Close Brothers

Close Brothers Group plc
10 Crown Place
London EC2A 4FT

T +44 (0)20 7655 3100
E enquiries@closebrothers.com
W www.closebrothers.com

Registered in England No. 520241

Preliminary Results for the year ended 31 July 2022

27 September 2022

Adrian Sainsbury, Chief Executive, said:

"Against a backdrop of continued market uncertainty, we have delivered a solid performance. The Banking division has performed well as we continued to see good demand across our lending businesses and strong margins. CBAM was affected by falling markets but continued to attract client assets. Winterflood faced declining markets and reduced trading activity, in sharp contrast to the exceptionally strong conditions in the prior year. Although we are aware of the pressures that the rising inflation and interest rates will have on our customers and colleagues, I am confident that our proven and resilient business model, strong financial position and deep expertise leave us well positioned to continue to support them now and into the future."

Highlights

- The group delivered a **solid performance** with strong income growth in Banking, while our market-facing businesses were impacted by volatility and falling markets. **Group adjusted operating profit reduced 13%** to £234.8 million (2021: £270.7 million)
- **Adjusted operating profit** in the **Banking division increased 7%** to £227.2 million, reflecting a **strong net interest margin of 7.8%** (2021: 7.7%) and loan book growth of 5.0% year-on-year. In the second half, we saw loan book growth of 3.0% as momentum picked up
- The **bad debt ratio was broadly stable at 1.2%** (2021: 1.1%). **Excluding Novitas, the bad debt ratio was 0.5%** (2021: 0.2%)
- **Close Brothers Asset Management ("CBAM")** continued to attract client assets and generated **net inflows of 5%**
- Cyclicality seen in the trading business impacted **Winterflood's** performance, with a market wide slowdown in trading activity and periods of volatility in falling markets
- **Winterflood Business Services ("WBS")** delivered **another strong performance**, with **assets under administration** up 16% to £7.2 billion (31 July 2021: £6.2 billion)
- The group maintained **strong capital, funding and liquidity** positions, with our **common equity tier 1 ("CET1") capital ratio** of **14.6%** (31 July 2021: 15.8%) significantly above the applicable minimum regulatory requirements
- We are considering the further **optimisation** of our **capital** structure, including the issuance of debt capital market securities if appropriate, targeting a **CET1 capital ratio range of 12% to 13% over the medium term**
- The Board is proposing a **final dividend of 44.0p per share**, resulting in a **full-year dividend per share of 66.0p** (2021: 60.0p), up 10% and marking a return to our pre-pandemic dividend level
- The group achieved a **return on opening equity ("ROE") of 10.6%** (2021: 14.5%), reflecting the reduction in Winterflood's profit and continued growth in the equity base. The **return on average tangible equity ("ROTE")** was **12.2%** (2021: 16.5%)

Key Financials[1]

	Full year 2022	Full year 2021	Change %
Adjusted operating profit[2]	**£234.8m**	£270.7m	(13)
Operating profit before tax	**£232.8m**	£265.2m	(12)
Banking	**£227.2m**	£212.5	7
Asset Management	**£21.7m**	£23.7m	(8)
Winterflood	**£14.1m**	£60.9m	(77)
Group	**£(28.2)m**	£(26.4)m	7
Adjusted basic earnings per share	**111.5p**	140.4p	(21)
Basic earnings per share	**110.4p**	134.8p	(18)
Ordinary dividend per share	**66.0p**	60.0p	10
Return on opening equity	**10.6%**	14.5%	
Return on average tangible equity	**12.2%**	16.5%	
Net interest margin	**7.8%**	7.7%	
Bad debt ratio	**1.2%**	1.1%	

	31 July 2022	31 July 2021	Change %
Loan book and operating lease assets[3]	**£9.1bn**	£8.7bn	5
Total client assets	**£16.6bn**	£17.0bn	(3)
CET1 capital ratio	**14.6%**	15.8%	
Total capital ratio	**16.6%**	18.3%	

1 Please refer to definitions on pages 25 to 27.
2 Adjusted operating profit is stated before amortisation and impairment of intangible assets on acquisition, goodwill impairment, exceptional item and tax.
3 Loan book re-presented to incorporate closing loans and advances to customers and operating lease assets, previously shown separately. Includes loans and advances to customers and operating lease assets of £8,858.9 million and £240.0 million at 31 July 2022. Includes loans and advances to customers and operating lease assets of £8,444.5 million and £222.9 million at 31 July 2021.

Enquiries

Sophie Gillingham	Close Brothers Group plc	020 3857 6574
Camila Sugimura	Close Brothers Group plc	020 3857 6577
Kimberley Taylor	Close Brothers Group plc	020 3857 6233
Irene Galvan	Close Brothers Group plc	020 3857 6217
Sam Cartwright	Maitland	07827 254 561

A virtual presentation to analysts and investors will be held today at 9.30 am BST followed by a Q&A session. A webcast and dial-in facility will be available by registering at https://webcasts.closebrothers.com/PrelimResults2022.

Basis of Presentation

Results are presented both on a statutory and an adjusted basis to aid comparability between periods. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Please refer to page 9 for further details on items excluded from the adjusted performance metrics. The loan book figure was re-presented to incorporate closing loans and advances to customers and operating lease assets, previously shown separately.

About Close Brothers

Close Brothers is a leading UK merchant banking group providing lending, deposit taking, wealth management services and securities trading. We employ approximately 4,000 people, principally in the United Kingdom and Ireland. Close Brothers Group plc is listed on the London Stock Exchange and is a member of the FTSE 250.

CHIEF EXECUTIVE'S STATEMENT

We have delivered a solid performance this year. The Banking division has performed well as we continued to see good demand across our lending businesses and strong margins. CBAM was affected by falling markets but continued to attract client assets. Winterflood faced declining markets and reduced trading activity, in sharp contrast to the exceptionally strong conditions in the prior year.

Although we are aware of the pressures that the rising inflation and interest rates will have on our customers and colleagues, I am confident that our proven and resilient business model, strong financial position and deep expertise leave us well positioned to continue to support them now and into the future.

Financial Performance

The group's income reduced 2% to £936.1 million (2021: £952.6 million). The Banking division achieved a 10% increase in income, reflecting a strong net interest margin of 7.8% (2021: 7.7%) and 5.0% year-on-year loan book growth. In the second half, we saw loan book growth of 3.0% as momentum picked up. Income grew 6% in Asset Management as we continued to attract client assets despite the impact of volatile market conditions on wider client sentiment, with net inflows of 5% (2021: 7%). Winterflood saw a 48% reduction in income, reflecting a market-wide slowdown in trading activity from elevated levels during the pandemic and a change in the mix of trading volumes, exacerbated by periods of volatility in falling markets.

Adjusted operating expenses were broadly stable as a significant reduction in variable costs in Winterflood was offset by continued investment, as well as higher staff costs primarily reflecting the current inflationary environment, across the Banking and Asset Management divisions.

The bad debt ratio[1] of 1.2% (2021: 1.1%) remained broadly stable. Excluding Novitas, the bad debt ratio was 0.5% (2021: 0.2%) and reflected the release of Covid-19 provisions and the ongoing review of provisions and coverage across our loan portfolios. Whilst we are not yet seeing a significant impact from rising inflation and interest rates and their effect on customers on our credit performance, we are alert to the highly uncertain macroeconomic environment and continue to monitor closely the performance of the book.

As a result, adjusted operating profit was down 13% to £234.8 million (2021: £270.7 million), and we delivered a return on opening equity of 10.6% (2021: 14.5%), reflecting the reduction in Winterflood's profit and continued growth in the equity base. The return on average tangible equity was 12.2% (2021: 16.5%).

Following the group's solid financial performance in the year and strong capital position, and to reflect our continued confidence in the business model, the board is proposing a final dividend of 44.0p per share. This will result in a full-year dividend per share of 66.0p (2021: 60.0p), returning to the pre-pandemic level.

The group maintained strong capital, funding and liquidity positions, with our common equity tier 1 ("CET1") capital ratio of 14.6% (31 July 2021: 15.8%) significantly above the applicable minimum regulatory requirements.

1 Bad debt ratio represents impairment losses in the year as a percentage of average net loans and advances to customers and operating lease assets.

Capital Management Framework

The prudent management of the group's financial resources is a core part of our business model. Our primary objective is to deploy capital to support disciplined loan book growth in Banking and to make the most of strategic opportunities.

The board remains committed to the group's dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover. Further capital distributions to shareholders will be considered depending on future opportunities.

We are considering the further optimisation of our capital structure, including the issuance of debt capital market securities if appropriate, targeting a CET1 capital ratio range of 12% to 13% over the medium term. In the short term, we would expect to operate above the 12% to 13% CET1 capital ratio target range, in light of the heightened macroeconomic uncertainty and potential growth opportunities available to us.

Protecting our Business Model and Maximising Future Income Generation

We continue to deliver against our strategic priorities to "Protect", "Grow" and "Sustain" our business model.

Our multi-year investment programmes are progressing well and enable us to protect our business, as well as enhance efficiency and future-proof our income generation capabilities. We are seeing tangible benefits from these investments. In our Savings franchise, investment in the customer deposit platform allowed us to broaden our product offering and drove significant growth in our retail deposits, up more than 50% since the launch of the platform in December 2018. The total balance of Fixed Rate ISAs now stands at c.£350 million, supporting lower cost of funds and funding diversification.

We continued to invest in our technology and digital capabilities to make our experts even more valuable, empowering them with key data insights and automated processes. In Motor Finance, our investment in digital and technology has allowed us to make the most of opportunities in the second hand car market. Through our partnership with AutoTrader, we are providing our dealers with real-time insights on vehicle demand and pricing, a unique proposition that has won the Innovation Award at the Car Finance Awards 2022. We have also developed Application Programming Interfaces ("APIs") that enable us to connect seamlessly into strategic partners and provide our finance offering at various points of the customer journey. In CBAM, we have undertaken a major re-platforming project to rationalise legacy systems and improve efficiency, while adding a digital portal to improve functionality and customer experience. We are also delivering a new customer portal in Asset Finance and are automating elements of our processes to enhance customer experience.

Focus on Maximising Disciplined Growth

We remain focused on maximising disciplined growth in our existing and adjacent markets. This year, we have conducted a further review of potential growth opportunities and have a strong pipeline of identified target areas that are aligned with our business model.

We recognise a significant opportunity in broadening our sustainable finance offering as the UK heads towards a net zero carbon economy. Our current lending already spans a diverse array of assets including wind and solar generation, battery electric vehicles and grid infrastructure. Over the coming years, we will continue to build further our expertise in green and transition assets, cementing our reputation for specialist knowledge. We are a through-the-cycle lender and will continue to support our customers as they look for financing of green and transition assets. In particular, we are seeing growth across a range of battery electric vehicles, predominantly through our Commercial business, as the UK's economy moves to electrify all forms of transport. As we develop our green growth strategy, we have set ourselves an initial green finance ambition. We aim to provide £1.0 billion of funding for battery electric vehicles over the next five years.

