments and the related share premium accounts	**200.0**	(c)[6]
51	**Tier 2 (T2) capital before regulatory adjustments**	**200.0**	
58	**Tier 2 (T2) capital**[8]	**200.0**	
59	**Total capital (TC = T1 + T2)**[8]	**1,510.8**	
	Total risk exposure amount		
60	**Total risk exposure amount**[8]	**9,847.6**	
	Capital ratios and buffers[8]		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	**13.3**	
62	Tier 1 (as a percentage of total risk exposure amount)	**13.3**	
63	Total capital (as a percentage of total risk exposure amount)	**15.3**	
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	**9.5**	
65	of which: capital conservation buffer requirement	**2.5**	
66	of which: countercyclical buffer requirement	**1.9**	
67	of which: systemic risk buffer requirement	**0.0**	
UK-67 a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	**0.0**	
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	**6.3**	
	Amounts below the thresholds for deduction (before risk weighting)		
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	**12.1**	
	Applicable caps on the inclusion of provisions in Tier 2		
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	**107.5**	

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

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

		a	c
		Balance sheet as in published financial statements	Reference to UK CC1
£m		As at period end	
Assets - Breakdown by asset class according to the balance sheet in the published financial statements			
1	Cash and balances at central banks	1,937.0	
2	Settlement balances	707.0	
3	Loans and advances to banks	330.3	
4	Loans and advances to customers	9,255.0	
5	Debt securities	307.6	
6	Equity shares	29.3	
7	Loans to money brokers against stock advanced	37.6	
8	Derivative financial instruments	88.5	
9	Intangible assets	263.7	(a)
10	Property, plant and equipment	357.1	
11	Current tax assets	42.3	
12	Deferred tax assets	10.8	
13	Prepayments, accrued income and other assets	184.1	(b)
14	**Total assets**	**13,550.3**	
Liabilities - Breakdown by liability class according to the balance sheet in the published financial statements			
1	Settlement balances and short positions	695.9	
2	Deposits by banks	141.9	
3	Deposits by customers	7,724.5	
4	Loans and overdrafts from banks	651.9	
5	Debt securities in issue	2,012.6	
6	Loans from money brokers against stock advanced	4.8	
7	Derivative financial instruments	195.9	
8	Current tax liabilities	—	
9	Accruals, deferred income and other liabilities	303.0	
10	Subordinated loan capital	174.9	(c)
11	**Total liabilities**	**11,905.4**	
Shareholders' Equity			
1	Called up share capital	38.0	(d)
2	Retained earnings	1,608.5	(e), (f)
3	Other reserves	(1.6)	(f), (g)
4	**Total shareholders' equity**	**1,644.9**	
5	Non-controlling interests in equity	—	
6	**Total equity**	**1,644.9**	
7	**Total liabilities and equity**	**13,550.3**	

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

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

The table below shows the main features of the CET1 and tier 2 instruments issued by CBG.

		a	b
		Qualitative or quantitative information	Qualitative or quantitative information
1	Issuer	CBG	CBG
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	GB0007668071	XS2351480566
2a	Public or private placement	Public	Public
3	Governing law(s) of the instrument	English	English
3a	Contractual recognition of write down and conversion powers of resolution authorities	YES	YES
	Regulatory treatment		
4	Current treatment taking into account, where applicable, transitional CRR rules	CET1	Tier 2
5	Post-transitional CRR rules	CET1	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares	Subordinated Debt
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	£38 million	£200 million
9	Nominal amount of instrument	£38 million	£200 million
UK-9a	Issue price	Par	Par
UK-9b	Redemption price	Par	Par
10	Accounting classification	Equity	Liability - Amortised Cost
11	Original date of issuance	Various	11 Jun 2021
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	N/A	11 Sep 2031
14	Issuer call subject to prior supervisory approval	N/A	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	11 Jun 2026
16	Subsequent call dates, if applicable	N/A	At any time
	Coupons / dividends		
17	Fixed or floating dividend/coupon	N/A	Fixed to Floating
18	Coupon rate and any related index	N/A	2.00 %
19	Existence of a dividend stopper	N/A	No
UK-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Full Discretionary	Mandatory
UK-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Full Discretionary	Mandatory
21	Existence of step up or other incentive to redeem	N/A	No
22	Non-cumulative or cumulative	Non-Cumulative	Cumulative
23	Convertible or non-convertible	Non-Convertible	Non-Convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
34a	Type of subordination (only for eligible liabilities)	Contractual	Contractual
UK-34b	Ranking of the instrument in normal insolvency proceedings	Ranks behind all other forms of capital	Ranks in priority to all other forms of capital
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Tier 2	Senior Unsecured
36	Non-compliant transitioned features	N/A	No
37	If yes, specify non-compliant features	N/A	N/A
37a	Link to the full term and conditions of the instrument (signposting)	N/A	https://www.closebrothers.com/tier-2

Annex IX: Countercyclical capital buffers

The CCyB is intended to protect the banking sector against losses that could be caused by cyclical systemic risks. In each jurisdiction the relevant authority (the Bank of England in the UK) sets an individual CCyB rate based on their assessment of systemic risks in that jurisdiction. Accordingly, each institution calculates its specific CCyB based on a weighted average of the CCyB rates for each jurisdiction in which it has an exposure. During the 2023 financial year, the CCyB rates for the UK and Ireland increased to 2.0% and 0.5% respectively resulting in the group's weighted countercyclical buffer rate being 1.9% at 31 July 2023 (31 July 2022: 0.0%).

UK CCyB1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer

The table below shows the geographical distribution of credit exposures relevant for the calculation of the CCyB at 31 July 2023:

		a	b	c	d	e	f	g	h	i	j	k	l	m
		General credit exposures		Relevant credit exposures – Market risk		Securitisation exposures	Total exposure value	Own fund requirements				Risk-weighted exposure amounts	Own fund requirements weights (%)	Countercyclical buffer rate (%)
£m		Exposure value under the standardised approach	Exposure value under the IRB approach	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for non-trading book		Relevant credit risk exposures - Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation positions in the non-trading book	Total			
010	**Breakdown by country:**													
	United Kingdom	8,846.3	—	21.3	—	—	**8,867.6**	635.1	1.7	—	636.8	**7,960.0**	**93.40**	**2.00**
	Ireland	494.7	—	0.2	—	—	**494.9**	28.3	—	—	28.3	**353.9**	**4.15**	**0.50**
	Jersey	84.9	—	0.1	—	—	**84.9**	6.1	—	—	6.1	**76.3**	**0.89**	**0.00**
	Germany	33.8	—	—	—	—	**33.8**	2.3	—	—	2.3	**28.7**	**0.34**	**0.75**
	Luxembourg	4.2	—	—	—	—	**4.2**	0.3	—	—	0.3	**4.2**	**0.05**	**0.50**
	Netherlands	0.1	—	—	—	—	**0.1**	—	—	—	—	**—**	**0.00**	**1.00**
	France	—	—	—	—	—	**—**	—	—	—	—	**—**	**0.00**	**0.50**
	Sweden	—	—	—	—	—	**—**	—	—	—	—	**—**	**0.00**	**2.00**
	Other countries[1]	95.5	—	0.2	—	—	**95.7**	7.9	—	—	7.9	**99.0**	**1.16**	**0.00**
020	**Total**	**9,559.5**	**—**	**21.7**	**—**	**—**	**9,581.2**	**680.0**	**1.7**	**—**	**681.8**	**8,522.1**	**100.00**	**0.00**

1 'Other countries' includes general credit exposures to countries where the own funds requirement is less than 0.5% of the group's total. Included in this row are exposures to British Virgin Islands, Canada, Cayman Islands, Cyprus, Finland, Guernsey, Indonesia, Isle of Man, Malta, Monaco, New Zealand and United States and these countries have a 0.0% CCyB rate.

UK CCyB2 – Amount of institution-specific countercyclical capital buffer

£m		a
1	Total risk exposure amount[1]	**9,847.6**
2	Institution specific countercyclical capital buffer rate	**1.9**
3	Institution specific countercyclical capital buffer requirement	**186.3**

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

Annex XI: Leverage ratio

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 and is reported to the CAC on a monthly basis.

UK LRA – Disclosure of LR qualitative information

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

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

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

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

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

The group's leverage ratio excluding claims on central banks was 11.4% (31 July 2022: 12.0%). The leverage ratio decreased on the position at the end of the 2022 financial year, primarily due to the reduction in tier 1 capital driven by a decrease in the transitional IFRS 9 add-back to capital and the deduction for dividends paid and foreseen, offset by capital generation through profit. See Annex VII for more information.

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

The table below shows a reconciliation between the total assets under IFRS standards and the leverage ratio exposure measure calculated in accordance with CRR.

		a
£m		**Applicable amount**
1	Total assets as per published financial statements	**13,550.3**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	—
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	—
4	(Adjustment for exemption of exposures to central banks)	**(1,937.0)**
5	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the total exposure measure in accordance with point (i) of Article 429a(1) of the CRR)	—
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	—
7	Adjustment for eligible cash pooling transactions	—
8	Adjustment for derivative financial instruments	**(29.2)**
9	Adjustment for securities financing transactions (SFTs)	**(31.4)**
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**193.9**
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced tier 1 capital (leverage))	—
UK-11a	(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) of the CRR)	—
UK-11b	(Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) of the CRR)	—
12	Other adjustments	**(251.6)**
13	**Total exposure measure**	**11,495.0**

UK LR2 – LRCom: Leverage ratio common disclosure

The table below shows the composition of the group's leverage ratio at 31 July 2023 in the disclosure format required by the CRR. Certain rows of this table have not been presented as they are not applicable to the group.

