Close Brothers

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Registered in England No. 520241

Press Release

Half year results for the six months to 31 January 2017

14 March 2017

Strong Performance in the First Half

- The group reported a strong performance in the first half, with £134.2 million adjusted[1] operating profit, 21% higher than the prior year period, and an RoE[2] of 18.0%
- Banking adjusted operating profit increased 13% to £122.7 million driven by strong lending income, with broadly stable margin, as well as provision releases in the period
- All Banking segments reported adjusted operating profit growth, with Retail Finance up 3%, Commercial Finance up 9% and Property Finance up 29%
- The loan book grew by 1.7% in the period and 9.6% year on year, as we continue to apply our disciplined approach to lending in a more competitive environment
- Winterflood reported operating profit of £14.4 million, significantly higher than the prior year period, reflecting strong retail investor risk appetite
- Asset Management has made good progress delivering £9.1 million adjusted operating profit, reflecting favourable market conditions
- Continued dividend growth with a 5% increase to 20.0p while maintaining prudent dividend cover

Financial Highlights[2]

	First half 2017	First half 2016	Change %
Adjusted operating profit	**£134.2m**	£111.2m	21
Operating profit before tax	**£131.4m**	£108.7m	21
Adjusted basic earnings per share	**66.6p**	61.1p	9
Basic earnings per share	**65.1p**	59.7p	9
Dividend per share	**20.0p**	19.0p	5
Return on opening equity	**18.0%**	17.9%	
Net interest margin	**8.2%**	8.3%	
Bad debt ratio	**0.5%**	0.6%	
	31 January 2017	31 July 2016	
Loan book	**£6.5bn**	£6.4bn	1.7
Total client assets	**£10.2bn**	£9.9bn	3.2
Common equity tier 1 ratio	**12.6%[3]**	13.5%	
Total capital ratio	**15.3%**	13.8%	

1 Adjusted operating profit excludes £2.8 million (2016: £2.5 million) of amortisation of intangible assets on acquisition.
2 Please refer to definitions on page 16.
3 Includes one-off impact of increase in property risk weighted assets as previously announced on 5 January 2017.

Preben Prebensen, Chief Executive, said:

"We are pleased to report a strong performance for the first half of the 2017 financial year, with continued growth in our earnings and dividend.

All parts of our business performed well in the period. Our three banking segments, Retail Finance, Commercial Finance and Property Finance, all reported profit growth and strong returns, while both Winterflood and Asset Management benefited from favourable markets.

Trading conditions have clearly been favourable in the first half, but as always our priority remains to protect, sustain and invest in our business for the long term. Our service driven model, focused on specialist markets, has allowed us to support our clients, invest in our business and generate strong returns for shareholders over many years."

Enquiries

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A presentation to analysts and investors will be held today at 9.30 am GMT at our offices at 10 Crown Place, London EC2A 4FT. A listen-only dial-in facility will be available by dialling +44 20 3059 8125. A recording of this call will be available for replay for two weeks by dialling +44 121 260 4861, access code 5237641#.

Basis of Presentation

Results are presented both on a statutory and an adjusted basis. The adjusted basis is to aid comparability between periods and excludes amortisation of intangible assets on acquisition and any goodwill impairment or exceptional items.

About Close Brothers

Close Brothers is a leading UK merchant banking group providing lending, deposit taking, wealth management services and securities trading. We employ over 3,000 people, principally in the UK. Close Brothers Group plc is listed on the London Stock Exchange and is a member of the FTSE 250.

BUSINESS OVERVIEW

Close Brothers has had a strong first half, with profit increasing in all business segments. Overall, adjusted operating profit grew 21% to £134.2 million and adjusted earnings per share, which now reflects the full year impact of the banking tax surcharge, increased 9% to 66.6p. We are pleased to declare an interim dividend of 20.0p per share, up 5% on last year, reflecting our ongoing commitment to progressive and sustainable dividend growth.

Strong Profitability Across Lending Businesses

The Banking division continued to perform strongly, with adjusted operating profit up 13% on the first half of last year. Conditions remain favourable, with a stable economic environment and low interest rates supporting low bad debts, but also attracting an increased supply of credit into some of our markets. In this environment, our focus remains on maintaining our margins and strict underwriting which support our business model through the cycle.

The loan book growth in the first half was somewhat slower than in recent years, up 1.7% since the year end, but the new business pipeline remains strong. We continue to focus on the discipline of our lending at this more competitive stage in the cycle. The net interest margin was broadly stable year on year at 8.2%, bad debts remain below historical levels and overall return on net loan book remains well ahead of its long-term average at 3.7%.

In these results we have for the first time reported on the financial performance of our three lending segments: Retail Finance, Commercial Finance and Property Finance, and are pleased to report increasing profits in all three of these. Market conditions and the competitive environment affect our businesses in different ways, but they all share the same focus on specialist markets, prudent underwriting and strong returns.