In addition, we are piloting a specialist buy-to-let extension to our existing Property bridging finance customers. We have also extended our sector coverage in Asset Finance with the addition of specialist materials handling and agricultural equipment teams. In Invoice Finance, we continue to pursue opportunities in the Asset-Based Lending ("ABL") space, including identifying syndication opportunities, partnering with other lenders.

Our Asset Management business is well aligned with the long-term trends in the wealth management space and we will continue to invest to support its growth potential. We remain committed to building on our excellent track record of increasing client assets organically, through the continued selective hiring of wealth management professionals, as well as through in-fill acquisitions.

Winterflood Business Services ("WBS") has delivered another strong performance, with income up 12% from £9.1 million to £10.2 million and assets under administration up 16% from £6.2 billion to £7.2 billion. Our award-winning proprietary technology is highly scalable and we see significant growth potential in this business, with a solid pipeline of clients expected to increase assets under administration in excess of £10 billion in the 2023 financial year.

Our Role in Supporting the Transition to a Sustainable Future

We have an important role to play in *helping people and businesses transition to a lower carbon future* and this responsibility is at the forefront of our minds. I am pleased with the significant progress we have made in developing our climate strategy, covering not just our operational impacts, but also understanding the implications across our financed activities.

This year, we have carried out an assessment of our indirect Scope 3 emissions across all categories of operational emissions as well as a first assessment of our financed emissions, initially focused on our loan book. Initial findings will soon be available in our inaugural Task Force on Climate-related Financial Disclosures ("TCFD") report. There we set out our progress this year and areas of future focus with regard to the integration of climate risk into our governance infrastructure, business strategy and risk management framework. Notwithstanding the efforts already made, we remain at the start of a long journey and recognise there is more to do to develop our own transition plans, targets and metrics. This also includes our ability to address challenges around data and modelling as we continue to work across industry and alongside our customers, to enhance both understanding and our capabilities.

As a group we are supportive of the goals of the Paris Agreement to achieve net zero emissions by 2050. Having previously set ambitious short-term net zero targets for our Scope 1 and 2 operational emissions, we are now setting ourselves a wider and longer-term ambition to align all of our operational and attributable greenhouse gas ("GHG") emissions from our lending and investment portfolios on a path to net zero by 2050. To this end, I am pleased to report that we have recently joined 116 banks globally as a signatory to the Net Zero Banking Alliance.

In CBAM, we have mobilised a Sustainability Programme with dedicated initiatives to embed the Principles for Responsible Investment ("PRI") and stewardship across all facets of our business, and as part of this, have recently become a signatory to the UK Stewardship Code.

Outlook

We have delivered a solid performance this year and we start the 2023 financial year against a highly uncertain external environment. Although we are alert to the impact of rising inflation and interest rates on our customers and wider financial market conditions, we remain well placed to continue delivering on our long track record of profitability and disciplined growth.

In Banking, we are focused on maximising opportunities in the current cycle and delivering continued growth at strong margins. We are confident in the long-term growth prospects of our businesses and will continue to assess opportunities to deliver disciplined growth.

In Asset Management, we continue to invest to support the long-term growth potential of the business. Whilst the business is sensitive to financial market conditions, we remain committed to driving growth both organically and through the continued selective hiring of advisers and investment managers, and through in-fill acquisitions.

As a daily trading business, Winterflood is highly sensitive to changes in the market environment, but remains well positioned to continue trading profitably, taking advantage of returning investor appetite. We see significant growth potential in WBS, with a solid pipeline of clients expected to increase assets under administration in excess of £10 billion in the 2023 financial year.

Our proven and resilient model and strong balance sheet, combined with our deep experience in navigating a wide range of economic conditions, leave us well placed to continue supporting our colleagues, customers and clients over the long term.

Adrian Sainsbury
Chief Executive
27 September 2022

BOARD CHANGES

During the year, we were pleased to welcome Patricia Halliday and Tracey Graham as independent non-executive directors with effect from 1 August 2021 and 22 March 2022, respectively.

Patricia has over 30 years' experience in risk management across the investment, corporate and retail banking sectors, both in the UK and internationally, with a deep understanding of the regulatory, risk and governance environment in which the group operates. On joining the board on 1 August 2021, she was appointed as a member of the board's Risk and Audit Committees.

Tracey is an experienced non-executive director, having served on a number of listed companies and mutual boards. She was appointed as a member of the board's Remuneration and Risk Committees and brings significant commercial, operational and customer service expertise gained across a range of sectors, including from executive and non-executive roles in financial services and other customer-facing businesses.

After nine years' dedicated service on the board, Lesley Jones and Bridget Macaskill will retire from the board at the conclusion of the Annual General Meeting ("AGM"). We would like to thank both Lesley and Bridget for their huge contribution to the group over that time.

Patricia will assume the role of chair of the Risk Committee from the date of the AGM.

OVERVIEW OF FINANCIAL PERFORMANCE

SUMMARY GROUP INCOME STATEMENT[1]

	2022 £ million	2021 £ million	Change %
Operating income	**936.1**	952.6	(2)
Adjusted operating expenses	**(598.0)**	(592.1)	1
Impairment losses on financial assets	**(103.3)**	(89.8)	15
Adjusted operating profit	**234.8**	270.7	(13)
Banking	**227.2**	212.5	7
Commercial	**91.0**	52.8	72
Retail	**61.0**	71.9	(15)
Property	**75.2**	87.8	(14)
Asset Management	**21.7**	23.7	(8)
Winterflood	**14.1**	60.9	(77)
Group	**(28.2)**	(26.4)	7
Amortisation and impairment of intangible assets on acquisition	**(2.0)**	(14.2)	(86)
Goodwill impairment	**-**	(12.1)	n/a
Exceptional item: HMRC VAT refund	**-**	20.8	n/a
Operating profit before tax	**232.8**	265.2	(12)
Tax	**(67.6)**	(63.1)	7
Profit after tax	**165.2**	202.1	(18)
Profit attributable to shareholders	**165.2**	202.1	(18)
Adjusted basic earnings per share[2]	**111.5p**	140.4p	(21)
Basic earnings per share[2]	**110.4p**	134.8p	(18)
Ordinary dividend per share	**66.0p**	60.0p	10
Return on opening equity	**10.6%**	14.5%	
Return on average tangible equity	**12.2%**	16.5%	

1 Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in note 2.
2 Refer to note 5 for the calculation of basic and adjusted earnings per share.

Adjusted Operating Profit and Returns

Adjusted operating profit reduced 13% to £234.8 million (2021: £270.7 million), primarily reflecting a reduction in income in Winterflood and an increase in impairment charges. After adjusting items, statutory operating profit before tax decreased by 12% to £232.8 million (2021: £265.2 million). The group delivered a return on opening equity of 10.6% (2021: 14.5%), reflecting the reduction in Winterflood's profit and continued growth in the equity base, and return on average tangible equity of 12.2% (2021: 16.5%).

Adjusted operating profit in the Banking division increased by 7% to £227.2 million (2021: £212.5 million), reflecting strong income growth, partially offset by higher costs and impairment charges. In the Asset Management division, adjusted operating profit declined 8% to £21.7 million (2021: £23.7 million) as growth in income was more than offset by increased staff costs. Winterflood saw reduced trading opportunities in higher margin sectors and periods of volatility in falling markets. Following the exceptionally strong trading performance and elevated market activity experienced in the prior year, operating profit was down 77% to £14.1 million (2021: £60.9 million). Group net expenses, which include the central functions such as finance, legal and compliance, risk and human resources, increased 7% on the prior year to £28.2 million (2021: £26.4 million), mainly reflecting third party spend in relation to the assessment of potential growth opportunities.

Operating Income

Operating income reduced 2% to £936.1 million (2021: £952.6 million), with growth in Banking and Asset Management offset by a reduction in trading income in Winterflood. Income in the Banking division increased by 10%, reflecting good loan book growth and a strong net interest margin of 7.8% (2021: 7.7%). Although income in the Asset Management division was up 6%, with continued net inflows and positive market performance in the first half of the year, income was more subdued in the second half of the year due to falling markets and their impact on wider client sentiment. Income in Winterflood reduced by 48%, driven by a market-wide slowdown in trading activity from elevated levels during the pandemic and a change in the mix of trading volumes, exacerbated by falling markets.

Adjusted Operating Expenses

Adjusted operating expenses were broadly stable at £598.0 million (2021: £592.1 million), reflecting a significant reduction in variable costs in Winterflood, offset by higher investment spend and salary increases in Banking and higher staff costs in Asset Management. In the Banking division, costs were up 10%, as we continued to invest in our key strategic programmes and incurred higher business-as-usual ("BAU") spend following salary increases to reflect inflation and performance-driven compensation. Expenses increased 9% in the Asset Management division, mainly driven by higher staff costs in the current inflationary environment and new hires, as we continue to invest to grow the business. Winterflood's operating expenses decreased 33%, reflecting lower variable compensation and settlement costs. Overall, the group's expense/income ratio increased on the prior year period to 64% (2021: 62%), whilst the group's compensation ratio decreased to 37% (2021: 38%). Statutory operating expenses increased to £600.0 million (2021: £597.6 million).

Impairment Charges and IFRS 9 Provisioning

Impairment charges increased to £103.3 million (2021: £89.8 million), corresponding to a bad debt ratio of 1.2% (2021: 1.1%). This included the impact of updated assumptions for the Novitas loan book, informed by experience of credit performance, which resulted in £60.7 million (2021: £73.2 million) of impairment charges related to this business.

Excluding Novitas, the bad debt ratio was 0.5% (2021: 0.2%), reflecting the release of Covid-19 provisions, partially offset by the ongoing review of provisions and coverage across our loan portfolios, including certain individual exposures in the Commercial business, as well as higher IFRS 9 provisions to take into account the outlook for the external environment.

There was a marginal decrease in provision coverage to 3.1% (31 July 2021: 3.2%). Excluding provisions related to the Novitas loan book, the coverage ratio reduced to 1.9% (31 July 2021: 2.3%), primarily reflecting provision releases, mainly driven by reduced Covid-19 forborne balances. This coverage level appropriately reflects the elevated uncertainty in the external environment in the range of modelled outcomes.

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

Whilst we are not yet seeing a significant impact from rising inflation and interest rates and their effect on customers on our credit performance, we are alert to the highly uncertain macroeconomic environment and continue to monitor closely the performance of the book. We remain confident in the quality of our loan book, which is predominantly secured, prudently underwritten and diverse. Approximately 99% of our loan book exposure is to the UK, Republic of Ireland and Channel Islands, with the remaining exposure to Western European countries.