		Leverage ratio exposures	
		a	b
£m		**31 Jul 2023**	31 Jul 2022
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	**13,436.3**	12,629.1
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework	**—**	—
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**—**	—
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	**—**	—
5	(General credit risk adjustments to on-balance sheet items)	**—**	—
6	(Asset amounts deducted in determining tier 1 capital (leverage))	**(263.7)**	(256.0)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**13,172.6**	**12,373.1**
	Derivative exposures[1]		
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	**16.4**	—
UK-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	**—**	—
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	**21.2**	—
UK-9a	Derogation for derivatives: potential future exposure contribution under the simplified standardised approach	**—**	—
UK-9b	Exposure determined under the original exposure method	**21.7**	238.6
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	**—**	—
UK-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	**—**	—
UK-10b	(Exempted CCP leg of client-cleared trade exposures) (original exposure method)	**—**	—
11	Adjusted effective notional amount of written credit derivatives	**—**	—
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**—**	—
13	**Total derivatives exposures**	**59.3**	**238.6**
	Securities financing transaction (SFT) exposures		
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	**37.6**	48.4
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(31.4)**	—
16	Counterparty credit risk exposure for SFT assets	**—**	—
UK-16a	Derogation for SFTs: counterparty credit risk exposure in accordance with Articles 429e(5) and 222 of CRR	**—**	—
17	Agent transaction exposures	**—**	—
UK-17a	(Exempted CCP leg of client-cleared SFT exposures)	**—**	—
18	**Total securities financing transaction exposures**	**6.2**	**48.4**
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	**1,222.9**	1,219.5
20	(Adjustments for conversion to credit equivalent amounts)	**(1,029.0)**	(998.3)
21	(General provisions deducted in determining tier 1 capital (leverage) and specific provisions associated with off-balance sheet exposures)	**—**	—
22	**Off-balance sheet exposures**	**193.9**	**221.2**
	Capital and total exposure measure		
23	Tier 1 capital (leverage)	**1,310.8**	1,396.7
24	Total exposure measure including claims on central banks	**13,432.0**	12,881.3
UK-24a	(-) Claims on central banks excluded	**1,937.0**	1,254.7
UK-24b	Total exposure measure excluding claims on central banks	**11,495.0**	11,626.6
	Leverage ratio[2]		
25	Leverage ratio excluding claims on central banks (%)	**11.4**	12.0
UK-25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**11.2**	11.4
UK-25c	Leverage ratio including claims on central banks (%)	**9.8**	10.8

1 At 31 July 2022, the group calculated derivative exposure amounts in the banking book under the standardised approach as the size of derivative business exceeded the thresholds set out in CRR article 273a. At 31 July 2022 Close Brothers calculated derivative exposure amounts under the mark-to-market ("MTM") method with a change of calculation to the original exposure method under CRR rules effective 1st January 2022. Therefore, comparative derivative exposure amounts as at 31 July 2022 are being shown in row UK-9b as there are no relevant rows relating to the MTM method in this template.

2 Close Brothers does not apply the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income under CRR article 468 and so row UK-25b is not applicable.
3 Close Brothers is not an LREQ firm so rows 26 to UK-34 are not applicable.
4 The explanations for changes in the leverage ratio are included in UK LRA.

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

		a
£m		**Leverage ratio exposures**
UK-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**13,436.3**
UK-2	Trading book exposures	**731.3**
UK-3	Banking book exposures, of which:	**12,705.0**
UK-4	Covered bonds	**106.3**
UK-5	Exposures treated as sovereigns	**2,134.0**
UK-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	**39.3**
UK-7	Institutions	**330.5**
UK-8	Secured by mortgages of immovable properties	**1,640.2**
UK-9	Retail exposures	**4,267.4**
UK-10	Corporates	**3,087.2**
UK-11	Exposures in default	**221.0**
UK-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	**879.3**

Annex XIII: Liquidity requirements

UK LIQA – Liquidity risk management

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

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

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

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

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

Funding and liquidity are managed on a legal entity basis with each of the group's divisions responsible for ensuring it maintains sufficient liquidity for its own purposes. The group's divisions operate independently of each other with no liquidity reliance.

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

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

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

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

(f) An outline of contingency funding plans

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

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

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

(g) An explanation of how stress testing is used

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

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

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

Stress testing also represents a critical component of both the group's ICAAP and ILAAP, with scenario analysis additionally employed as part of the group's Recovery Plan.

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

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

The Banking division’s ILAAP covers potential event drivers from a range of stress testing scenarios, including idiosyncratic examples. This ensures liquidity management remains a source of strength and features a robust and prudent approach to assessing and maintaining liquidity requirements. The Banking division’s ILAAP is combined with Internal Capital Adequacy and Risk Assessments from Winterflood and CBAM, alongside the company considerations, to form the group ILAAP.

The group’s LCR is significantly above the regulatory requirement. This is because the nature of the funding model means that it holds higher inflows compared to outflows within the 30-day period and significantly more HQLAs than are required under regulatory metrics.

Liquidity risk is assessed on a daily basis to ensure adequate liquidity is held and remains readily accessible in stressed conditions. Funding and liquidity risks are reviewed at each meeting of the GALCO. For more information see section LIQA (d) above)

For further details see page 119 of the group's Annual Report.

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

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

For more information on key ratios and figures on group funding and liquidity see page 70 to 71 of the group’s Annual Report and the LCR template (UK LIQ1) and NSFR template (UK LIQ2) below.

UK LIQ1 – Quantitative information of LCR

The table below shows the breakdown of the group's HQLAs, cash outflows and cash inflows, calculated as the simple averages of month-end observations over the 12 months preceding the reporting date, on an unweighted and weighted basis.

		a	b	c	d	e	f	g	h
£m		Total unweighted value (average)				Total weighted value (average)			
UK 1a	Quarter ending on	**31 Jul 2023**	30 Apr 2023	31 Jan 2023	31 Oct 2022	**31 Jul 2023**	30 Apr 2023	31 Jan 2023	31 Oct 2022
UK 1b	Number of data points used in the calculation of averages	**12**	12	12	12	**12**	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					**1,931.8**	1,703.8	1,500.6	1,307.1
CASH - OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	**598.0**	545.3	509.5	470.8	**116.1**	110.7	102.1	92.7
3	*Stable deposits*	**224.5**	187.4	157.3	123.3	**11.2**	9.4	7.9	6.2
4	*Less stable deposits*	**373.4**	357.9	352.3	347.5	**104.9**	101.3	94.2	86.5
5	Unsecured wholesale funding	**473.5**	461.7	431.4	435.6	**297.1**	293.2	265.8	274.8
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	**—**	—	—	—	**—**	—	—	—
7	*Non-operational deposits (all counterparties)*	**435.4**	429.4	420.3	422.0	**259.0**	260.9	254.7	261.2
8	*Unsecured debt*	**38.1**	32.4	11.1	13.6	**38.1**	32.4	11.1	13.6
9	*Secured wholesale funding*					**5.1**	4.6	3.5	3.4
10	Additional requirements	**1,331.4**	1,310.3	1,281.2	1,265.4	**225.7**	205.2	188.0	176.2
11	*Outflows related to derivative exposures and other collateral requirements*	**116.3**	97.7	83.3	72.8	**116.3**	97.7	83.3	72.8
12	*Outflows related to loss of funding on debt products*	**—**	—	—	—	**—**	—	—	—
13	*Credit and liquidity facilities*	**1,215.1**	1,212.6	1,197.8	1,192.6	**109.4**	107.5	104.7	103.4
14	Other contractual funding obligations	**63.8**	55.9	51.8	52.9	**32.2**	24.8	21.1	22.7
15	Other contingent funding obligations	**—**	—	—	—	**—**	—	—	—
16	TOTAL CASH OUTFLOWS					**676.2**	638.6	580.4	569.8
CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	**42.2**	51.9	79.0	109.7	**19.7**	22.3	24.6	26.8
18	Inflows from fully performing exposures	**1,603.0**	1,544.7	1,484.7	1,427.0	**905.1**	869.9	830.6	796.5
19	Other cash inflows	**123.9**	110.2	113.0	149.9	**123.9**	110.2	113.0	149.9
UK-19 a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					**—**	—	—	—
UK-19 b	(Excess inflows from a related specialised credit institution)					**—**	—	—	—
20	TOTAL CASH INFLOWS	**1,904.3**	1,826.5	1,759.2	1,704.7	**1,183.9**	1,122.2	1,050.7	991.2
UK-20 a	*Fully exempt inflows*	**—**	—	—	—	**—**	—	—	—
UK-20 b	*Inflows subject to 90% cap*	**—**	—	—	—	**—**	—	—	—
UK-20c	*Inflows subject to 75% cap*	**1,904.3**	1,826.5	1,759.2	1,704.7	**1,183.9**	1,122.2	1,050.7	991.2
TOTAL ADJUSTED VALUE									
UK-21	LIQUIDITY BUFFER					**1,931.8**	1,703.8	1,500.6	1,307.1
22	TOTAL NET CASH OUTFLOWS					**169.0**	159.6	145.1	142.5
23	LIQUIDITY COVERAGE RATIO					**1,142.8**	1,067.2	1,034.2	917.5

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

(a) Main drivers of LCR results

The group's LCR is driven by a combination of the size of the liquid asset buffer, funding requirements from upcoming maturities and commitments to lend in the Banking division.

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

The 12-month average LCR has increased over the financial year due to net outflows increasing at a lower rate than the liquid asset buffer.

Average HQLAs increased due to an increase in cash held at the Bank of England. Average unweighted net outflows from funding have increased over the year but a greater proportion of retail over wholesale funding is payable, resulting in a lower stressed outflow rate. A higher interest rate environment has also increased outflows on derivative products.

(c) Explanations on the actual concentration of funding sources

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

Over the 12 months to 31 July 2023 a greater proportion of funding has been sourced from the retail sector and via securitisations.

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

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

(e) Derivative exposures and potential collateral calls

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

(f) Currency mismatch in the LCR

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

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

There are no other relevant items.