As we look at each of these segments in turn, in Retail Finance we are continuing to see good growth in the premium finance business and expansion of the motor finance business in Ireland. The core UK motor business continues to focus on maintaining margins and the quality of underwriting in a competitive environment.

Although competition in the Commercial Finance segment has increased in recent years, particularly in the broker distributed part of the market, we have continued to see strong demand for our specialist lending products, with continued good new business volumes. We are progressing a number of new growth initiatives in this area, including in technology leasing where we started writing business in 2016.

The Property Finance business, which focuses on residential development finance, had a particularly strong half year. Profit increased significantly over the prior year, reflecting the continued growth in loan book and income, as well as provision releases relating to our historical loan portfolio.

Improved Market Conditions Benefit Winterflood and Asset Management

The first half saw a significant improvement in financial markets and investor sentiment, with rising equity markets and high levels of retail trading activity. As the leading market-maker to retail brokers, Winterflood achieved a strong performance, with no loss days in the period. As a result, profits more than doubled to £14.4 million.

In Asset Management, profit increased 8% to £9.1 million, benefiting from continued net inflows and rising markets. We have made good progress in the business, increasing the number of advisers to over 100 following the successful completion of two IFA acquisitions. We continue to see significant long-term growth potential in the private client market and remain focused on driving growth both organically and, where appropriate, through small acquisitions.

Prudent Funding, Liquidity and Capital

The prudent management of our funding, liquidity and capital is a core part of our business model allowing us to grow, invest and pay a dividend, while meeting all regulatory requirements. We have maintained good access to a diverse range of funding markets, and during the period we strengthened our funding and capital position through the issuance of a £250 million senior bond, as well as £175 million of tier 2 capital, which further increases the flexibility of our total capital position.

During the period, the European Banking Authority issued new guidance which mandates the risk weighting of property development loans at 150%. This higher risk weighting will apply to the majority of our property lending, notwithstanding our long track record of prudent and profitable growth in this area. This will have no impact on our strategy or pricing for the Property business or the Banking division as a whole.

Our common equity tier 1 ("CET1") capital ratio at 12.6% and total capital ratio at 15.3% both remain comfortably ahead of regulatory requirements and our leverage ratio, which is unaffected by risk weightings, remains very strong at over 10%.

Board changes

As separately announced this morning, we are pleased to confirm that Mike Biggs has been appointed to succeed Strone Macpherson as Chairman. Mike, who is also Chairman of Direct Line, has joined the Board effective today and will become Chairman effective 1 May, following Strone's retirement on 30 April.

The Board would like to thank Strone for his unwavering commitment and very substantial contribution to the group over many years and wish him every success for the future.

Outlook

We have achieved a strong performance in the first half of the year and are confident in delivering a good result for the full year.

Macroeconomic and financial market conditions in the UK remain benign, but we continue to monitor developments carefully.

OVERVIEW OF FINANCIAL PERFORMANCE

Key Financials

	First half 2017 £ million	First half[1] 2016 £ million	Change %
Operating income	**378.3**	331.6	14
Adjusted operating expenses	**(226.8)**	(203.7)	11
Impairment losses on loans and advances	**(17.3)**	(16.7)	4
Adjusted operating profit	**134.2**	111.2	21
Banking	**122.7**	108.4	13
Retail Finance	**39.9**	38.9	3
Commercial Finance	**36.5**	33.5	9
Property Finance	**46.3**	36.0	29
Securities	**14.4**	6.8	112
Asset Management	**9.1**	8.4	8
Group	**(12.0)**	(12.4)	(3)
Amortisation of intangible assets on acquisition	**(2.8)**	(2.5)	12
Operating profit before tax	**131.4**	108.7	21
Adjusted basic earnings per share	**66.6p**	61.1p	9
Basic earnings per share	**65.1p**	59.7p	9
Dividend per share	**20.0p**	19.0p	5
Return on opening equity	**18.0%**	17.9%	

1 Relevant figures and ratios for 2016 are re-presented for changes in treatment of operating lease assets and Treasury income, as announced on 13 September 2016.

Strong First Half Performance

Close Brothers reported a strong performance in the period with good profit growth across all segments.

Adjusted operating profit increased 21% to £134.2 million (2016: £111.2 million), with an operating margin of 35% (2016: 34%). The Banking division accounted for c.90% of profits in the period, with adjusted operating profit up 13% to £122.7 million driven by good income growth and provision releases. Winterflood achieved £14.4 million operating profit, more than doubling the profit reported in the first half of 2016. Asset Management continued to grow client assets and delivered adjusted operating profit of £9.1 million. Group net expenses, which include the central functions such as finance, legal and compliance, risk and HR, remained broadly unchanged at £12.0 million.