Exceptional and Other Adjusting Items

Amortisation and impairment of intangible assets on acquisition was down significantly to £2.0 million (2021: £14.2 million). The prior year charge included a £10.1 million impairment of intangible assets recognised on acquisition in relation to Novitas, following the decision to cease permanently the approval of lending to new customers across all of the products offered by this business.

Following this decision, we also recognised an adjusting item in relation to the full write down of goodwill allocated to Novitas in the prior year of £12.1 million.

There were no exceptional items recorded in the 2022 financial year (2021: £20.8 million). In 2021, we recognised an exceptional gain of £20.8 million, reflecting a VAT refund from HMRC in relation to hire purchase agreements in the Motor Finance and Asset Finance businesses.

Tax Expense

The tax expense was £67.6 million (2021: £63.1 million), which corresponds to an effective tax rate of 29.0% (2021: 23.8%). The increase in the effective tax rate primarily reflected a write-down in the group's deferred tax assets as a result of the legislated reduction in the rate of banking surcharge from 8% to 3% which was due to apply from April 2023, and the non-recurrence of the prior year write-up in the group's deferred tax assets as a result of legislation that year increasing the mainstream corporate tax rate from 19% to 25% (also due to apply from April 2023).

The group's underlying effective tax rate for the year ended 31 July 2022, excluding the impact of the deferred tax asset write-down, would be 25.7%, reflecting the UK corporate tax rate of 19% and headline banking surcharge of 8% (which applied to a proportion of the group's profits, resulting in c.6% banking surcharge).

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

Earnings per Share

Profit attributable to shareholders reduced 18% on the prior year to £165.2 million (2021: £202.1 million), reflecting a reduction in adjusted operating profit and the impact from revaluations of deferred tax assets on the effective tax rate in the 2022 and 2021 financial years. As a result, adjusted basic earnings per share ("EPS") was 111.5p (2021: 140.4p) and basic EPS was 110.4p (2021: 134.8p).

Dividend

The board is proposing a final dividend of 44.0p per share, resulting in a full-year dividend per share of 66.0p (2021: 60.0p), up 10% on the prior year. This reflects the group's solid performance in the year and strong capital position, as well as our continued confidence in the business model. We remain committed to our dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover.

Subject to approval at the Annual General Meeting, the final dividend will be paid on 22 November 2022 to shareholders on the register at 14 October 2022.

SUMMARY GROUP BALANCE SHEET

	31 July 2022 £ million	31 July 2021[1] £ million
Loans and advances to customers and operating lease assets[2]	**9,098.9**	8,667.4
Treasury assets[3]	**1,855.1**	1,788.2
Market-making assets[4]	**887.2**	801.6
Other assets	**837.1**	777.3
Total assets	**12,678.3**	12,034.5
Deposits by customers	**6,770.4**	6,634.8
Borrowings	**2,870.1**	2,600.9
Market-making liabilities[4]	**796.1**	690.6
Other liabilities	**584.2**	538.9
Total liabilities	**11,020.8**	10,465.2
Equity	**1,657.5**	1,569.3
Total liabilities and equity	**12,678.3**	12,034.5

1 Loans and advances to customers has been re-presented for 31 July 2021 to include £222.9 million of operating lease assets, with a corresponding reduction to other assets.
2 Includes operating lease assets of £0.5 million (31 July 2021: £1.3 million) that relate to Asset Finance and £239.5 million (31 July 2021: £221.6 million) to Invoice and Speciality Finance.
3 Treasury assets comprise cash and balances at central banks and debt securities held to support the Banking division.
4 Market-making assets and liabilities comprise settlement balances, long and short trading positions and loans to or from money brokers.

The group maintained a strong balance sheet and a prudent approach to managing financial resources. The fundamental structure of the balance sheet remains unchanged, with most of the assets and liabilities relating to our Banking activities. Loans and advances make up the majority of assets. Other items on the balance sheet include treasury assets held for liquidity purposes, and settlement balances in Winterflood. Intangibles, property, plant and equipment, and prepayments are included as other assets. Liabilities are predominantly made up of customer deposits and both secured and unsecured borrowings to fund the loan book.

Total assets increased 5% to £12.7 billion (31 July 2021: £12.0 billion), mainly reflecting growth in the loan book, an increase in non-trading debt securities and higher market-making assets. Total liabilities were up 5% to £11.0 billion (31 July 2021: £10.5 billion), driven primarily by higher customer deposits and an increase in secured borrowings. Both market-making assets and liabilities, related to trading activity at Winterflood, were up year-on-year due to an increase in value traded at the end of the period when settlement balances are calculated.

Total equity increased 6% to £1.7 billion (31 July 2021: £1.6 billion), primarily reflecting the profit in the year, partially offset by dividend payments of £95.5 million (2021: £86.6 million). The group's return on assets marginally decreased to 1.3% (2021: 1.7%).

GROUP CAPITAL[1]

	31 July 2022[1] £ million	31 July 2021 £ million
Common equity tier 1 capital	**1,396.7**	1,439.3
Total capital	**1,596.7**	1,662.7
Risk weighted assets	**9,591.3**	9,105.3
Common equity tier 1 capital ratio (transitional)	**14.6%**	15.8%
Tier 1 capital ratio (transitional)	**14.6%**	15.8%
Total capital ratio (transitional)	**16.6%**	18.3%
Leverage ratio[2]	**12.0%**	11.8%

1 In line with CRR, effective on 1 January 2022, the CET1, tier 1 and total capital ratios no longer include the benefit related to software assets which were previously exempt from the deduction requirement for intangible assets from CET1.
2 The leverage ratio is calculated as tier 1 capital as a percentage of total balance sheet assets excluding central bank claims, adjusting for certain capital deductions, including intangible assets, and off-balance sheet exposures, in line with the UK leverage framework under CRR. At 31 July 2021, the leverage ratio was calculated under the EU CRR and included central bank claims.

Movements in Capital and Other Regulatory Metrics

The CET1 capital ratio reduced from 15.8% to 14.6%, mainly driven by a change in the regulatory treatment of software assets (c.45bps), the impact of the transitional IFRS 9 add-back (c.30bps) and an increase in risk weighted assets ("RWAs") (c.80bps), partly offset by retained earnings (c.75bps).

CET1 capital decreased 3% to £1,396.7 million (31 July 2021: £1,439.3 million), reflecting the regulatory change in the treatment of software assets, which increased the intangible assets deducted from CET1 capital by £50.2 million, a decrease in the transitional IFRS 9 add-back to capital of £34.8 million and the regulatory deduction of dividends paid and foreseen of £98.4 million. This was partially offset by the capital generation through profit of £165.2 million.

Total capital decreased 4% to £1,596.7 million (31 July 2021: £1,662.7 million), also reflecting the regulatory change in the treatment of software assets and a small repayment of our subordinated debt.

RWAs increased 5% to £9.6 billion (31 July 2021: £9.1 billion), mainly driven by an increase in the loan book and risk weighted assets related to derivatives held for hedging purposes, partly offset by the regulatory change in treatment of software assets.

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

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

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

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

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

Capital Management Framework

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

The board remains committed to the group's dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover. Further capital distributions to shareholders will be considered depending on future opportunities.

We are considering the further optimisation of our capital structure, including the issuance of debt capital market securities if appropriate, targeting a CET1 capital ratio range of 12% to 13% over the medium term. This would allow the group to maintain a buffer to minimum regulatory requirements while also retaining the flexibility for growth.

In the short term, we would expect to operate above the 12% to 13% CET1 capital ratio target range, in light of the heightened macroeconomic uncertainty and potential growth opportunities available to us.

GROUP FUNDING[1]

	31 July 2022 £ million	31 July 2021 £ million
Customer deposits	**6,770.4**	6,634.8
Secured funding	**1,598.7**	1,333.7
Unsecured funding[2]	**1,544.3**	1,539.5
Equity	**1,657.5**	1,569.3
Total available funding	**11,570.9**	11,077.3
Total funding as % of loan book[3]	**127%**	128%
Average maturity of funding allocated to loan book[4]	**21 months**	24 months

1 Numbers relate to core funding and exclude working capital facilities at the business level.
2 Unsecured funding excludes £22.1 million (31 July 2021: £22.7 million) of non-facility overdrafts included in borrowings and includes £295.0 million (31 July 2021: £295.0 million) of undrawn facilities.
3 Total funding as a % of loan book has been re-presented to include £240.0 million (31 July 2021: £222.9 million) of operating lease assets in the loan book figure. The revised definition is total funding as a % of loan book including operating lease assets.
4 Average maturity of total funding excluding equity and funding held for liquidity purposes.

The primary purpose of our Treasury and Savings business is to manage funding and liquidity to support the Banking businesses and manage interest rate risk. Our conservative approach to funding is based on the principle of "borrow long, lend short", with a spread of maturities over the medium and longer term, comfortably ahead of a shorter average loan book maturity. It is also diverse, drawing on a wide range of wholesale and deposit markets including several public debt securities at both group and operating company level, as well as a number of securitisations.

We increased total funding in the year by 4% to £11.6 billion (31 July 2021: £11.1 billion) which accounted for 127% (31 July 2021: 128%) of the loan book at the balance sheet date. The average cost of funding reduced to 1.3% (2021: 1.4%), an increase from 1.1% in the first half of the 2022 financial year due to the increased cost of customer deposits.

Customer deposits increased 2% to £6.8 billion (31 July 2021: £6.6 billion) with non-retail deposits reducing by 7% to £3.7 billion (31 July 2021: £3.9 billion) and retail deposits increasing by 16% to £3.1 billion (31 July 2021: £2.7 billion).

The previous investment in our customer deposit platform continues to generate benefits and has enabled us to enhance our Savings proposition. Balances in our Fixed Rate Cash Individual Savings Accounts ("ISAs") have grown to c.£350 million (31 July 2021: £160 million) since their launch in December 2020. We remain focused on continuing to extend the deposit product range, which will support us in growing and diversifying our retail deposit base and further optimise our cost of funding and maturity profile.

Secured funding increased 20% to £1.6 billion (31 July 2021: £1.3 billion) as we completed our fourth public Motor Finance securitisation in April 2022 and increased our current drawings under the Term Funding Scheme for Small and Medium-sized Enterprises ("TFSME") to £600 million (31 July 2021: £490 million).

Unsecured funding, which includes senior unsecured and subordinated bonds and undrawn committed revolving facilities, remained stable at £1.5 billion (31 July 2021: £1.5 billion).