UK LIQ2 – Net Stable Funding Ratio (NSFR)

The table below shows the breakdown of the group's available stable funding ("ASF") and required stable funding ("RSF"), calculated as the simple averages of quarter-end observations over the 12 months preceding the reporting date, on an unweighted and weighted basis.

		a	b	c	d	e
		Unweighted value by residual maturity (average)				Total weighted value (average)
£m		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	1,607.2	1.1	—	175.1	1,782.3
2	*Own funds*	1,607.2	1.1	—	175.1	1,782.3
3	*Other capital instruments*		—	—	—	—
4	Retail deposits		1,856.2	1,010.6	1,048.1	3,688.8
5	*Stable deposits*		802.9	408.5	429.1	1,579.9
6	*Less stable deposits*		1,053.4	602.1	619.0	2,108.8
7	Wholesale funding		2,485.3	1,127.1	2,582.6	3,895.9
8	*Operational deposits*		—	—	—	—
9	*Other wholesale funding*		2,485.3	1,127.1	2,582.6	3,895.9
10	Interdependent liabilities		—	—	—	—
11	Other liabilities	55.5	849.2	12.5	60.4	66.6
12	*NSFR derivative liabilities*	55.5				—
13	*All other liabilities and capital instruments not included in the above categories*		849.2	12.5	60.4	66.6
14	**Total available stable funding (ASF)**					**9,433.6**
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					189.6
UK-15 a	Assets encumbered for more than 12m in cover pool		—	—	—	—
16	Deposits held at other financial institutions for operational purposes		—	—	—	—
17	Performing loans and securities:		3,783.9	1,345.2	4,176.3	6,513.1
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		—	—	—	—
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		255.4	4.2	23.5	66.9
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		3,474.0	1,328.3	4,119.8	6,383.8
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		5.1	5.2	29.8	24.5
22	*Performing residential mortgages, of which:*		—	—	—	—
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		—	—	—	—
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		54.5	12.6	33.0	62.4
25	Interdependent assets		—	—	—	—
26	Other assets:	—	—	—	—	860.8
27	*Physical traded commodities*				—	—
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*				13.3	11.3
29	*NSFR derivative assets*				64.5	64.5
30	*NSFR derivative liabilities before deduction of variation margin posted*				150.0	7.5
31	*All other assets not included in the above categories*		951.6	28.4	486.4	777.5
32	Off-balance sheet items		260.0	278.0	646.9	62.1
33	**Total RSF**					**7,483.5**
34	**Net Stable Funding Ratio (%)**					**126.0**

Annex XV: Credit risk quality

UK CRA – General qualitative information about credit risk

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

Credit risk across the group arises predominantly through the lending and treasury activities of the Banking division. As a lender to businesses and individuals, the group is exposed to credit losses if customers are unable to repay loans and outstanding interest and fees. At 31 July 2023 the group had loans and advances to customers amounting to £9,255.0 million.

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

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

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

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

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

1. To lend within familiar asset classes, in well-known and understood markets;
2. To operate as a predominantly secured, or structurally protected, lender against identifiable and accessible assets, and maintain conservative loan-to-value (“LTV”) ratios across the Banking division's portfolios;
3. To maintain a diversified loan portfolio (by business, asset class and UK geography), as well as a short average tenor and low average loan size;
4. To rely on local underwriting expertise, with authority delegated from the Risk Committee, with ongoing central oversight;
5. To maintain rigorous and timely collections and arrears management processes; and
6. To operate strong control and governance within our lending businesses, overseen by a central group credit risk team.

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

The CRAS is embedded into business unit credit risk management through a hierarchy of local triggers and limits, which are approved by the CRMC. Performance is also monitored monthly via divisions Risk and Compliance Committees (“RCCs"). Material breaches are escalated via established governance channels.

CRAS metrics are closely aligned with the group’s overall strategy to facilitate monitoring of the composition and quality of the loan book to ensure it remains within defined appetite.

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

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

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

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

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

The credit risk framework aligns with the broader “three lines of defence” approach, with a governance structure flowing from local first line business teams, up to second line Risk Directors (and key oversight committees such as Credit Committees, RCCs, CRMC, Model Governance Committee and the Risk Committee), overlaid with a third line group internal audit function.

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

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

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

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

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

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

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

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

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

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

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

The group does not use the Internal Ratings Based (IRB) approach for credit risk.

UK CR1 – Performing and non-performing exposures and related provisions

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
£m			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
005	Cash balances at central banks and other demand deposits	**2,209.5**	2,209.5	—	—	—	—	(0.2)	(0.2)	—	—	—	—	—	—	—
010	Loans and advances	**9,906.8**	8,840.9	1,063.9	**586.7**	—	586.7	(90.7)	(58.4)	(32.3)	(292.2)	—	(292.2)	(79.3)	**8,001.2**	**221.2**
020	Central banks	**18.8**	18.8	—	—	—	—	—	—	—	—	—	—	—	—	—
030	General governments	**39.5**	17.0	22.5	—	—	—	(0.2)	—	(0.2)	—	—	—	—	**29.1**	—
040	Credit institutions	**173.9**	173.8	0.1	**0.1**	—	0.1	—	—	—	—	—	—	—	—	—
050	Other financial corporations	**687.6**	674.4	11.2	**1.2**	—	1.2	(0.5)	(0.3)	(0.2)	(0.2)	—	(0.2)	—	**29.8**	**0.3**
060	Non-financial corporations	**6,313.9**	5,479.7	834.2	**271.3**	—	271.3	(50.4)	(32.8)	(17.6)	(66.5)	—	(66.5)	(16.7)	**5,393.0**	**191.0**
070	*Of which SMEs*	**4,610.0**	4,002.3	607.7	**189.7**	—	189.7	(40.2)	(25.7)	(14.5)	(42.7)	—	(42.7)	—	**3,889.9**	**135.2**
080	Households	**2,673.1**	2,477.2	195.9	**314.1**	—	314.1	(39.6)	(25.3)	(14.3)	(225.5)	—	(225.5)	(62.6)	**2,549.3**	**29.9**
090	Debt securities	**292.5**	292.5	—	—	—	—	(0.3)	(0.3)	—	—	—	—	—	—	—
100	Central banks	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
110	General governments	**186.2**	186.2	—	—	—	—	(0.2)	(0.2)	—	—	—	—	—	—	—
120	Credit institutions	**106.3**	106.3	—	—	—	—	(0.1)	(0.1)	—	—	—	—	—	—	—
130	Other financial corporations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
140	Non-financial corporations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
150	Off-balance-sheet exposures	**1,343.6**	1,320.9	22.7	**2.1**	—	2.1	—	—	—	—	—	—		—	—
160	Central banks	—	—	—	—	—	—	—	—	—	—	—	—		—	—
170	General governments	**4.7**	4.7	—	—	—	—	—	—	—	—	—	—		—	—
180	Credit institutions	**106.7**	106.7	—	—	—	—	—	—	—	—	—	—		—	—
190	Other financial corporations	—	—	—	—	—	—	—	—	—	—	—	—		—	—
200	Non-financial corporations	**1,221.2**	1,198.5	22.7	**2.0**	—	2.0	—	—	—	—	—	—		—	—
210	Households	**11.0**	11.0	—	**0.1**	—	0.1	—	—	—	—	—	—		—	—
220	**Total**	**13,752.4**	**12,663.8**	**1,086.6**	**588.8**	—	**588.8**	**(91.2)**	**(58.9)**	**(32.3)**	**(292.2)**	—	**(292.2)**	**(79.3)**	**8,001.2**	**221.2**

UK CR1-A – Maturity of exposures

		a	b	c	d	e	f
		Net exposure value					
£m		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Loans and advances	81.0	5,783.6	4,088.3	136.9	18.8	**10,108.6**
2	Debt securities	—	33.8	72.5	186.0	—	**292.2**
3	**Total**	**81.0**	**5,817.3**	**4,160.8**	**322.9**	**18.8**	**10,400.8**

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

		a
£m		Gross carrying amount
010	Initial stock of non-performing loans and advances	**363.9**
020	Inflows to non-performing portfolios	**526.6**
030	Outflows from non-performing portfolios	**(303.8)**
040	*Outflows due to write-offs*	**(105.3)**
050	*Outflow due to other situations*	**(198.5)**
060	**Final stock of non-performing loans and advances**	**586.7**

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

		a	b
£m		Gross carrying amount	Related net accumulated recoveries
010	Initial stock of non-performing loans and advances	**363.9**	
020	Inflows to non-performing portfolios	**526.6**	
030	Outflows from non-performing portfolios	**(303.8)**	
040	*Outflow to performing portfolio*	**(22.9)**	
050	*Outflow due to loan repayment, partial or total*	**(155.1)**	
060	*Outflow due to collateral liquidations*	—	—
070	*Outflow due to taking possession of collateral*	—	—
080	*Outflow due to sale of instruments*	—	—
090	*Outflow due to risk transfers*	—	—
100	*Outflows due to write-offs*	**(105.3)**	
110	*Outflow due to other situations*	**(20.5)**	
120	*Outflow due to reclassification as held for sale*	—	
130	**Final stock of non-performing loans and advances**	**586.7**	

UK CQ1 – Credit quality of forborne exposures

£m		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne	Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
005	Cash balances at central banks and other demand deposits	**—**	**—**	—	—	—	—	—	—
010	Loans and advances	**33.6**	**181.0**	181.0	181.0	(2.3)	(53.6)	152.9	125.8
020	*Central banks*	**—**	**—**	—	—	—	—	—	—
030	*General governments*	**—**	**—**	—	—	—	—	—	—
040	*Credit institutions*	**—**	**—**	—	—	—	—	—	—
050	*Other financial corporations*	**0.4**	**—**	—	—	—	—	0.4	—
060	*Non-financial corporations*	**30.6**	**151.1**	151.1	151.1	(2.1)	(37.2)	137.7	112.6
070	*Households*	**2.6**	**29.9**	29.9	29.9	(0.2)	(16.4)	14.8	13.2
080	Debt Securities	**—**	**—**	—	—	—	—	—	—
090	Loan commitments given	**—**	**1.9**	1.9	1.9	—	—	—	—
100	**Total**	**33.6**	**182.9**	182.9	182.9	(2.3)	(53.6)	152.9	125.8

UK CQ2 – Quality of forbearance

£m		a
		Gross carrying amount of forborne exposures
010	Loans and advances that have been forborne more than twice	—
020	Non-performing forborne loans and advances that failed to meet the non-performing exit criteria	181.0

UK CQ3 – 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								
£m			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
005	Cash balances at central banks and other demand deposits	**2,209.5**	2,209.5	—	**—**	—	—	—	—	—	—	—	—
010	Loans and advances	**9,906.8**	9,775.1	131.7	**586.7**	287.6	68.8	75.0	68.9	68.8	1.9	15.7	586.7
020	Central banks	**18.8**	18.8	—	**—**	—	—	—	—	—	—	—	—
030	General governments	**39.5**	39.5	—	**—**	—	—	—	—	—	—	—	—
040	Credit institutions	**173.9**	173.8	0.1	**0.1**	—	0.1	—	—	—	—	—	0.1
050	Other financial corporations	**687.6**	683.1	4.5	**1.2**	0.4	0.5	—	—	—	0.2	0.1	1.2
060	Non-financial corporations	**6,313.9**	6,206.3	107.6	**271.3**	114.8	43.4	30.1	21.7	45.6	0.7	15.0	271.3
070	*Of which SMEs*	**4,610.0**	4,531.9	78.1	**189.7**	57.2	41.5	27.0	16.7	31.6	0.7	15.0	189.7
080	Households	**2,673.1**	2,653.6	19.5	**314.1**	172.4	24.8	44.9	47.2	23.2	1.0	0.6	314.1
090	Debt securities	**292.5**	292.5	—	**—**	—	—	—	—	—	—	—	—
100	Central banks	**—**	—	—	**—**	—	—	—	—	—	—	—	—
110	General governments	**186.2**	186.2	—	**—**	—	—	—	—	—	—	—	—
120	Credit institutions	**106.3**	106.3	—	**—**	—	—	—	—	—	—	—	—
130	Other financial corporations	**—**	—	—	**—**	—	—	—	—	—	—	—	—
140	Non-financial corporations	**—**	—	—	**—**	—	—	—	—	—	—	—	—
150	Off-balance-sheet exposures	**1,343.6**			**2.1**								2.1
160	Central banks	**—**			**—**								—
170	General governments	**4.7**			**—**								—
180	Credit institutions	**106.7**			**—**								—
190	Other financial corporations	**—**			**—**								—
200	Non-financial corporations	**1,221.2**			**2.0**								2.0
210	Households	**11.0**			**0.1**								0.1
220	**Total**	**13,752.4**	**12,277.1**	**131.7**	**588.8**	**287.6**	**68.8**	**75.0**	**68.9**	**68.8**	**1.9**	**15.7**	**588.8**