We have maintained a prudent maturity profile. The average maturity of funding allocated to the loan book remained ahead of the loan book at 21 months (31 July 2021: 24 months), with the average loan book maturity at 17 months (31 July 2021: 17 months), in line with our "borrow long, lend short" principle.

Our strong credit ratings remain unchanged, with Moody's Investors Services ("Moody's") reaffirming their rating for Close Brothers Group as ''A2/P1'' and Close Brothers Limited as ''Aa3/P1'' with a ''negative'' outlook for both in July 2022, and Fitch Ratings ("Fitch") reaffirming their rating for both Close Brothers Group and Close Brothers Limited as ''A-/F2'', with a ''stable'' outlook in May 2022. This reflects the group's profitability, capital position, diversified business model and consistent risk appetite.

GROUP LIQUIDITY

	31 July 2022 £ million	31 July 2021 £ million
Cash and balances at central banks	**1,254.7**	1,331.0
Sovereign and central bank debt[1]	**415.4**	192.5
Certificates of deposit	**185.0**	264.7
Treasury assets	**1,855.1**	1,788.2

1 Included in sovereign and central bank debt is £216.9 million encumbered UK Government debt (31 July 2021: £90.2 million).

The group continues to adopt a conservative stance on liquidity, ensuring it is comfortably ahead of both internal risk appetite and regulatory requirements.

We continued to maintain higher liquidity relative to the pre-Covid-19 position to provide additional flexibility given the uncertain UK economic outlook, whilst enabling us to maximise any opportunities available. Over the year, treasury assets increased 4% to £1.9 billion (31 July 2021: £1.8 billion) and were predominantly held on deposit with the Bank of England.

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

BUSINESS REVIEW

BANKING

Key Financials[1]

	2022 £ million	2021 £ million	Change %
Operating income	**693.1**	631.7	10
Adjusted operating expenses[2]	**(362.6)**	(329.1)	10
Impairment losses on financial assets	**(103.3)**	(90.1)	15
Adjusted operating profit	**227.2**	212.5	7
Net interest margin	**7.8%**	7.7%	
Expense/income ratio	**52%**	52%	
Bad debt ratio	**1.2%**	1.1%	
Return on net loan book	**2.6%**	2.6%	
Return on opening equity	**12.5%**	13.7%	
Closing loan book and operating lease assets[3]	**9,098.9**	8,667.4	5

1 Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in note 2.
2 Related ongoing costs resulting from investment projects are recategorised from investment costs to BAU costs after one year. For comparison purposes, £5.2 million has been recategorised from investment costs to BAU costs in the 2021 financial year to adjust for investment projects' ongoing costs that commenced prior to the 2022 financial year.
3 Commercial, Asset Finance and Invoice and Speciality Finance loan books have been re-presented for 31 July 2021 to include £222.9 million of operating lease assets (£1.3 million in Asset Finance and £221.6 million in Invoice and Speciality Finance).

Good Loan Book Growth and Strong Margins

Banking adjusted operating profit increased 7% to £227.2 million (2021: £212.5 million), reflecting good loan book growth and a strong net interest margin. Statutory operating profit increased to £227.1 million (2021: £207.2 million).

The loan book grew 5.0% over the year to £9.1 billion (31 July 2021: £8.7 billion) driven by healthy new business volumes in our Commercial businesses and high demand in Motor Finance, partly offset by a contraction in the Premium Finance and Property loan books. Momentum picked up over the course of the year, as the 1.9% loan book growth in the first half of the year was supplemented by 3.0% growth in the second half of the year. The return on net loan book remained stable on the prior year at 2.6% (2021: 2.6%).

The net interest margin of 7.8% increased marginally on the 2021 financial year (2021: 7.7%), primarily driven by lower cost of funds. We continue to adopt a disciplined approach to pricing and our specialist, relationship-driven model positions us well to maintain a strong net interest margin, although the trajectory will depend upon our ability to pass on further rate increases onto our customers.

As a result, operating income increased 10% to £693.1 million (2021: £631.7 million), reflecting the good loan book growth and a strong net interest margin.

Adjusted operating expenses increased 10% to £362.6 million (2021: £329.1 million) as we progressed our key investment programmes and continued to exercise rigorous control of our costs, whilst recognising the current inflationary environment. BAU costs increased by 7% to £278.8 million (2021: £260.3 million), primarily driven by higher staff costs reflecting salary increases in the current inflationary environment and increased performance-driven compensation.

Investment costs rose 22% to £83.8 million (2021: £68.8 million), reflecting spend on our multi-year strategic investment projects and related depreciation charges.

Our investment projects align with our strategic priorities of protecting, growing and sustaining the business and continue to deliver tangible benefits. Our IRB spend has driven enhancements in our risk management framework, whilst investment in our customer deposit platform has enabled the expansion of the Savings product offering, supporting a lower cost of funds. In Asset Finance, investment in our systems has added new functionality and improved customer insights. Our Retail businesses are benefiting from digital investment, with Motor Finance utilising API links to connect to strategic partners and offer our finance at various points of the customer journey and Premium Finance have launched insight tools to support brokers.

Whilst we remain mindful of inflationary pressures, we continue to exercise cost discipline. We expect costs related to existing investment programmes to stabilise over the next financial years, although depreciation charges related to these programmes will continue to increase.

The compensation ratio was flat on the prior year at 29% (2021: 29%) and the expense/income ratio also remained stable at 52% (2021: 52%).

Impairment charges increased to £103.3 million (2021: £90.1 million), corresponding to a bad debt ratio of 1.2% (2021: 1.1%). Excluding Novitas, the bad debt ratio was 0.5% (2021: 0.2%), reflecting the release of Covid-19 provisions, partially offset by the ongoing review of provisions and coverage across our loan portfolios, including certain individual exposures in the Commercial business, as well as higher IFRS 9 provisions to take into account the outlook for the external environment.

Overall, there was a marginal decrease in provision coverage to 3.1% (31 July 2021: 3.2%). Excluding provisions related to the Novitas loan book, the coverage ratio reduced slightly to 1.9% (31 July 2021: 2.3%), primarily reflecting provision releases, mainly driven by reduced Covid-19 forborne balances.

Whilst we are not yet seeing a significant impact from rising inflation and interest rates and their effect on customers on our credit performance, we are alert to the highly uncertain macroeconomic environment and continue to closely monitor the performance of the book. We remain confident in the quality of our loan book, which is predominantly secured, prudently underwritten, diverse, and supported by the deep expertise of our people.

Return on opening equity in the Banking division reduced to 12.5% (2021: 13.7%).

Loan Book Analysis

	31 July 2022 £ million	31 July 2021[1] £ million	Change %
Commercial	**4,561.4**	4,191.0	9
Asset Finance	**3,032.5**	2,845.9	7
Invoice and Speciality Finance	**1,528.9**	1,345.1	14
Retail	**3,064.0**	2,974.3	3
Motor Finance	**2,051.2**	1,924.4	7
Premium Finance	**1,012.8**	1,049.9	(4)
Property	**1,473.5**	1,502.1	(2)
Closing loan book and operating lease assets[2]	**9,098.9**	8,667.4	5

1 Commercial, Asset Finance and Invoice and Speciality Finance loan books have been re-presented for 31 July 2021 to include £222.9 million of operating lease assets (£1.3 million in Asset Finance and £221.6 million in Invoice and Speciality Finance).
2 Operating lease assets of £0.5 million (31 July 2021: £1.3 million) relate to Asset Finance and £239.5 million (31 July 2021: £221.6 million) to Invoice and Speciality Finance.

The loan book increased 5.0% year-on-year to £9.1 billion (31 July 2021: £8.7 billion), reflecting strong growth in our Commercial and Motor Finance businesses, partly offset by a contraction in the Premium Finance and Property businesses. Momentum picked up over the course of the year, as the 1.9% loan book growth in the first half of the year was supplemented by 3.0% growth in the second half of the year.

The Commercial loan book increased 9% to £4.6 billion (31 July 2021: £4.2 billion), driven by 7% growth in Asset Finance, reflecting strong new business volumes in the Transport, Broker, Contract Hire and Energy businesses in particular, as we saw good demand from customers. Invoice and Speciality Finance grew 14%, reflecting strong sales volumes and increased utilisation. The core Invoice Finance loan book increased 29% as we grew SME customer numbers.

The Retail loan book increased 3% to £3.1 billion (31 July 2021: £3.0 billion), with 7% growth in Motor Finance as we saw strong new business levels, reflecting continued demand in the used car market and the benefits from investment in the Motor Finance transformation programme. This was partly offset by a 4% decline in the Premium Finance book as a result of lower demand for the funding of insurance policies from consumers, following previous Covid-19 restrictions.

The Property loan book contracted 2%, despite the growth seen in the second half of the year. This reflected high repayment levels, which more than offset drawdowns, given we continued to see heightened unit sales by developers as a result of the buoyant UK property market. Our new business volumes remained strong and our pipeline stands at over £1 billion.

The Republic of Ireland makes up approximately 7% of our total loan book (31 July 2021: 8%), with an offering from both our Commercial and Retail businesses. The Republic of Ireland Motor Finance business accounted for 18% of the Motor Finance loan book (31 July 2021: 21%) and 4% of the Banking loan book (31 July 2021: 5%). As previously announced, from 30 June 2022, we ceased writing new business under our previous partnership in the Republic of Ireland. We remain committed to the Irish market and are considering our long-term options.

Well Positioned to Deliver Disciplined Growth

Loan book growth continues to be an output of our business model, as we focus on delivering disciplined growth whilst continuing to prioritise our margins and credit quality. As outlined at the Investor Event in June 2021, we continue to actively work to identify incremental and new opportunities in both our existing and adjacent markets.

Across our businesses, we recognise a significant opportunity in broadening our financing of green and transition assets, as the UK aligns towards a net zero economy. Our current lending already spans a diverse array of green assets including wind and solar generation, battery electric vehicles and grid infrastructure, including battery electric storage systems.

We have seen strong growth in battery electric vehicles in our Commercial business. Our Wholesale Fleet division provides finance for company car fleets and over one third of its loan book is now fully battery electric. As an initial green finance ambition, we have set ourselves the aim to provide funding for £1.0 billion of battery electric vehicles in the next five years.

Over the coming years, we will continue to build further our expertise in green and transition assets, cementing our reputation for specialist knowledge, financing and maximising commercial opportunities arising in the space, for example through the financing of battery electric storage systems and charging infrastructure across the UK.

The Asset Finance business is well positioned to capitalise on continued demand for asset financing. During the year, we have expanded our sector coverage, hiring agricultural equipment and materials handling teams who have both completed their first deals, and have increased our focus on the financing of green and transition assets.

In Invoice Finance, we expect the growth trajectory to follow the economic conditions. We continue to pursue opportunities in the ABL space, including identifying syndication opportunities, partnering with other lenders. Our Brewery Rentals business has delivered a record year and our direct-to-outlet container rental product, EkegPlus, continues to see strong demand.