UK CQ4 - Quality of non-performing exposures by geography

		a	b	c	d	e	f	g
		Gross carrying/nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which subject to impairment			
£m				Of which defaulted				
010	On-balance-sheet exposures	**10,786.0**	586.7	586.7	10,784.0	(383.2)		—
	United Kingdom	**9,788.7**	552.7	552.7	9,786.7	(368.7)		—
	Ireland	**527.2**	6.6	6.6	527.2	(7.0)		—
	Jersey	**91.4**	18.4	18.4	91.4	(4.5)		—
	France	**93.0**	—	—	93.0	(0.1)		—
	Switzerland	**61.9**	—	—	61.9	—		—
	Germany	**26.9**	—	—	26.9	(0.6)		—
	United States	**63.1**	—	—	63.1	—		—
	Other countries[1]	**133.8**	9.0	9.0	133.8	(2.3)		—
020	Off-balance-sheet exposures	**1,345.7**	2.1	2.1			—	
	United Kingdom	**1,296.8**	2.0	2.0			—	
	Ireland	**—**	—	—			—	
	Jersey	**3.9**	0.1	0.1			—	
	Germany	**37.2**	—	—			—	
	Other countries[1]	**7.8**	—	—			—	
030	**Total**	12,131.7	588.8	588.8	10,784.0	(383.2)	—	—

1 Included in rows "other countries" are aggregated on and off-balance sheet exposures to countries under 0.5% of total gross carrying amounts (column a, rows 010 and 020). Included in other countries are immaterial exposures to Australia, British Virgin Islands, Canada, Cayman Islands, Cyprus, Finland, Gibraltar, Guernsey, Isle Of Man, Italy, Luxembourg, Malta, Monaco, Netherlands, New Zealand, Norway and Poland.

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

		a	b	c	d	e	f
		Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which loans and advances subject to impairment		
£m				Of which defaulted			
010	Agriculture, forestry and fishing	**56.6**	2.0	2.0	56.6	(1.3)	—
020	Mining and quarrying	**38.7**	—	—	38.7	(0.4)	—
030	Manufacturing	**837.8**	34.5	34.5	837.8	(16.2)	—
040	Electricity, gas, steam and air conditioning supply	**442.4**	3.2	3.2	442.4	(1.9)	—
050	Water supply	**87.2**	2.4	2.4	87.2	(1.3)	—
060	Construction	**2,194.6**	176.5	176.5	2,194.6	(49.1)	—
070	Wholesale and retail trade	**531.7**	6.5	6.5	531.7	(8.8)	—
080	Transport and storage	**560.6**	13.1	13.1	560.6	(8.9)	—
090	Accommodation and food service activities	**50.6**	0.9	0.9	50.6	(1.0)	—
100	Information and communication	**96.9**	0.8	0.8	96.9	(0.9)	—
110	Real estate activities	**45.7**	0.8	0.8	45.7	(0.7)	—
120	Financial and insurance activities	**—**	—	—	—	—	—
130	Professional, scientific and technical activities	**320.6**	7.5	7.5	320.6	(9.6)	—
140	Administrative and support service activities	**811.5**	9.7	9.7	811.5	(8.8)	—
150	Public administration and defence, compulsory social security	**2.6**	—	—	2.6	(0.1)	—
160	Education	**26.6**	0.4	0.4	26.6	(0.5)	—
170	Human health services and social work activities	**130.6**	0.7	0.7	130.6	(1.5)	—
180	Arts, entertainment and recreation	**143.6**	8.8	8.8	143.6	(2.9)	—
190	Other services	**206.9**	3.5	3.5	206.9	(3.0)	—
200	**Total**	**6,585.2**	**271.3**	**271.3**	**6,585.2**	**(116.9)**	**—**

UK CQ6 - Collateral valuation - loans and advances

		a	b	c	d	e	f	g	h	i	j	k	l
		Loans and advances											
			Performing		Non-performing								
						Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days						
£m				Of which past due > 30 days ≤ 90 days				Of which past due > 90 days ≤ 180 days	Of which: past due > 180 days ≤ 1 year	Of which: past due > 1 years ≤ 2 years	Of which: past due > 2 years ≤ 5 years	Of which: past due > 5 years ≤ 7 years	Of which: past due > 7 years
010	Gross carrying amount	10,493.5	9,906.8	131.7	586.7	287.6	299.1	68.8	75.0	68.9	68.8	1.9	15.7
020	*Of which secured*	9,125.8	8,802.7	127.0	323.1	149.0	174.1	49.0	35.0	24.8	48.2	1.4	15.7
030	*Of which secured with immovable property*	1,744.7	1,575.4	97.6	169.3	74.7	94.6	7.4	12.8	15.2	42.9	0.9	15.4
040	*Of which instruments with LTV higher than 60% and lower or equal to 80%*	559.3	519.6		39.7	10.0	29.7						
050	*Of which instruments with LTV higher than 80% and lower or equal to 100%*	26.5	3.7		22.8	7.8	15.0						
060	*Of which instruments with LTV higher than 100%*	74.7	—		74.7	32.9	41.8						
070	Accumulated impairment for secured assets	(179.6)	(79.2)	(5.7)	(100.4)	(46.3)	(54.1)	(13.7)	(12.5)	(8.2)	(13.8)	(0.4)	(5.5)
080	Collateral												
090	*Of which value capped at the value of exposure*	8,026.2	7,819.3	119.8	206.9	90.3	116.6	34.6	20.8	15.9	34.3	0.9	10.1
100	*Of which immovable property*	1,703.1	1,568.7	96.3	134.4	56.3	78.1	7.2	12.1	13.8	34.1	0.9	10.0
110	*Of which value above the cap*	713.2	664.1	3.4	49.1	22.0	27.1	6.5	2.5	2.2	10.5	—	5.4
120	*Of which immovable property*	41.6	6.7	1.3	34.9	18.4	16.5	0.2	0.7	1.4	8.8	—	5.4
130	Financial guarantees received	196.2	181.9	2.7	14.3	6.1	8.2	3.9	3.1	1.2	—	—	—
140	Accumulated partial write-off	(79.3)	—	—	(79.3)	(34.5)	(44.8)	(2.9)	(9.3)	(10.8)	(5.1)	—	(16.7)

UK CQ7 - Collateral obtained by taking possession and execution processes

The group has no collateral obtained by taking possession recognised on balance sheet so this template has not been presented.

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

The group has no collateral obtained by taking possession recognised on balance sheet so this template has not been presented.

Annex XVII: Credit risk mitigation (CRM) techniques

UK CRC – Information related to CRM techniques

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

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

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

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

Core features include:

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

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

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

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

At 31 July 2023, the group recognised £475.5m of credit risk mitigation with substitution effect which relate to the loans granted with government guarantees under coronavirus support schemes.

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

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

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

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

The table below shows the carrying value of loans and advances and debt securities split between unsecured exposures and secured exposures. Exposures for which some security or collateral has been received are classed as secured in this table irrespective of the level of collateralisation or whether the collateral qualifies as eligible credit risk mitigation for credit risk calculated under the standardised approach.

		Unsecured carrying amount	Secured carrying amount			
				Of which secured by collateral	Of which secured by financial guarantees	
						Of which secured by credit derivatives
£m		a	b	c	d	e
1	Loans and advances	**4,097.5**	**8,222.4**	8,026.2	196.2	—
2	Debt securities	**292.2**	**—**	—	—	
3	**Total**	**4,389.7**	**8,222.4**	**8,026.2**	**196.2**	—
4	*Of which non-performing exposures*	**73.3**	**221.2**	206.9	14.3	—
5	*Of which defaulted*	**73.3**	**221.2**			

Annex XIX: Standardised approach

UK CRD - Information related to standardised model

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

The group uses ECAI ratings provided by Moody’s Investors Service (“Moody’s”) to determine the risk weight of rated counterparties in each standardised credit risk exposure class.

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

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

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

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

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

ECAIs ratings are mapped across to the Credit Quality Step requirements in CRR using European Banking Authority ("EBA") mappings.

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

The table below shows credit risk exposures pre- and post-application of credit conversion factors ("CCF") and CRM and the RWAs for those exposures.

£m	Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWAs	RWAs density (%)
		a	b	c	d	e	f
1	Central governments or central banks	**2,134.0**	**—**	**2,609.5**	**—**	**27.3**	**1.0**
2	Regional government or local authorities	**11.6**	**—**	**11.6**	**—**	**2.3**	**20.0**
3	Public sector entities	**27.7**	**—**	**27.7**	**—**	**5.5**	**20.0**
4	Multilateral development banks	**—**	**—**	**—**	**—**	**—**	**—**
5	International organisations	**—**	**—**	**—**	**—**	**—**	**—**
6	Institutions	**330.5**	**—**	**330.5**	**—**	**68.0**	**20.6**
7	Corporates	**3,087.2**	**167.2**	**2,846.0**	**33.2**	**2,560.9**	**88.9**
8	Retail	**4,267.4**	**9.9**	**4,057.6**	**—**	**2,688.6**	**66.3**
9	Secured by mortgages on immovable property	**274.4**	**5.2**	**274.4**	**1.5**	**247.3**	**89.6**
10	Exposures in default	**221.0**	**1.0**	**196.9**	**0.1**	**235.6**	**119.6**
11	Exposures associated with particularly high risk	**1,365.8**	**1,039.6**	**1,365.4**	**62.6**	**2,141.9**	**150.0**
12	Covered bonds	**106.3**	**—**	**106.3**	**—**	**10.6**	**10.0**
13	Institutions and corporates with a short-term credit assessment	**—**	**—**	**—**	**—**	**—**	**—**
14	Collective investment undertakings	**—**	**—**	**—**	**—**	**—**	**—**
15	Equity	**1.5**	**—**	**1.5**	**—**	**1.5**	**100.0**
16	Other items	**614.1**	**—**	**614.1**	**—**	**614.1**	**100.0**
17	Total	**12,441.3**	**1,222.9**	**12,441.3**	**97.4**	**8,603.5**	**68.6**

UK CR5 - Standardised approach

The table below shows a breakdown of exposures post-CCF and post-CRM. Risk weight categories do not reflect where the SME supporting factor has been applied. Exposures are classed as ‘rated’ only where an ECAI rating has been used to derive the risk weight. Where a rating is unavailable, or where the risk weight has been determined by application of specific CRR provisions, exposures have been classed as unrated.

	Exposure classes	Risk weight															Total	Of which unrated
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others		
£m		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
1	Central governments or central banks	2,598.6	—	—	—	—	—	—	—	—	—	—	10.9	—	—	—	**2,609.5**	—
2	Regional government or local authorities	—	—	—	—	11.6	—	—	—	—	—	—	—	—	—	—	**11.6**	11.6
3	Public sector entities	—	—	—	—	27.7	—	—	—	—	—	—	—	—	—	—	**27.7**	27.7
4	Multilateral development banks	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**—**	—
5	International organisations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**—**	—
6	Institutions	—	—	—	—	330.3	—	—	—	—	—	—	—	—	0.2	—	**330.5**	0.4
7	Corporates	—	—	—	—	—	—	—	—	—	2,879.3	—	—	—	—	—	**2,879.3**	2,879.3
8	Retail exposures	—	—	—	—	—	—	—	—	4,057.6	—	—	—	—	—	—	**4,057.6**	4,057.6
9	Exposures secured by mortgages on immovable property	—	—	—	—	—	—	—	—	—	275.9	—	—	—	—	—	**275.9**	275.9
10	Exposures in default	—	—	—	—	—	—	—	—	—	119.7	77.3	—	—	—	—	**196.9**	196.9
11	Exposures associated with particularly high risk	—	—	—	—	—	—	—	—	—	—	1,427.9	—	—	—	—	**1,427.9**	1,427.9
12	Covered bonds	—	—	—	106.3	—	—	—	—	—	—	—	—	—	—	—	**106.3**	—
13	Exposures to institutions and corporates with a short-term credit assessment	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**—**	—
14	Units or shares in collective investment undertakings	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**—**	—
15	Equity exposures	—	—	—	—	—	—	—	—	—	1.5	—	—	—	—	—	**1.5**	1.5
16	Other items	—	—	—	—	—	—	—	—	—	614.1	—	—	—	—	—	**614.1**	614.1
17	**Total**	**2,598.6**	**—**	**—**	**106.3**	**369.6**	**—**	**—**	**—**	**4,057.6**	**3,890.5**	**1,505.2**	**10.9**	**—**	**0.2**	**—**	**12,538.7**	**9,492.9**

Annex XXI: IRB approach to credit risk

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

Annex XXIII: Specialised lending

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

Annex XXV: Counterparty credit risk

UK CCRA - Information related to CCR

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

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

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

The group does not enter into guarantees to mitigate counterparty credit risk. Collateral is posted and received via standard International Swaps and Derivatives Association ("ISDA") agreements with credit support annexes. The group does not have a hedging programme for CVA risk.

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

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

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

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

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

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

UK CCR1 - Analysis of CCR exposure by approach

		a	b	c	d	e	f	g	h
£m		Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
UK1	Original Exposure Method (for derivatives)	1.2	14.3	—	1.4	21.7	21.7	**21.7**	**4.3**
UK2	Simplified SA-CCR (for derivatives)	—	—	—	1.4	—	—	**—**	**—**
1	SA-CCR (for derivatives)	11.7	13.6	—	1.4	35.5	35.5	**35.5**	**16.8**
2	IMM (for derivatives and SFTs)	—	—	—		—	—	**—**	**—**
2a	*Of which securities financing transactions netting sets*	—	—	—		—	—	**—**	**—**
2b	*Of which derivatives and long settlement transactions netting sets*	—	—	—		—	—	**—**	**—**
2c	*Of which from contractual cross-product netting sets*	—	—	—		—	—	**—**	**—**
3	Financial collateral simple method (for SFTs)	—	—	—		—	—	**—**	**—**
4	Financial collateral comprehensive method (for SFTs)					43.5	7.4	**7.4**	**1.5**
5	VaR for SFTs					—	—	**—**	**—**
6	**Total**					**100.8**	**64.6**	**64.6**	**22.7**

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

£m		a Exposure value	b RWEA
1	Total transactions subject to the Advanced method	—	—
2	(i) VaR component (including the 3× multiplier)		—
3	(ii) stressed VaR component (including the 3× multiplier)		—
4	Transactions subject to the Standardised method	**57.2**	**27.1**
UK4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	—	—
5	**Total transactions subject to own funds requirements for CVA risk**	**57.2**	**27.1**

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

£m	Exposure classes	Risk weight											
		a	b	c	d	e	f	g	h	i	j	k	l
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total exposure value
1	Central governments or central banks	—	—	—	—	—	—	—	—	—	—	—	**—**
2	Regional government or local authorities	—	—	—	—	—	—	—	—	—	—	—	**—**
3	Public sector entities	—	—	—	—	—	—	—	—	—	—	—	**—**
4	Multilateral development banks	—	—	—	—	—	—	—	—	—	—	—	**—**
5	International organisations	—	—	—	—	—	—	—	—	—	—	—	**—**
6	Institutions	—	1.9	—	—	29.1	33.6	—	—	—	—	—	**64.6**
7	Corporates	—	—	—	—	—	—	—	—	—	—	—	**—**
8	Retail	—	—	—	—	—	—	—	—	—	—	—	**—**
9	Institutions and corporates with a short-term credit assessment	—	—	—	—	—	—	—	—	—	—	—	**—**
10	Other items	—	—	—	—	—	—	—	—	—	—	—	**—**
11	**Total exposure value**	**—**	**1.9**	**—**	**—**	**29.1**	**33.6**	**—**	**—**	**—**	**—**	**—**	**64.6**

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

The group does not use the IRB approaches for credit risk and capital management and so the tables and templates in this annex have not been presented.

UK CCR5 - Composition of collateral for CCR exposures

		a	b	c	d	e	f
		Collateral used in derivatives transactions				Collateral used in securities financing transactions (SFTs)	
	Collateral type	Fair value of collateral received (£mn)		Fair value of collateral posted (£mn)		Fair value of collateral received (£mn)	Fair value of collateral posted (£mn)
£m		Segregated	Unsegregated	Segregated	Unsegregated		
1	Cash	12.0	—	128.3	25.8	—	—
2	Debt	—	—	—	—	4.4	—
3	Equity	—	—	—	—	32.1	5.2
4	Other	—	—	—	—	—	—
5	**Total**	**12.0**	**—**	**128.3**	**25.8**	**36.4**	**5.2**

UK CCR6 – Credit derivative exposures

The group does not use credit derivatives to mitigate credit risk so this template has not been presented.

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

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

UK CCR8 – Exposures to CCPs

£m		a Exposure value	b RWEA
1	**Exposures to QCCPs (total)**		**—**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	1.9	—
3	(i) OTC derivatives	1.9	—
4	(ii) Exchange-traded derivatives	—	—
5	(iii) SFTs	—	—
6	(iv) Netting sets where cross-product netting has been approved	—	—
7	Segregated initial margin	25.6	
8	Non-segregated initial margin	—	—
9	Prefunded default fund contributions	—	—
10	Unfunded default fund contributions	—	—
11	**Exposures to non-QCCPs (total)**		**—**
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	—	—
13	(i) OTC derivatives	—	—
14	(ii) Exchange-traded derivatives	—	—
15	(iii) SFTs	—	—
16	(iv) Netting sets where cross-product netting has been approved	—	—
17	Segregated initial margin	—	
18	Non-segregated initial margin	—	—
19	Prefunded default fund contributions	—	—
20	Unfunded default fund contributions	—	—

Annex XXVII: Securitisation positions

The group has securitised without recourse and restrictions £1,436.3 million (31 July 2022: £1,626.8 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £1,187.4 million (31 July 2022: £1,156.0 million restated). This includes the £83.4 million (31 July 2022: £24.3 million) retained notes positioned as collateral with the Bank of England.

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

Annex XXIX: Standardised approach and internal model for market risk

UK MRA - Information related to market risk

(a) The group's strategies and processes to manage market risk (Points (a) and (d) of Article 435 (1) CRR)

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

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

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

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

FX risk is incurred across the group and arises from:

- Managing the funding requirements of the Banking division through deposit gathering and wholesale funding, and managing the associated FX risks;
- Conducting FX payment services on behalf of the group; and
- Non-sterling investments.

The group has a restricted appetite for interest rate risk which is limited to that required to operate efficiently. The group's policy is to match repricing characteristics of assets and liabilities naturally where possible or use interest rate swaps to secure the margin on its loans and advances to customers.

The group has a limited appetite for CSRBB which occurs due to its holdings of HQLA assets, which primarily comprise highly rated UK and European supranational debt, sovereign debt, agency bonds and UK covered bonds.

The group has a restricted appetite for FX risk. It avoids large open positions and sets individual currency limits to mitigate the risk.

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

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

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

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

All marketable securities are "hold to collect and sell" and have their interest rate exposure hedged with vanilla interest rate swaps.

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

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

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

GALCO monitors the non-traded market risk exposure across the group's balance sheet. ALCO monitors the non-traded market risk exposure for the Banking division. Treasury is responsible for the day-to-day management of all non-traded market risks. Day-to-day oversight is exercised via a combination of daily reporting by the treasury finance team, and divisional RCC review and challenge. Further independent oversight is provided via the second line of defence, through the asset liability management risk team ("ALM Risk"), with monthly reporting into ALCO and GALCO.

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

Traded Market Risk

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

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

Non-Traded Market Risk

Treasury holds assets for the purpose of liquidity management; all treasury assets as of 31 July 2023 were LCR level 1. Derivatives are used to mitigate interest rate risk exposure from treasury assets.

Credit spread sensitivity is measured by comparing the impact of a one-basis-point change in credit spread on the value of the Banking division's liquidity portfolio. CSRBB is assessed by calculating potential changes in value of the liquidity portfolio, based on historic stresses to credit spreads.