Our investment in the Motor Finance transformation programme has enabled us to further broaden our offering in this market and take advantage of heightened demand for used cars. The programme has improved efficiency and the introduction of e-sign functionality has delivered sustainability benefits. We have developed a unique proposition to provide dealers with real-time data and market insights, in partnership with AutoTrader, which has supported an increase in dealer numbers and reducing vehicle sales times. We have also developed a set of APIs that enable us to connect seamlessly into strategic partners including AutoTrader and iVendi and provide our finance offering at various points of the customer journey. Alongside this, we continue to explore opportunities for growth over the longer term through the shift to Alternatively Fuelled Vehicles ("AFVs”), as they become more prevalent in the second hand car market. AFVs currently make up a low proportion of our Motor Finance loan book, in line with penetration in the wider second hand car market. We have expanded our credit policy to capture such vehicles and are currently piloting new AFV-suited offerings in selected markets.

For Premium Finance, we have launched new insight tools, Foresight and Focus 360, to enhance our offering and support brokers’ decisioning. We anticipate demand for the funding of insurance policies could increase given the uncertain macroeconomic conditions.

In Property, we continue to make good progress expanding our regional presence, which now contributes over 50% of our loan book, as well as building out our bridging finance offering. In partnership with Travis Perkins, we have established a new facility, allowing SME housebuilders to access discounted building supplies and materials directly via a credit facility, without the need to demonstrate any trading or credit history, where a relationship with the client already exists and funding has previously been agreed. We are also piloting a specialist buy-to-let extension to our existing Property bridging finance clients, which is a natural evolution of our expertise in Property Finance and well aligned with our business model and risk appetite. Our pipeline of undrawn commitments remains strong at above £1 billion, although the heightened economic uncertainty is expected to continue to impact activity in the property market.

Overall, we remain confident in the growth outlook for the loan book over both the short and medium term.

Banking: Commercial[1]

	2022 £ million	2021[2] £ million	Change %
Operating income	**343.4**	288.9	19
Adjusted operating expenses	**(180.0)**	(158.2)	14
Impairment losses on financial assets	**(72.4)**	(77.9)	(7)
Adjusted operating profit	**91.0**	52.8	72
Net interest margin	**7.8%**	7.7%	
Expense/income ratio	**52%**	55%	
Bad debt ratio	**1.7%**	2.1%	
Closing loan book and operating lease assets[3]	**4,561.4**	4,191.0	9

1 Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in note 2.
2 Commercial, Asset Finance and Invoice and Speciality Finance loan books have been re-presented for 31 July 2021 to include £222.9 million of operating lease assets (£1.3 million in Asset Finance and £221.6 million in Invoice and Speciality Finance).
3 Operating lease assets of £0.5 million (31 July 2021: £1.3 million) relate to Asset Finance and £239.5 million (31 July 2021: £221.6 million) to Invoice and Speciality Finance.

The Commercial businesses provide specialist, predominantly secured lending principally to the SME market and include Asset Finance and Invoice and Speciality Finance. We finance a diverse range of sectors, with Asset Finance offering commercial asset financing, hire purchase and leasing solutions across a broad range of assets including commercial vehicles, machine tools, contractors' plant, printing equipment, company car fleets, energy project finance, and aircraft and marine vessels. The Invoice and Speciality Finance business provides debt factoring, invoice discounting and asset-based lending, as well as covering our specialist businesses such as Brewery Rentals, Vehicle Hire and Novitas.

Adjusted operating profit in Commercial rose 72% to £91.0 million (2021: £52.8 million) as the business achieved positive operating leverage and saw a decrease in impairment charges. Statutory operating profit was £90.9 million (2021: £35.9 million).

Operating income increased 19% to £343.4 million (2021: £288.9 million), reflecting strong loan book growth in both Asset Finance and Invoice Finance. The net interest margin increased marginally to 7.8% (2021: 7.7%), mainly driven by a lower cost of funds.

Adjusted operating expenses of £180.0 million (2021: £158.2 million) were 14% higher than the prior year, reflecting higher staff costs to reflect business growth and the inflationary environment, as well as costs in relation to the group's withdrawal from the legal services financing market. In addition, investment spend in the Asset Finance transformation programme continued. The expense/income ratio decreased to 52% (2021: 55%) as the growth in operating income more than offset the cost increase.

Impairment charges decreased 7% to £72.4 million (2021: £77.9 million), corresponding to a reduced bad debt ratio of 1.7% (2021: 2.1%), reflecting the reduction in the Covid-19 forborne book and a lower charge in the year relating to Novitas, partly offset by an increase in provisions against certain individual exposures. A significant portion of the impairment charges reported in Commercial related to credit provisions against the Novitas loan book (2022: £60.7 million, 2021: £73.2 million), which reflect the latest assumptions on the case failure and recovery rates in this business.

The provision coverage reduced marginally to 4.0% (31 July 2021: 4.2%) reflecting reduced Covid-19 forbearance, partly offset by provisions against the Novitas loan book to take into account updated assumptions on case failure rates. Excluding Novitas, the provision coverage ratio reduced to 1.6% (31 July 2021: 2.1%).

The Commercial loan book increased 9% to £4.6 billion (31 July 2021: £4.2 billion). The Asset Finance book grew 7% to £3.0 billion (31 July 2021: £2.8 billion), reflecting strong new business volumes. The Invoice and Speciality Finance loan book increased 14% to £1.5 billion (31 July 2021: £1.3 billion), driven by high sales volumes, supported by the Recovery Loan Scheme, and improved utilisation, albeit this continues to remain slightly below pre-Covid-19 levels.

Banking: Retail[1]

	2022 £ million	2021 £ million	Change %
Operating income	**237.0**	219.8	8
Adjusted operating expenses	**(151.6)**	(138.0)	10
Impairment losses on financial assets	**(24.4)**	(9.9)	146
Adjusted operating profit	**61.0**	71.9	(15)
Net interest margin	**7.8%**	7.6%	
Expense/income ratio	**64%**	63%	
Bad debt ratio	**0.8%**	0.3%	
Closing loan book	**3,064.0**	2,974.3	3

1 Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in note 2.

The Retail businesses provide intermediated finance, principally to individuals and small businesses, through motor dealers and insurance brokers.

Operating profit for Retail reduced 15% to £61.0 million (2021: £71.9 million), driven by higher impairment charges and increased operating expenses, which more than offset income growth.

Operating income increased 8% to £237.0 million (2021: £219.8 million), reflecting loan book growth and an increase in the net interest margin to 7.8% (2021: 7.6%), mainly driven by higher fee income in Premium Finance and a lower cost of funds.

Operating expenses rose 10% to £151.6 million (2021: £138.0 million), driven by higher staff costs and the cost of responding to ongoing regulatory change. In addition, ongoing investment in the Retail businesses, alongside related depreciation, continued. The expense/income ratio increased marginally to 64% (2021: 63%).

Impairment charges increased to £24.4 million (2021: £9.9 million), with a bad debt ratio of 0.8% (2021: 0.3%) which reflected a more normalised level of cancellations in the consumer portfolio in Premium Finance following the strong credit performance in the prior year and a rise in arrears in the Motor Finance business as a result of the impact on customers from the cessation of the UK government's Covid-19 job retention scheme and the increase in inflation.

The provision coverage ratio remained stable at 2.2% (31 July 2021: 2.2%), mainly driven by the release of model-driven adjustments, partly offset by expected credit losses increasing to reflect loan book growth.

The Retail loan book increased 3% to £3.1 billion (31 July 2021: £3.0 billion). The Motor Finance book grew 7% to £2.1 billion (31 July 2021: £1.9 billion), as high new business levels reflected continued demand, and strong prices continued in the used car market.

The Premium Finance book declined 4% to £1.0 billion (31 July 2021: £1.0 billion) primarily as a result of lower demand for the funding of insurance policies from consumers. This was partially offset by strong new business volumes as customers look to ease cash flow pressures in the commercial market.

We remain confident in the credit quality of the Retail loan book. The Motor Finance loan book is predominantly secured on second-hand vehicles which are less exposed to depreciation or significant declines in value than new cars. Our core Motor Finance product remains hire-purchase contracts, with less exposure to residual value risk associated with Personal Contract Plans ("PCP"), which accounted for c.11% of the Motor Finance loan book at 31 July 2022. The Premium Finance loan book benefits from various forms of structural protection including premium refundability and, in most cases, broker recourse for the personal lines product.

Banking: Property

	2022 £ million	2021 £ million	Change %
Operating income	**112.7**	123.0	(8)
Operating expenses	**(31.0)**	(32.9)	(6)
Impairment losses on financial assets	**(6.5)**	(2.3)	183
Operating profit	**75.2**	87.8	(14)
Net interest margin	**7.6%**	7.6%	
Expense/income ratio	**28%**	27%	
Bad debt ratio	**0.4%**	0.1%	
Closing loan book	**1,473.5**	1,502.1	(2)

Property comprises Property Finance and Commercial Acceptances. The Property Finance business is focused on specialist residential development finance to established professional developers in the UK. Commercial Acceptances provides bridging loans and loans for refurbishment projects.

Operating profit decreased 14% to £75.2 million (2021: £87.8 million) primarily reflecting a reduction in income, as well as an increase in impairment charges on the prior year.

Operating income was down 8% to £112.7 million (2021: £123.0 million) reflecting the reduction in the loan book. The net interest margin was stable at 7.6% (2021: 7.6%), mainly driven by lower cost of funds, partly offset by the negative impact of rising rates in the last few months of the financial year on the interest rate floors, which were set at 1%. With the UK base rate now above 1%, we expect no further impact in respect of these floors as a result of future rate rises.

Operating expenses were 6% lower at £31.0 million (2021: £32.9 million) as we maintained our rigorous focus on cost discipline. The expense/income ratio remained broadly stable on the prior year at 28% (2021: 27%).

Impairment charges increased to £6.5 million (2021: £2.3 million) following the ongoing review of provisions and the prior year benefiting from the release of Covid-19 related provisions, resulting in a bad debt ratio of 0.4% (2021: 0.1%). The provision coverage ratio decreased marginally to 2.4% (31 July 2021: 2.6%).

In spite of strong new business volumes, the Property loan book reduced £29 million to £1.5 billion (31 July 2021: £1.5 billion), as high repayment levels more than offset drawdowns, with the buoyant UK property market resulting in heightened unit sales by developers. Our pipeline of undrawn commitments remains strong at £1.0 billion (31 July 2021: £0.9 billion) and we continue to see success from regional expansion, with the regional loan book making up over 50% of the Property Finance portfolio.