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

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

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

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

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

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

UK MR1 - Market risk under the standardised approach

		a
		RWEAs
£m	**Outright products**	
1	Interest rate risk (general and specific)	**2.2**
2	Equity risk (general and specific)	**89.1**
3	Foreign exchange risk	**16.9**
4	Commodity risk	**—**
	Options	
5	Simplified approach	**—**
6	Delta-plus approach	**—**
7	Scenario approach	**—**
8	Securitisation (specific risk)	**—**
9	**Total**	**108.2**

UK MRB – Information on the internal Market Risk Models

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

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

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

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

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

UK MR3 – IMA values for trading portfolios

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

UK MR4 – Composition of VaR estimates with gains/losses

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

Annex XXXI: Operational risk

UK ORA - Information on operational risk

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

Operational risk is the risk of loss or adverse impact resulting from inadequate or failed internal processes, people and systems or from external events. This includes the risk of loss resulting from fraud, financial crime, cyber attacks and information security breaches. The group is exposed to various operational risks through its day-to-day operations, all of which have the potential to result in financial loss or adverse impact.

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

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

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

The group separately considers legal and regulatory risk. The group monitors and manages its legal, regulatory and compliance risks through regular engagement and interaction across the organisation, and the implementation of appropriate policies, standards and procedures. This includes reliance on a formal horizon scanning capability to identify changes, as well as regular management information which enables oversight and challenge via RCCs.

Dedicated specialist legal and compliance teams with relevant knowledge and experience provide advice, support and challenge to the group's businesses, enabling alignment with legal and regulatory requirements. These teams further have the ability to consult with external experts on technical or otherwise complex matters as appropriate.

Internal change and investment processes consider regulatory and legal inputs, such that sufficient funding can be allocated to deliver system and process changes in line with evolving regulatory and legal expectations.

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

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

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

The group does not apply the Advanced Measurement Approach ("AMA").

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

	Banking activities	a	b	c	d	e
		Relevant indicator			Own funds requirements	Risk weighted exposure amount
		Year-3	Year-2	Last year		
1	Banking activities subject to basic indicator approach (BIA)	—	—	—	—	—
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	656.7	599.1	592.1	**86.7**	**1,084.0**
3	Subject to TSA:	342.0	272.6	251.1		
4	Subject to ASA:	314.6	326.5	341.0		
5	Banking activities subject to advanced measurement approaches AMA	—	—	—	—	—

1 Amounts in this template shown in £ millions.

Annex XXXIII: Remuneration policy

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

UK REMA – Remuneration policy

Approach to Remuneration

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

The Remuneration 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 91 individuals who were identified as MRTs for the year ended 31 July 2023.

RemCo Membership

The Remuneration Committee ("the Committee") comprises Tracey Graham as chair (assumed role on 17 November 2022), together with Mike Biggs, Peter Duffy, Lesley Jones and Mark Pain. Bridget Macaskill (former chair) and Lesley Jones stood down from the Committee on 17 November 2022. The Committee met five times during the year, in-line with the annual meeting timetable. There were two additional ad hoc meetings in December 2022 and March 2023 to discuss the group's formulaic incentive schemes and approach to 2023 compensation, respectively.

RemCo Responsibilities

The RemCo's main responsibilities are to:

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

Advice

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

Remuneration Philosophy

The reward structure aims to:

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

Our Approach to Remuneration

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

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

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

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

These performance 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 Committee.

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

The Committee believes the remuneration policies balance the requirements of all key stakeholders, including clients, shareholders, regulators and employees. The main metrics used to ensure an appropriate balance between shareholders and employees are (a) the ratio of total compensation to adjusted operating income, which has remained within the narrow band of 37% to 39% over the last 3 years, and (b) dividends as a % of total compensation, which has historically been in the range of 31% to 34%, although dropped to approximately 20% in FY20, and has increased to 25% in FY21 and 29% in both FY22 and FY23.

The Committee believes that the group’s resilient underlying 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.

MIFIDPRU

During FY22 we completed a review of our Remuneration Policies for our in-scope MIFIDPRU divisions and in FY23 have implemented changes to our policies to ensure we comply with MIFIDPRU. CBAM and Winterflood were identified as Standard and Extended firms, respectively. The main changes introduced to our Remuneration Policies included, updated approach to identify MRTs, extended clawback periods to 4 years and introduced appropriate ratios of variable to fixed pay. In Winterflood a deferral instrument was introduced to meet the deferral requirements for an Extended firm.

Remuneration

Base Salary

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

Bonus Schemes

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

A portion of any discretionary bonus above certain thresholds and for certain individuals is deferred. The Group 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. Both cash and deferred awards for Code Staff are typically subject to forfeiture, malus and clawback provisions. The malus provisions mean that the awards may be subject to forfeiture or may be reduced after grant in certain adverse circumstances. The clawback provisions mean that the awards already paid out may be subject to repayment in certain circumstances.

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

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

Long Term Incentive Plan ("LTIP") Award

The LTIP is delivered through an annual award of nil cost options with a face value of up to 125% of base salary for both the Group Chief Executive and the Group Finance Director. Group Executive Committee ("ExCo") members are generally eligible to receive 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 2023 awards:

- 30% of the award is subject to average Return on average Tangible Equity ("RoTE");
- 20% of the award is subject to adjusted earnings per share ("EPS") growth;
- 20% of the award is subject to relative Total Shareholder Return ("TSR") versus FTSE 250 FS companies; and
- 30% of the award is subject to risk management objectives.

Targets for the LTIP awards for 2023 were:

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

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

TSR over three years	Vesting % of TSR element
Upper quartile ranking	100%
Between medium and upper quartile	Straight-line between these points
Medium ranking	25%
Less Medium ranking	0%

Risk Management Objectives

There are two objectives, with equal weighting of each:

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

There is an additional two year holding period after vesting, therefore the overall restricted period is five years. The LTIP awards are subject to forfeiture, malus and clawback provisions.

Performance Share Awards

This year, performance share awards will be used alongside or instead of LTIP awards for other senior employees within group and Banking. These awards will be delivered through nil cost options awards and will vest after 3 years, subject to individual performance criteria and CET1 achieving at least 1% above the regulatory minimum, calculated on a standardised basis.

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

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

Risk Management

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

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

Top-down review

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

Bottom-up review

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

Ex-ante review

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

Ex-post review

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

Recovery and Withholding

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

The cash bonus is subject to clawback from award for a period of seven years (extendable to ten years where the group or a regulatory authority has started an investigation) for executive directors and group and Banking Senior Management Function ("SMF"), seven years for "Higher Paid" code staff in group and Banking, three years in CBAM and Winterflood, and one year for other Code Staff.

The deferred bonuses for Code Staff are subject to malus prior to vesting. In addition, the deferred bonuses for Code Staff are subject to clawback from the date of grant for the period of seven years (extendable to ten years where the group or a regulatory authority has started an investigation) for executive eirectors and group and Banking SMF, seven years for "Higher Paid" Code Staff and five years for other Code Staff in group and Banking. Clawback for Code Staff in CBAM and Winterflood is for a period of four years.

The LTIP is subject to malus for the three year period to the point of vesting. In addition, LTIP is subject to clawback from the date of grant for seven years (extendable to ten years where the group or a regulatory authority has started an investigation) for executive directors and group and Banking SMF and seven years for "Higher Paid" Code Staff.

The Performance Share Awards are subject to malus for the three year period to the point of vesting. In addition, Performance Share Awards are subject to clawback from the date of grant for seven years (extendable to ten years where the group or a regulatory authority has started an investigation) for SMF, seven years for "Higher Paid" code staff and five years for other Code Staff.

The events which may trigger malus are as follows:

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

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

The events which may trigger clawback are as follows:

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

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

Link between reward and performance - financial year 2023

The group performed well in the last six months of the financial year, following a challenging first half, with the full year 2023 results significantly impacted by the increased provisions in relation to Novitas. We saw an acceleration of loan book growth since the first half, with strong margins and a stable credit performance in Banking. CBAM continued to attract new client assets and achieved strong net inflows, though Winterflood's performance remained impacted by significantly subdued trading activity. Group adjusted operating profit reduced 52% to 113.5 million (2022: £234.8 million). Excluding Novitas, adjusted operating profit reduced 20% to £220.1 million (2022: £274.1 million), mainly reflecting an increase in impairment charges and a reduction in income in Winterflood.

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

In light of shareholder experience over the last year, the Executive Directors advised the Committee that they wished to forgo bonuses for FY23. Additionally, acknowledging that there have been a number of headwinds over which our executive had no control the Committee determined, in agreement with the executives, that there will be no pay-out under the group LTIP for FY23.

UK REM5 - Information on remuneration of staff whose professional activities have a material impact on group's risk profile (2023)

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						
£m		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	Total number of identified staff										91.0
2	*Of which: members of the MB*	11	2	13							
3	*Of which: other senior management*				11	9	13	4	1	—	
4	*Of which: other identified staff*				—	23	13	4	—	—	
5	Total remuneration of identified staff	1.1	2.8	3.9	3.1	11.6	12.0	4.3	0.4	—	
6	*Of which: variable remuneration*	—	1.1	1.1	0.4	4.5	6.8	2.3	0.2	—	
7	*Of which: fixed remuneration*	1.1	1.7	2.8	2.7	7.1	5.2	2.0	0.2	—	

Annex XXXV: Encumbered and unencumbered assets

UK AE4 – Accompanying narrative information

(a) Information on asset encumbrance

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

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

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

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

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

As an integral aspect of its business, the group engages in activities that result in certain assets being encumbered. The main activity relates to securitisation which is explained in Annex XXVII, which includes comparatives, and from accessing the Bank of England’s TFSME of which more information is set out in note 26 of the group’s Annual Report. The group also pledges assets for repurchase agreements and securities borrowing agreements, mainly in our Securities division. These assets are included in row 120 of template UK AE1 with the corresponding liabilities in template UK AE3.

GALCO monitors the level of encumbrance to ensure it remains within approved risk appetite limits which are based on loan book and balance sheet encumbrance levels. Further information on asset encumbrance and collateralisation can be found in note 26 of the group’s Annual Report under the section “Assets pledged and received as collateral” and “Financial assets: loans and advances to customers”.

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

UK AE1 - Encumbered and unencumbered assets[1]

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
£m		010	030	040	050	060	080	090	100
010	Assets of the reporting institution	**2,524.0**	30.7			**10,588.4**	2,022.6		
030	Equity instruments	**1.0**	—	1.0	—	**26.5**	0.1	26.5	0.1
040	Debt securities	**9.0**	4.5	9.0	4.5	**291.8**	231.3	291.8	198.1
050	*of which: covered bonds*	**—**	—	—	—	**—**	—	—	—
060	*of which: securitisations*	**—**	—	—	—	**—**	—	—	—
070	*of which: issued by general governments*	**8.7**	4.5	8.7	4.5	**201.3**	198.1	201.3	198.1
080	*of which: issued by financial corporations*	**—**	—	—	—	**51.4**	—	51.4	—
090	*of which: issued by non-financial corporations*	**—**	—	—	—	**0.3**	—	0.3	—
120	Other assets	**2,505.4**	24.0			**10,404.7**	1,790.2		

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

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

		Fair value of encumbered collateral received or own debt securities issued		Unencumbered: Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
£m		010	030	040	060
130	Collateral received by the reporting institution	**20.3**	11.6	**31.9**	7.1
140	Loans on demand	**—**	—	**—**	—
150	Equity instruments	**19.0**	9.5	**5.4**	1.1
160	Debt securities	**2.2**	1.9	**6.3**	5.8
170	of which: covered bonds	**—**	—	**—**	—
180	of which: securitisations	**—**	—	**—**	—
190	of which: issued by general governments	**2.2**	1.9	**6.3**	5.8
200	of which: issued by financial corporations	**—**	—	**—**	—
210	of which: issued by non-financial corporations	**—**	—	**—**	—
220	Loans and advances other than loans on demand	**—**	—	**—**	—
230	Other collateral received	**—**	—	**18.6**	—
240	Own debt securities issued other than own covered bonds or securitisations	**—**	—	**—**	—
241	Own covered bonds and asset-backed securities issued and not yet pledged			**—**	—
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	**2,544.3**	**42.3**		

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

UK AE3 – Sources of encumbrance[1]

£m		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
		010	030
010	**Carrying amount of selected financial liabilities**	**1,741.0**	**2,473.8**

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

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

UK IRRBBA – IRRBB risk management objectives and policies

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

Interest Rate Risk in the Banking Book is the current or prospective risk to the group’s capital or earnings arising from adverse movements in interest rates that affect its banking book positions.

The group's exposure to interest rate risk arises mainly in the Banking division and via funding activities in the holding company. Interest rate risk in the group’s other divisions is immaterial and accordingly the remainder of this section relates to the Banking division and the holding company.

The board is responsible for setting the group's market risk appetite. The board has delegated authority for recommending appetites consistent with the group's long-term strategy: for the Banking division to ALCO; and, for the holding company to GALCO.

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

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

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

Principle Risk	Mitigating Actions	Controls
Repricing Risk	• The group’s strategy for IRRBB is to centrally manage and control interest rate risk by transferring risk from the lending businesses to the Treasury function. • Group policy is for Treasury to match the repricing characteristics of assets and liabilities naturally where possible or by using interest rate swaps where necessary.	• Bank-wide EV and EaR metrics measure the effectiveness of risk transference and subsequent risk management. • Divisional business risk and compliance forums ensure repricing risk is transferred to Treasury within defined risk tolerances, with exceptions escalated and remediated in a timely fashion. • Dedicated first and second line functions ensure there is appropriate independent review and challenge of the risk transfer process, the centralised interest rate risk hedging, and the overall risk management process. • Exposures are compared against a comprehensive set of EV and EaR limits
Embedded Optionality Risk	• Central lending products and Treasury instruments contain embedded optionality. • First and second line ensure the embedded optionality is consistent with the overall IRRBB strategy and within defined tolerances.	• EV and EaR metrics include the impact of embedded optionality within the group's and funding activities. • The impact of optionality is discussed at divisional risk and compliance forums and is also monitored by Treasury and Risk. Additionally, optionality risk is covered in the annual review of the interest rate risk in each business line.
Basis Risk	• Basis risk has reduced materially since the transition from LIBOR. • Lending businesses are now increasingly priced and funded off the same reference rate, consistent with the risk transference model. • Treasury manage centralised basis risk exposure.	• Businesses submit their Basis risk exposures to Risk, and these are monitored and challenged by Risk and through local divisional risk and compliance forums. • The basis risk is exposure is review by ALCO monthly.

In line with the Risk Management Framework and Group Policy, the measurement techniques used include:

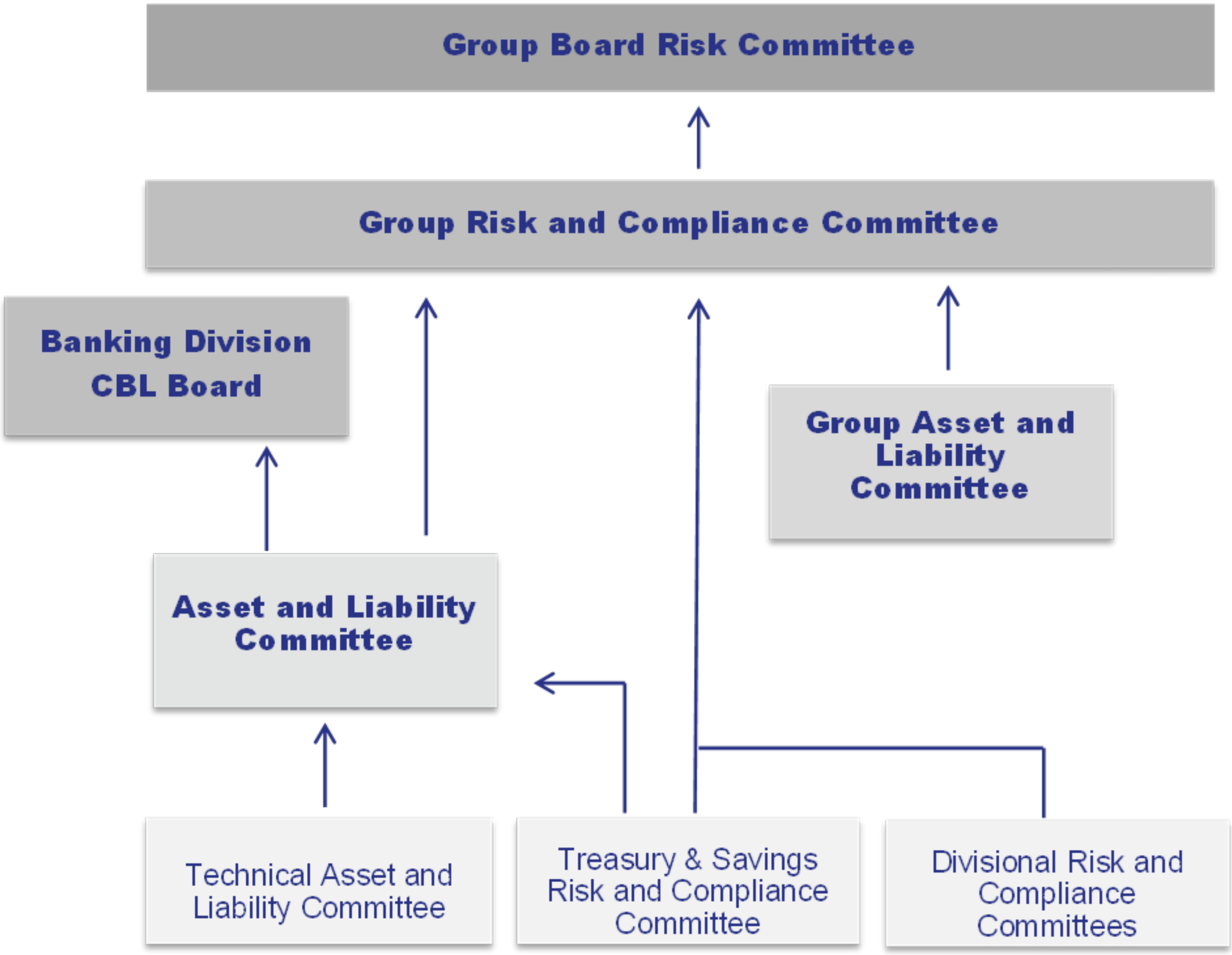
- Gap ladder analysis;
- Earnings at Risk (Net interest income sensitivity);
- Economic Value, and Economic Value of Equity sensitivity;
- Stress testing;
- Sensitivity analysis; and
- Scenario analysis.

(b) The group's overall IRRBB management and mitigation strategies

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

IRRBB Governance and Committees

The structure and organisation of the market risk management function (see also UK MRA in Annex XXIX for more information):



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

Divisional limits and controls:

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

GALCO and ALCO are responsible for the monitoring of the current and future risk profile within defined limits, for approving any changes to hedging strategies before implementation within the group and bank respectively, and for recommending risk appetite to the board. ALCO reviews and challenges the effectiveness of the IRRBB management and control framework, and ensures it is proportionate to the size, complexity and scope of the bank.

Technical ALCO ("TALCO") is a sub-committee of ALCO. TALCO supports ALCO and the duties include approval of less material matters, as well as reviewing technical issues such as prepayment rates. TALCO will escalate agenda items to ALCO as deemed appropriate by TALCO and ALCO.

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

(c) The periodicity of the calculation of the group's IRRBB measures

The two main internal measures used for measuring IRRBB are Earnings at Risk (EaR) and Economic Value (EV):

- EaR measures short term impacts to earnings, highlighting any earnings sensitivity should rates change unexpectedly; and
- EV measures longer term earnings capacity, by estimating the present value sensitivity of the balance sheet, should rates change.

Earnings at Risk and Economic Value are both used to measure bank repricing and embedded optionality risk There is also a separate Earnings at Risk metric for basis risk, measured in line with PRA guidance.

The above metrics are calculated at least monthly and reported againsyt limits to ALCO monthly and GALCO quarterly.

Additionally, the bank also carries out the following calculations:

- Economic Value of Equity ("EVE") which is a variant on Economic Value, where capital is excluded from the calculation in line with the PRA Rulebook. EVE is calculated at least quarterly, applying where applicable, the principals outlined in Supervisory Statement SS31/15
- In Treasury, where the interest rate risk is centralised, managed and hedged, EaR and EVE metrics are reported against Treasury sub-limits daily.
- Interest rate risk Stress testing, Sensitivity analysis, and Scenario analysis are carried out at least annually.

The bank also measures non-trading book credit spread risk using a methodology consistent with PRA requirements. The risk results from the High-Quality Liquidity Portfolio and is measured and monitored daily. The non-trading book credit spread risk is formally reported against limit to ALCO monthly.