The Property loan book is conservatively underwritten, with typical LTVs below standard market levels. We work with experienced, professional developers, with a focus on mid-priced family housing, and have minimal exposure to the prime central London market. Our long track record, expertise and quality of service ensure the business remains resilient to competition and continues to generate high levels of repeat business.

ASSET MANAGEMENT

Key Financials[1]

	2022 £ million	2021 £ million	Change %
Investment management	**110.4**	102.9	7
Advice and other services[2]	**36.1**	36.4	(1)
Other income[3]	**1.5**	0.1	n/a
Operating income	**148.0**	139.4	6
Adjusted operating expenses	**(126.3)**	(115.9)	9
Impairment gains on financial assets	**-**	0.2	n/a
Adjusted operating profit	**21.7**	23.7	(8)
Revenue margin (bps)	**87**	91	
Operating margin	**15%**	17%	
Return on opening equity	**28.6%**	31.7%	

1 Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in note 2.
2 Income from advice and self-directed services, excluding investment management income.
3 Other income includes £1.4 million gain on disposal of an advised client book.

Continuing to Build on a Long Track Record of Growth

Close Brothers Asset Management provides personal financial advice and investment management services to private clients in the UK, including full bespoke management, managed portfolios and funds, distributed both directly via our advisers and investment managers, and through third party financial advisers.

Adjusted operating profit in CBAM decreased 8% to £21.7 million (2021: £23.7 million), driven by negative market movements which adversely impacted revenue in the second half of the year and higher staff costs. The operating margin reduced to 15% (2021: 17%). Statutory operating profit before tax was £19.8 million (2021: £22.4 million).

Total operating income grew 6% to £148.0 million (2021: £139.4 million), reflecting positive net inflows and market movements in the first half of the year, despite falling markets and their impact on wider client sentiment in the second half of the year. The revenue margin reduced to 87bps (2021: 91bps) reflecting lower investment management margins as flows have included a higher proportion of lower margin products.

Adjusted operating expenses increased 9% to £126.3 million (2021: £115.9 million), driven by higher staff costs, primarily reflecting the current inflationary environment and new hires, as we continue to invest to grow the business. As a result, expense/income ratio grew to 85% (2021: 83%) with the compensation ratio remaining in line with the prior year at 56% (2021: 56%).

We have been investing in technology in the business and recently completed a major re-platforming project to rationalise legacy systems and increase efficiency, while adding a digital portal to improve functionality and customer experience. Our technology projects have been focused on increasing efficiency and operational resilience, improving client experience by using best-of-breed applications, digital technology and selective in-house development.

Continued Positive Net Inflows, Despite Volatile Market Conditions

Equity markets have experienced a mixed performance during the financial year. In the second half of the year, a global equity market sell-off led to largely unfavourable conditions, with some major indices suffering near-unprecedented declines. Although concerns over continued inflation and geopolitical uncertainty continue to weigh on markets and adversely impact investor sentiment, we saw net inflows of £844 million for the year, delivering a net inflow rate of 5% (2021: 7%).

Total managed assets decreased 2% to £15.3 billion (2021: £15.6 billion), as negative market movements of £1.1 billion more than offset net inflows. Total client assets, which includes advised and managed assets, reduced by 3% overall to £16.6 billion (2021: £17.0 billion).

Movement in Client Assets

	31 July 2022 £ million	31 July 2021 £ million
Opening managed assets	**15,588**	12,594
Inflows	**2,330**	2,284
Outflows	**(1,486)**	(1,367)
Net inflows	**844**	917
Market movements	**(1,130)**	2,077
Total managed assets	**15,302**	15,588
Advised only assets	**1,272**	1,435
Total client assets[1]	**16,574**	17,023
Net flows as % of opening managed assets	**5%**	7%

1 Total client assets include £5.9 billion of assets (31 July 2021: £6.0 billion) that are both advised and managed.

Fund Performance

Our funds and segregated bespoke portfolios are designed to provide attractive risk-adjusted returns for our clients, consistent with their long-term goals and investment objectives. Fund performance over the 12 months since 31 July 2021 has been mixed, reflecting volatile markets across asset classes since the start of 2022. As a result, all our funds have delivered negative absolute returns over this period. In relative terms, eight of our 15 funds have outperformed their relevant peer group averages. Our bespoke strategy composites have outperformed their respective peer groups in a falling market environment, except for the Equity Risk strategy, which was the most impacted by the 2022 market falls.

Our Approach to ESG and Sustainability

ESG integration in our investment research and stewardship remains a key area of focus and we continue to expand our Responsible Investment team.

Our sustainable funds (Close Sustainable Balanced Portfolio Fund and Close Sustainable Bond Portfolio Fund), launched in 2020 to complement the existing SRI discretionary service, are gaining traction and we continue to develop our sustainable proposition as more of our clients look to how they can make a difference with their investments.

We have mobilised a Sustainability Programme with dedicated initiatives to embed the Principles for Responsible Investment ("PRI") and stewardship across all facets of our business, and as part of this, have recently become a signatory to the UK Stewardship Code.

CBAM will be making a commitment to actively contribute towards the UK government's net zero climate goals, through the Net Zero Asset Managers initiative. In line with our regulatory reporting obligations and desire to be transparent in fulfilling our commitments, we are also working towards aligning our disclosures with the TCFD recommendations by 2024.

Well Positioned for Future Growth

We remain confident that our vertically integrated, multi-channel business model positions us well for ongoing demand for our services and the structural growth opportunity presented by the wealth management industry.

Our focus remains on providing excellent service to our clients whilst investing in new hires to support the long-term growth potential of our business. While CBAM is sensitive to financial market conditions, we remain committed to driving growth both organically and through the continued selective hiring of advisers and investment managers, and through in-fill acquisitions.

As previously announced, Eddy Reynolds took over the leadership of the Asset Management division from Martin Andrew in March 2022. Eddy has over 30 years' experience in the fund and wealth management industries and has brought with him outstanding experience and knowledge to lead our talented team at CBAM.

WINTERFLOOD

Key Financials

	2022 £ million	2021 £ million	Change %
Operating income	**95.2**	182.0	(48)
Operating expenses	**(81.1)**	(121.2)	(33)
Impairment gains on financial assets	**-**	0.1	n/a
Operating profit	**14.1**	60.9	(77)
Average bargains per day ('000)	**81**	101	
Operating margin	**15%**	33%	
Return on opening equity[1]	**10.5%**	63.5%	

1 Reflecting increase in capital base in financial year 2021.

Cyclicality in the Trading Business Impacted Performance; Well Placed for When Investor Appetite Returns

Winterflood is a leading UK market maker, delivering high quality execution services to stockbrokers, wealth managers and institutional investors, as well as providing corporate advisory services to investment trusts and outsourced dealing and custody services via Winterflood Business Services ("WBS").

Global geopolitical events, in particular the ongoing conflict in Ukraine, energy and commodity price rises, supply chain issues, new Covid variants and the resulting restrictions, have all negatively impacted market conditions in the 2022 calendar year. Tightening monetary policy to combat inflation and concerns over slowing economic growth have also resulted in a risk-off sentiment for markets, further subduing investor risk appetite.

Cyclicality seen in the trading business negatively impacted Winterflood's performance, with a significant reduction in trading opportunities, exacerbated by periods of volatility in falling markets. Following the exceptionally strong trading performance and elevated market activity experienced during the prior year, operating profit was down 77% to £14.1 million (2021: £60.9 million).

Operating income decreased 48% to £95.2 million (2021: £182.0 million), primarily driven by a market-wide slowdown in trading activity and a change in the mix of trading volumes, exacerbated by falling markets. We also saw a decline in fees generated from corporate activity, although WBS continued to generate increased levels of income, up 12% to £10.2 million on the prior year.

Trading volumes have reduced, with average daily bargains at 81k (2021: 101k), but they remain elevated on pre-Covid levels (2019: 56k). However, there has also been a change in the composition of trading volumes, with volumes in the higher-margin markets of AIM and Small Cap both down on the prior year, as retail investor appetite has fallen, and retail-driven trading opportunities have reduced. As a result, trading income has declined to £80.7 million for the year (2021: £164.1 million).

Global equity markets have experienced substantial volatility in the past six months and indices have suffered, with US stocks recording their worst first half in more than 50 years, the FTSE 250 losing 14% and the AIM index down 24% this year. We have navigated the volatile intraday trading well, benefiting from the expertise of our traders and our strong focus on risk management, which has resulted in eight loss days for the year (2021: one loss day), of which seven occurred in the second half of the year.

Operating expenses decreased 33% to £81.1 million (2021: £121.2 million) driven by the variable nature of Winterflood's cost base, as the reduced revenue performance and trading volumes led to lower staff compensation and settlement costs. The expense/income ratio increased to 85% (2021: 67%) as the reduction in income was not fully offset by the corresponding decrease in variable costs. The compensation ratio fell to 47% (2021: 48%).

WBS, which provides outsourced dealing and custody services, has delivered another strong performance, generating £10.2 million of income (2021: £9.1 million) and growing its assets under administration to £7.2 billion (31 July 2021: £6.2 billion). Net inflows over the period were £1.3 billion (2021: £1.2 billion). We see significant growth potential in this business, with a solid pipeline of clients expected to increase assets under administration in excess of £10 billion in the 2023 financial year.

As a daily trading business, Winterflood is sensitive to changes in the market environment but remains well positioned to continue trading profitably, taking advantage when investor appetite returns. Winterflood continues to diversify its revenue streams and explore growth opportunities, balancing the cyclicality seen in the trading business. Our recently appointed new chief executive, Bradley Dyer, will be well placed to lead Winterflood in the next stage of its growth and development. We would like to thank Philip Yarrow for his significant contribution to the group and to Winterflood following his decision to retire as chief executive.