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

The group calculates Economic Value using the six prescribed interest shock scenarios outlined in the PRA Rulebook and two internal scenarios. The PRA shocks are:

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

The two internal scenarios are ‘All rates increase 50bps’ and ‘All rates decrease 50bps’.

Earnings at Risk is measured using the PRA Rulebook scenarios 'Parallel shock up' and 'Parallel shock down' as well as the two internal scenarios noted above.

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

The change in Economic Value of Equity (EVE) and the change Earnings at Risk (EAR) are calculated in line with PRA guidance. Both measures represent the difference between the stressed scenario estimate and the base scenario estimate.

The key Economic Value of Equity assumptions are:

- A run-off balance sheet i.e., once balances mature, they are not replaced.
- Equity is excluded by allocating it to the overnight bucket.
- Assets and liabilities are behaviouralised using the PRAs Standardised scaling parameters.
- The impact of any embedded options within the banks’ assets and liabilities are included.
- There is no management action in response to stress scenarios.

The key Earnings at Risk assumptions are:

- The risk is measured over a 1-year time horizon.
- A constant balance sheet where maturing balances are replaced by a product with the same notional amount.
- Commercial margins are included.
- The Impact of any embedded options within the banks’ assets and liabilities are included.
- There is no management action in response to stress scenarios.

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

The group has implemented an ALM system to identify, evaluate and measure IRRBB exposure. When measuring the change in Economic Value of Equity for external disclosure, there are two differences, as compared to the internal Economic Value metric

Firstly, for Economic Value of Equity, capital is effectively excluded while for internal Economic Value, capital is profiled in line with group usage. This has the impact of producing a higher risk number for the change in Economic Value of Equity.

Secondly, for the Economic Value of Equity, the behavioural profile is calculated using the PRA’s Standardised scaling parameters, while for Economic Value, internally generated prepayment and attrition assumptions are used.

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

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

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

Where possible derivatives are designated into hedge accounting relationships (Fair Value and Cash Flow hedge accounting). Details of the accounting treatment of derivatives and hedge accounting is set out in note 26 of the group’s Annual Report

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

EVE Sensitivity

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

The most severe EVE scenario from Table J below is 'Parallel shock up' encompassing an instantaneous 250bp increase in interest rates across the yield curve for GBP. This scenario produces an EVE sensitivity of £(51m) and corresponds to 3.9% of the group's tier 1 capital, comfortably within the regulatory 15% threshold.

EVE sensitivity for the 'Parallel shock up' improved by £7m compared to 31 July 2022. This was due to an issued bond held in the group holding company, which offsets some of the risk associated with a rates rise scenario, revised prepayment rates, partly offset by reduced exposure held in Treasury.

NII sensitivity

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

The group measures NII over a 12-month period assuming a constant balance sheet.

The most severe scenario for the group is a 'Parallel shock down' which produces a NII sensitivity metric of £(28m). This represents a potential reduction in income of £28m should rates decrease instantaneously by 250bps across the yield curve.

The 31 July 2023 NII sensitivity increased compared 31 July 2022, mainly due to the reduced positive impact of product floors, as a result of the higher interest environment.

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

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

The average repricing maturity assigned to non-maturing deposits is 0.2 years (as at 31 July 2023) which includes both rate sensitive balances and stable rate insensitive balances.

(j) Longest repricing maturity assigned to NMDs

The longest repricing maturity assigned is 3 years.

UK IRRBB1 – Quantitative information on IRRBB

UK IRRBB1 shows the 31 July 2023 the group figures with restated metrics for 31 July 2022 to include the group holding company (previous CBL only) and to align with required PRA methodology by removing certain prudent multipliers which reduced gains included in last year's calculations.

		a	b	c	d	e	f
	In reporting currency	ΔEVE		ΔNII[1]		Tier 1 capital	
£m	Period	T	T-1[1]	T	T-1[1]	T	T-1
010	Parallel shock up	**(50.8)**	(58.1)	**24.3**	12.2		
020	Parallel shock down	**43.4**	68.1	**(27.9)**	12.1		
030	Steepener shock	**(8.0)**	(4.9)				
040	Flattener shock	**2.3**	(0.6)				
050	Short rates shock up	**(35.4)**	(27.3)				
060	Short rates shock down	**30.5**	35.9				
070	Maximum	**(50.8)**	(58.1)	**(27.9)**	12.1		
080	Tier 1 capital					**1,310.8**	1,396.7

1 Excludes Basis Risk

Glossary and Definition of Key Terms

Capital Requirements Directive V ("CRD V")	European Union regulation implementing the Basel III requirements in Europe, alongside CRR II
Capital Requirements Regulation ("CRR")	Capital Requirements Regulation as implemented in the PRA Rulebook CRR Instrument and the PRA Rulebook CRR Firms: Leverage Instrument (collectively known as "CRR")
CET1 capital ratio	Measure of the group's CET1 capital as a percentage of risk weighted assets, as required by CRR
Common equity tier 1 ("CET1") capital	Measure of capital as defined by the CRR. CET1 capital consists of the highest quality capital including ordinary shares, share premium account, retained earnings and other reserves, less goodwill and certain intangible assets and other regulatory adjustments
Expected credit loss ("ECL")	The unbiased probability-weighted average credit loss determined by evaluating a range of possible outcomes and future economic conditions
Financial Conduct Authority ("FCA")	A financial regulatory body in the UK, regulating financial firms and maintaining integrity of the UK's financial market
Forbearance	Forbearance occurs when a customer is experiencing financial difficulty in meeting their financial commitments and a concession is granted, by changing the terms of the financial arrangement, which would not otherwise be considered
Gross carrying amount	Loan book before expected credit loss provision
High quality liquid assets ("HQLAs")	Assets which qualify for regulatory liquidity purposes, including Bank of England deposits and sovereign and central bank debt
Internal Capital Adequacy Assessment Process ("ICAAP")	An annual self-assessment of a bank's material risks and the associated level of capital needed to be held, and undertaking appropriate stress testing of capital adequacy
Internal Liquidity Adequacy Assessment Process ("ILAAP")	The processes for the identification, measurement, management and monitoring of liquidity
Internal ratings based ("IRB") approach	A supervisor-approved method using internal models, rather than standardised risk weightings, to calculate regulatory capital requirements for credit risk
International Financial Reporting Standards ("IFRS")	Globally accepted accounting standards issued by the IFRS Foundation and the International Accounting Standards Board
Leverage ratio	Tier 1 capital as a percentage of total balance sheet assets, adjusted for certain capital deductions, including intangible assets, and off-balance sheet exposures
Liquidity coverage ratio ("LCR")	Measure of the group's HQLAs as a percentage of expected net cash outflows over the next 30 days in a stressed scenario
Loan to value ("LTV") ratio	For a secured or structurally protected loan, the loan balance as a percentage of the total value of the asset
Net carrying amount	Loan book value after expected credit loss provision
Net stable funding ratio ("NSFR")	Regulatory measure of the group's weighted funding as a percentage of weighted assets
Prudential Regulation Authority ("PRA")	A financial regulatory body, responsible for regulating and supervising banks and other financial institutions in the UK
Risk weighted assets ("RWAs")	A measure of the amount of a bank's assets, adjusted for risk in line with the CRR. It is used in determining the capital requirement for a financial institution
Standardised approach	Generic term for regulator-defined approaches for calculating credit, operational and market risk capital requirements as set out in the CRR
Subordinated debt	Represents debt that ranks below, and is repaid after claims of, other secured or senior debt owed by the issuer
Term Funding Scheme for Small and Medium-sized Enterprises ("TFSME")	The Bank of England's Term Funding Scheme with additional incentives for SMEs
Tier 2 capital	Additional regulatory capital that along with Tier 1 capital makes up a bank's total regulatory capital. Includes qualifying subordinated debt

Abbreviations

Abbreviation	Brief description	Abbreviation	Brief description
AIRB	Advanced internal ratings based	IFPRU	Prudential sourcebook for investment firms
ALCO	Asset and Liability Management Committee	IFRS	International Financial Reporting Standards
ALM	Asset liability management	IIP	Investment Incentive Plan
AMA	Advanced measurement approach	ILAAP	Internal Liquidity Adequacy Assessment Process
ASA	The alternative standardised approach	IMA	Internal model approach
ASF	Available stable funding	IMM	Internal model method
CAC	Capital Adequacy Committee	IRB	Internal ratings based
CBAM	Close Asset Management Limited	IRRBB	Interest rate risk in the banking book
CBG	Close Brothers Group	ISDA	International Swaps and Derivatives Association
CBL	Close Brothers Limited	LCR	Liquidity coverage ratio
CCF	Credit conversion factor	LTIP	Long Term Investment Plan
CCP	Central counterparty	LTV	Loan-to-value
CCR	Counterparty credit risk	Moodys	Moody's Investors Service
CCyB	Countercyclical buffer	MREL	Minimum requirement for own funds and eligible liabilities
CET1	Common equity tier 1	MRTs	Material Risk Takers
CRAS	Credit Risk Appetite Statement	MTM	Mark-to-market
CRM	Credit risk mitigation	NSFR	Net stable funding ratio
CRMC	Credit Risk Management Committee	PRA	Prudential Regulation Authority
CRR	Capital Requirements Regulation	RCCs	Risk and Compliance Committees
CSRBB	Credit spread risk in the banking book	RemCo	Remuneration Committee
CVA	Credit valuation adjustment	RoTE	Return on average Tangible Equity
EaR	Earnings at Risk	RSF	Required stable funding
EBA	European Banking Authority	RWAs	Risk weighted assets
ECAIs	External credit assessment institutions	RWEAs	Risk weighted exposure amounts
EPS	Earnings per share	SME	Small and medium-sized enterprise
ERMF	Enterprise risk management framework	SMF	Senior Management Function
EV	Economic Value	SREP	Supervisory review and evaluation process
EVE	Economic Value of Equity	SV01	Sterling value of a basis point
FCA	Financial Conduct Authority	TALCO	Technical Asset and Liability Management Committee
FIRB	Foundation internal ratings based	TFS	Bank of England's Term Funding Scheme
FX	Foreign exchange	TFSME	Term Funding Scheme for Small and Medium-sized Enterprises
GALCO	Group Assets and Liability Committee	TSA	The standardised approach
GRCC	Group Risk and Compliance Committee	TSR	Total Shareholder Return
HQLA	High quality liquid assets	Winterflood	Winterflood Securities Limited
ICAAP	Internal capital adequacy assessment process		

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