DEFINITIONS

Adjusted: Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance

Assets under administration: Total assets for which Winterflood Business Services provide custody and administrative services

Bad debt ratio: Impairment losses in the year as a percentage of average net loans and advances to customers and operating lease assets

Bargains per day: Average daily number of Winterflood's trades with third parties

Business as usual ("BAU") costs: Operating expenses excluding depreciation and other costs related to investments

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

Compensation ratio: Total staff costs as a percentage of adjusted operating income

Cost of funds: Interest expense incurred to support the lending activities divided by the average net loans and advances to customers and operating lease assets

Credit impaired: Where one or more events that have a detrimental impact on the estimated future cash flows of a loan have occurred. Credit impaired events are more severe than SICR triggers. Accounts which are credit impaired will be allocated to Stage 3

Discounting: The process of determining the present value of future payments

Dividend per share ("DPS"): Comprises the final dividend proposed for the respective year, together with the interim dividend declared and paid in the year

Earnings per share ("EPS"): Profit attributable to shareholders divided by number of basic shares

Effective tax rate ("ETR"): Tax on operating profit/(loss) as a percentage of operating profit/(loss) on ordinary activities before tax

Expected credit loss ("ECL"): The unbiased probability-weighted average credit loss determined by evaluating a range of possible outcomes and future economic conditions

Expense/income ratio: Total adjusted operating expenses divided by operating income

Funding allocated to loan book: Total funding excluding equity and funding held for liquidity purposes

Funding as % loan book: Total funding divided by net loans and advances to customers and operating lease assets

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

HM Revenue & Customs ("HMRC"): The UK's tax, payments and customs authority

Independent financial adviser ("IFA"): Professional offering independent, whole of market advice to clients including investments, pensions, protection and mortgages

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

Investment costs: Includes depreciation and other costs related to investment in multi-year projects, new business initiatives and pilots and cyber resilience. Excludes IFRS 16 depreciation

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

Loss day: Where aggregate gross trading book revenues are negative at the end of a trading day

Managed assets or assets under management ("AUM"): Total market value of assets which are managed by Close Brothers Asset Management in one of our investment solutions

Net carrying amount: Loan book value after expected credit loss provision

Net flows: Net flows as a percentage of opening managed assets calculated on an annualised basis

Net interest margin ("NIM"): Operating income generated by lending activities, including interest income net of interest expense, fees and commissions income net of fees and commissions expense, and operating lease income net of operating lease expense, less depreciation on operating lease assets, divided by average net loans and advances to customers and operating lease assets

Net stable funding ratio ("NSFR"): Regulatory measure of the group's weighted funding as a percentage of weighted assets

Net zero: Target of completely negating the amount of greenhouse gases produced by reducing emissions or implementing methods for their removal

Operating margin: Adjusted operating profit divided by operating income

Personal Contract Plan ("PCP"): PCP is a form of vehicle finance where the customer defers a significant portion of credit to the final repayment at the end of the agreement, thereby lowering the monthly repayments compared to a standard hire-purchase arrangement. At the final repayment date, the customer has the option to: (a) pay the final payment and take the ownership of the vehicle; (b) return the vehicle and not pay the final repayment; or (c) part-exchange the vehicle with any equity being put towards the cost of a new vehicle

Prudential Regulation Authority ("PRA"): A financial regulatory body, responsible for regulating and supervising banks and other financial institutions in the UK

Recovery Loan Scheme: Launched in April 2021 as a replacement to CBILS. Under the terms of the scheme, businesses of any size that have been adversely impacted by the Covid-19 pandemic can apply to borrow up to £10 million, with accredited lenders receiving a government-backed guarantee of 80% on losses that may arise

Return on assets: Adjusted operating profit attributable to shareholders divided by total closing assets at the balance sheet date

Return on average tangible equity: Adjusted operating profit attributable to shareholders divided by average total shareholder's equity, excluding intangible assets

Return on net loan book ("RoNLB"): Adjusted operating profit from lending activities divided by average net loans and advances to customers and operating lease assets

Return on opening equity ("RoE"): Adjusted operating profit attributable to shareholders divided by opening equity, excluding non-controlling interests

Revenue margin: Income from advice, investment management and related services divided by average total client assets. Average total client assets calculated as a two-point average

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

Scope 1, 2 and 3 emissions: Categorisation of greenhouse gas emissions, as defined by the Greenhouse Gas (GHG) Protocol, into direct emissions from owned or controlled sources (Scope 1), indirect emissions from the generation of purchased electricity, heating and cooling consumed by the reporting company (Scope 2), and all other indirect emissions that occur in a company's value chain (Scope 3)

Subordinated debt: Represents debt that ranks below, and is repaid after claims of, other secured or senior debt owed by the issuer

Task Force on Climate-related Financial Disclosures ("TCFD"): Regulatory framework to improve and increase reporting of climate-related financial information, including more effective and consistent disclosure of climate-related risks and opportunities

Term funding: Funding with a remaining maturity greater than 12 months

Term Funding Scheme ("TFS"): The Bank of England's Term Funding Scheme

Term Funding Scheme for Small and Medium-sized Enterprises ("TFSME"): The Bank of England's Term Funding Scheme with additional incentives for SMEs

Total client assets ("TCA"): Total market value of all client assets including both managed assets and assets under advice and/or administration in the Asset Management division

CONSOLIDATED INCOME STATEMENT
for the year ended 31 July 2022

	Note	**2022 £ million**	2021 £ million
Interest income		**690.0**	656.8
Interest expense		**(112.0)**	(119.3)
Net interest income		**578.0**	537.5
Fee and commission income		**259.5**	246.1
Fee and commission expense		**(17.2)**	(16.1)
Gains less losses arising from dealing in securities		**81.6**	165.2
Other income		**106.1**	89.4
Depreciation of operating lease assets and other direct costs	11	**(71.9)**	(69.5)
Non-interest income		**358.1**	415.1
Operating income		**936.1**	952.6
Administrative expenses		**(598.0)**	(592.1)
Impairment losses on financial assets	7	**(103.3)**	(89.8)
Total operating expenses before amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional item		**(701.3)**	(681.9)
Operating profit before amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional item		**234.8**	270.7
Amortisation and impairment of intangible assets on acquisition	10	**(2.0)**	(14.2)
Goodwill impairment	10	**-**	(12.1)
Exceptional item: HMRC VAT refund	3	**-**	20.8
Operating profit before tax		**232.8**	265.2
Tax	4	**(67.6)**	(63.1)
Profit after tax		**165.2**	202.1
Profit attributable to shareholders		**165.2**	202.1
Basic earnings per share	5	**110.4p**	134.8p
Diluted earnings per share	5	**109.9p**	133.6p
Interim dividend per share paid	6	**22.0p**	18.0p
Final dividend per share	6	**44.0p**	42.0p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 July 2022

	2022 **£ million**	2021 £ million
Profit after tax	**165.2**	202.1
Items that may be reclassified to income statement		
Currency translation losses	**(0.5)**	(1.1)
Gains on cash flow hedging	**30.6**	7.4
(Losses)/gains on financial instruments classified at fair value through other comprehensive income:		
Sovereign and central bank debt	**(1.1)**	0.9
Tax relating to items that may be reclassified	**(7.9)**	(1.2)
	21.1	6.0
Items that will not be reclassified to income statement		
Defined benefit pension scheme (losses)/gains	**(0.1)**	0.5
Tax relating to items that will not be reclassified	**0.3**	(0.6)
	0.2	(0.1)
Other comprehensive income, net of tax	**21.3**	5.9
Total comprehensive income	**186.5**	208.0
Attributable to		
Shareholders	**186.5**	208.0

CONSOLIDATED BALANCE SHEET
at 31 July 2022

	Note	**31 July 2022 £ million**	31 July 2021 £ million
Assets			
Cash and balances at central banks		**1,254.7**	1,331.0
Settlement balances		**799.3**	699.6
Loans and advances to banks		**165.4**	136.3
Loans and advances to customers	7	**8,858.9**	8,444.5
Debt securities	8	**612.8**	477.3
Equity shares	9	**28.4**	31.9
Loans to money brokers against stock advanced		**48.4**	51.1
Derivative financial instruments		**71.2**	18.3
Intangible assets	10	**252.0**	232.6
Property, plant and equipment	11	**322.5**	309.9
Current tax assets		**47.0**	36.4
Deferred tax assets		**32.5**	56.0
Prepayments, accrued income and other assets		**185.2**	209.6
Total assets		**12,678.3**	12,034.5
Liabilities			
Settlement balances and short positions	12	**796.1**	690.6
Deposits from banks	13	**160.5**	150.6
Deposits from customers	13	**6,770.4**	6,634.8
Loans and overdrafts from banks	13	**622.7**	512.7
Debt securities in issue	13	**2,060.9**	1,865.5
Derivative financial instruments		**89.2**	21.3
Accruals, deferred income and other liabilities		**334.5**	367.0
Subordinated loan capital		**186.5**	222.7
Total liabilities		**11,020.8**	10,465.2
Equity			
Called up share capital		**38.0**	38.0
Retained earnings		**1,628.4**	1,555.5
Other reserves		**(8.9)**	(23.2)
Total shareholders’ equity		**1,657.5**	1,570.3
Non-controlling interests		**-**	(1.0)
Total equity		**1,657.5**	1,569.3
Total equity and liabilities		**12,678.3**	12,034.5

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 July 2022

			Other reserves						
	Called up share capital £ million	Retained earnings £ million	FVOCI reserve £ million	Share-based payments reserve £ million	Exchange movements reserve £ million	Cash flow hedging reserve £ million	Total attributable to equity holders £ million	Non-controlling interests £ million	Total equity £ million
At 1 August 2020	38.0	1,435.0	0.2	(15.6)	(1.3)	(5.7)	1,450.6	(1.0)	1,449.6
Profit for the year	-	202.1	-	-	-	-	202.1	-	202.1
Other comprehensive (expense)/income	-	(0.1)	0.6	-	-	5.4	5.9	-	5.9
Total comprehensive income for the year	-	202.0	0.6	-	-	5.4	208.0	-	208.0
Dividends paid (note 6)	-	(86.6)	-	-	-	-	(86.6)	-	(86.6)
Shares purchased	-	-	-	(12.1)	-	-	(12.1)	-	(12.1)
Shares released	-	-	-	10.0	-	-	10.0	-	10.0
Other movements	-	3.7	-	(4.7)	-	-	(1.0)	-	(1.0)
Income tax	-	1.4	-	-	-	-	1.4	-	1.4
At 31 July 2021	38.0	1,555.5	0.8	(22.4)	(1.3)	(0.3)	1,570.3	(1.0)	1,569.3
Profit for the year	-	165.2	-	-	-	-	165.2	-	165.2
Other comprehensive (expense)/income	-	0.2	(0.7)	-	(0.2)	22.0	21.3	-	21.3
Total comprehensive income for the year	-	165.4	(0.7)	-	(0.2)	22.0	186.5	-	186.5
Dividends paid (note 6)	-	(95.5)	-	-	-	-	(95.5)	-	(95.5)
Shares purchased	-	-	-	(9.5)	-	-	(9.5)	-	(9.5)
Shares released	-	-	-	4.9	-	-	4.9	-	4.9
Other movements	-	4.1	-	(2.2)	-	-	1.9	1.0	2.9
Income tax	-	(1.1)	-	-	-	-	(1.1)	-	(1.1)
At 31 July 2022	**38.0**	**1,628.4**	**0.1**	**(29.2)**	**(1.5)**	**21.7**	**1,657.5**	**-**	**1,657.5**

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 July 2022

	Note	**2022 £ million**	2021 £ million
Net cash inflow from operating activities	15(a)	**158.7**	119.1
Net cash (outflow)/inflow from investing activities			
Purchase of:			
Property, plant and equipment		**(7.1)**	(8.9)
Intangible assets – software		**(51.3)**	(47.9)
Subsidiaries	15(b)	**(0.1)**	(2.9)
Sale of:			
Subsidiaries	15(c)	**0.1**	2.3
		(58.4)	(57.4)
Net cash inflow before financing activities		**100.3**	61.7
Financing activities			
Purchase of own shares for employee share award schemes		**(9.5)**	(12.1)
Equity dividends paid		**(95.5)**	(86.6)
Interest paid on subordinated loan capital and debt financing		**(10.4)**	(13.6)
Payment of lease liabilities		**(15.1)**	(14.7)
Net (redemption)/issuance of subordinated loan capital		**(23.4)**	40.6
Net decrease in cash		**(53.6)**	(24.7)
Cash and cash equivalents at beginning of year		**1,436.6**	1,461.3
Cash and cash equivalents at end of year	15(d)	**1,383.0**	1,436.6

THE NOTES

1. Basis of Preparation and Accounting Policies

The financial information contained in this announcement does not constitute the statutory accounts for the years ended 31 July 2022 or 31 July 2021 within the meaning of section 435 of the Companies Act 2006, but is derived from those accounts. The accounting policies used are consistent with those set out in the Annual Report 2021.

The financial statements are prepared on a going concern basis. Whilst the financial information has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS"), this announcement does not itself contain sufficient information to comply with IFRS 9.

The financial information for the year ended 31 July 2022 has been derived from the financial statements of Close Brothers Group plc for that year. Statutory accounts for 2021 have been delivered to the Registrar of Companies and those for 2022 will be delivered following the company's Annual General Meeting. The group's auditor, PricewaterhouseCoopers LLP, will report on the 2022 accounts: their report is expected to be unqualified, and is not expected to draw attention to any matters by way of emphasis or contain statements under Section 498(2) or (3) of the Companies Act 2006.

Critical accounting estimates and judgements

The reported results of the group are sensitive to the accounting policies, assumptions and estimates used in the preparation of its financial statements. UK company law and IFRS require the directors, in preparing the group's financial statements, to select suitable accounting policies, apply them consistently and make judgements, estimates and assumptions that are reasonable. The group's estimates and assumptions are based on historical experience and reasonable expectations of future events and are reviewed on an ongoing basis.

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

Critical accounting judgements

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

Expected credit losses

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

Significant increase in credit risk

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

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

- Quantitative assessment: the lifetime PD has increased by more than an agreed threshold relative to the equivalent at origination. Thresholds are based on a fixed number of risk grade movements which are bespoke to the business to ensure that the increased risk since origination is appropriately captured;
- Qualitative assessment: events or observed behaviour indicate credit deterioration. This includes a wide range of information that is reasonably available including individual credit assessments of

the financial performance of borrowers as appropriate during routine reviews, plus forbearance and watch list information; or
- Backstop criteria: the 30 days past due backstop is met.

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

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

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

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

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

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

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

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

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

The key sources of estimation uncertainty for the portfolio's expected credit loss provision are case failure rates and recovery rates. Case failure rates represent a forward-looking probability assessment of successful case outcomes, where a claimant is awarded settlement either prior to or following a court process, informed by actual case failure rates, where a claim is unsuccessful and expected to be repaid with proceeds from an insurance policy. Recovery rates represent the level of interest and capital that is covered by an insurance policy and expected to be recoverable once a case fails. In addition, an assessment is also undertaken reflecting potential insurer insolvency risk with resultant expected credit losses held for this.

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

Based on this methodology, and using the latest information available, there has been an uplift in the expected credit loss provision in Novitas, reflecting the latest assumptions on case failure and recovery rates. Further details on provisions are included in note 7b.

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

Forward-looking information

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

In order to calculate forward-looking provisions, economic scenarios are sourced from Moody's Analytics, which are then used to project potential credit conditions for each portfolio. Benchmarking to other economic providers is carried out to provide management comfort on Moody's Analytics scenario paths.

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

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

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

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

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

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

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

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

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

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

FY22 and FY21 scenario forecasts and weights

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

When performing sensitivity analysis there is a high degree of estimation uncertainty. On this basis, 100% weighted expected credit loss provisions presented for the upside and downside scenarios should not be taken to represent the lower or upper range of possible and actual expected credit loss outcomes. The recalculated expected credit loss provision for each of the scenarios should be read in the context of the sensitivity analysis as a whole and in conjunction with the narrative disclosures provided in note 7. The modelled impact presented is based on gross loans and advances to customers at 31 July 2022; it does not incorporate future changes relating to performance, growth or credit risk. In addition, given the change in the macroeconomic conditions, underlying modelled provisions and methodology, and refined approach to adjustments, comparison between the sensitivity results at 31 July 2022 and 31 July 2021 is not appropriate.

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

2. Segmental Analysis

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

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

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

Summary income statement for the year ended 31 July 2022

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

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

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

Summary balance sheet information at 31 July 2022

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
Total assets[1]	**4,561.4**	**3,064.0**	**1,473.5**	**172.8**	**972.3**	**2,434.3**	**12,678.3**
Total liabilities	**-**	**-**	**-**	**70.5**	**880.6**	**10,069.7**	**11,020.8**

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only. The Commercial operating segment includes the net loan book of Novitas of £159.4 million.

2 Balance sheet includes £2,425.0 million assets and £10,181.9 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

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

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

Other segmental information for the year ended 31 July 2022

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group	Total
Employees (average number)[1]	**1,348**	**1,153**	**190**	**722**	**318**	**79**	**3,810**

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

Summary income statement for the year ended 31 July 2021

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

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

Summary balance sheet information at 31 July 2021

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
Total assets[1]	4,191.0	2,974.3	1,502.1	139.7	897.9	2,329.5	12,034.5
Total liabilities	-	-	-	78.1	806.5	9,580.6	10,465.2

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only. The Commercial operating segment includes the net loan book of Novitas of £181.5 million.

2 Balance sheet includes £2,299.0 million assets and £9,677.8 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

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

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

Other segmental information for the year ended 31 July 2021

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group	Total
Employees (average number)[1]	1,276	1,163	187	706	300	77	3,709

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

3. Exceptional Item

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

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

4. Taxation

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

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

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

Movements in deferred tax assets and liabilities were as follows:

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

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

5. Earnings per Share

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

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

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

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

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

6. Dividends

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

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

7. Loans and Advances to Customers

(a) Maturity analysis of loans and advances to customers

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

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

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

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

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

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

Stage allocation of loans and advances to customers has been applied in line with the group's definitions.

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

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

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

Provision Coverage Analysis by Business
In Commercial, the impairment coverage ratio decreased to 4.0% (31 July 2021: 4.2%) reflecting strong new business volumes and positive performance of the Covid-19 forborne loan book. Excluding Novitas, the Commercial impairment coverage ratio decreased to 1.6% (31 July 2021: 2.1%) following the release of Covid-19 related adjustments. The significant increase in credit

provisions against the Novitas loan book reflects the latest assumptions on case failure and recovery rates.

In Retail, at 31 July 2022, the impairment coverage ratio remained stable at 2.2% (31 July 2021: 2.2%) reflecting the performance of the forborne loan book and strong new business volumes.

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

(c) Adjustments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(e) Finance lease and hire purchase agreement receivables

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

8. Debt Securities

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

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

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

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

9. Equity Shares

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

10. Intangible Assets

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

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

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

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

11. Property, Plant and Equipment

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

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

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

12. Settlement Balances and Short Positions

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

13. Financial Liabilities

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

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

1 Debt securities in issue of £(0.6) million due on demand include an adjustment relating to the group's fair value hedges.

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

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

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

14. Capital - unaudited

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

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

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

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

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

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

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2022 and 31 July 2021 for a foreseeable dividend, being the proposed final dividend as set out in note 6.

2 The group has elected to apply IFRS 9 transitional arrangements for 31 July 2022, which allow the capital impact of expected credit losses to be phased in over the transitional period.

3 In line with CRR, effective on 1 January 2022, the CET1 capital includes a regulatory deduction where there is insufficient coverage for non-performing exposures, amounting to £0.03 million at 31 July 2022.

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

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

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

15. Consolidated Cash Flow Statement Reconciliation

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

1 Comparatives have been updated to present impairment losses on financial assets in a separate line with no impact on the net cash inflow from operating activities figure.
2 Excludes £37.1 million (2021: £30.7 million) of Bank of England and other cash reserve accounts.

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

16. Fair Value of Financial Assets and Liabilities

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

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

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

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

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

There is no significant change to the valuation methodologies relating to Level 2 and 3 financial instruments disclosed in note 28 “Financial risk management” of the Annual Report 2021.

Instruments classified as Level 3 predominantly comprise contingent consideration payable and receivable in relation to the acquisitions and disposal of subsidiaries. The fair value of contingent consideration is determined on a discounted expected cash flow basis. The group believes that there is no reasonably possible change to inputs used in the valuation of these positions which would have a material effect on the group's consolidated income statement.

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

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

17. Government Lending Schemes and Forbearance

Government lending schemes

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

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

Forbearance

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

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

Forbearance analysis

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

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

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

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

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

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

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

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

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

18. Interest Rate Risk

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

The group has a simple and transparent balance sheet and a low appetite for interest rate risk which is limited to that required to operate efficiently. The group's governance, policy and approach in relation to interest rate risk remains unchanged from that described on page 186 of the Annual Report 2021.

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

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

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

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

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

Cautionary Statement

Certain statements included or incorporated by reference within this preliminary results announcement may constitute "forward-looking statements" in respect of the group's operations, performance, prospects and/or financial condition. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as "anticipates", "aims", "due", "could", "may", "will", "should", "expects", "believes", "intends", "plans", "potential", "targets", "goal" or "estimates". By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions and actual results or events may differ materially from those expressed or implied by those statements. Accordingly, no assurance can be given that any particular expectation will be met and reliance should not be placed on any forward-looking statement. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Except as may be required by law or regulation, no responsibility or obligation is accepted to update or revise any forward-looking statement resulting from new information, future events or otherwise. Nothing in this preliminary results announcement should be construed as a profit forecast. Past performance is no guide to future performance and persons needing advice should consult an independent financial (or other professional) adviser.

This preliminary results announcement does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to subscribe for or purchase any shares or other securities in the company or any of its group members, nor shall it or any part of it or the fact of its distribution form the basis of, or be relied on in connection with, any contract or commitment or investment decisions relating thereto, nor does it constitute a recommendation regarding the shares or other securities of the company or any of its group members. Statements in this preliminary results announcement reflect the knowledge and information available at the time of its preparation. Liability arising from anything in this preliminary results announcement shall be governed by English law. Nothing in this preliminary results announcement shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.