Operating income increased 14% to £378.3 million (2016: £331.6 million), driven by higher income from the Banking businesses, with good demand, particularly in our premium finance and property finance businesses. Income in Securities also increased with strong trading supported by a significant improvement in market conditions.

Adjusted operating expenses increased 11% to £226.8 million (2016: £203.7 million) driven by both Banking and Winterflood. In Banking, we continue to invest to protect and sustain our model, while maintaining a tight focus on cost control across our businesses. In Winterflood, the increase in costs reflects the significantly improved performance compared to the prior year period. Both the expense/income and compensation ratios reduced slightly to 60% (2016: 61%) and 38% (2016: 39%) respectively.

Bad debt remained low with a ratio of 0.5% (2016: 0.6%), down on the first half of the prior year as a result of provision releases principally in our property book. Underlying credit performance remained strong and broadly in line with full year 2016.

The tax charge in the period was £34.8 million (2016: £20.1 million) which corresponds to an effective tax rate of 26% (2016: 18%), reflecting the first full year impact of the bank corporation tax surcharge.

Despite this, adjusted basic earnings per share ("EPS") increased 9% to 66.6p (2016: 61.1p), generating a stable return on opening equity ("RoE") of 18.0% (2016: 17.9%). Basic EPS, which includes £2.8 million amortisation of intangible assets on acquisition, also increased 9% to 65.1p (2016: 59.7p).

The interim dividend of 20.0p represents an increase of 5% from the prior year (2016: 19.0p), reflecting our progressive dividend policy while maintaining appropriate cover to ensure sustainable dividend growth. This interim dividend is due to be paid on 26 April 2017 to shareholders on the register at 24 March 2017.

Group Balance Sheet

	31 January 2017 £ million	31 July 2016 £ million
Loans and advances to customers	**6,543.8**	6,431.6
Treasury assets[1]	**1,306.8**	1,048.4
Market-making assets[2]	**564.1**	576.9
Other assets	**710.7**	691.3
Total assets	**9,125.4**	8,748.2
Deposits by customers	**4,864.9**	4,894.6
Borrowings	**2,341.4**	1,938.3
Market-making liabilities[2]	**476.4**	505.6
Other liabilities	**301.7**	312.8
Total liabilities	**7,984.4**	7,651.3
Equity	**1,141.0**	1,096.9
Total liabilities and equity	**9,125.4**	8,748.2

1 Treasury assets comprise cash and balances at central banks and debt securities held to support lending in the Banking division.
2 Market-making assets and liabilities comprise settlement balances, long and short trading positions and loans to or from money brokers.

Our balance sheet is simple and transparent with prudent management of capital, funding and liquidity. We borrow long and lend short and our balance sheet is predominantly made up of loans and advances to customers which are short term in nature, with an average maturity of 14 months and around 90% secured. It also includes treasury assets held for liquidity purposes as well as settlement balances held within our Securities division. Other assets principally comprise intangibles, property, plant and equipment, and prepayments.

Total assets increased to £9.1 billion largely driven by higher levels of short-term liquidity to fund the repayment of a bond maturing in February 2017 and future loan book growth. Total equity increased to over £1.1 billion reflecting profit in the period, partially offset by dividend payments of £56.0 million. The group's return on assets remained stable at 2.1% (31 July 2016: 2.1%).

Group Capital Position

	31 January 2017 £ million	31 July 2016 £ million
Common equity tier 1 capital	**938.8**	901.4
Total capital	**1,142.7**	925.4
Risk weighted assets	**7,456.0**	6,682.5
Common equity tier 1 capital ratio	**12.6%**	13.5%
Total capital ratio	**15.3%**	13.8%
Leverage ratio	**10.3%**	10.2%

Maintaining a strong capital position is a core element of our business model and supports our ability to grow, invest in the business and pay a dividend to shareholders, while continuing to meet all regulatory requirements.

The group's strong profitability supports significant capital generation, and in the first half our CET1 capital increased by 4% to £938.8 million (31 July 2016: £901.4 million), reflecting the increase in retained earnings in the period. However, risk weighted assets also increased significantly due to the European Banking Authority ("EBA") guidance which mandates 150% risk weighting for property development loans under the standardised approach. This resulted in a c. £660 million increase in RWAs, a one-off impact of 1.2% on the CET1 capital ratio. Overall, total RWAs increased 12% to £7,456.0 million (31 July 2016: £6,682.5 million), and the CET1 capital ratio reduced to 12.6% (31 July 2016: 13.5%).

In January we issued £175 million of subordinated debt qualifying as tier 2 capital to diversify and further strengthen our total capital position. As a result, our total capital ratio increased to 15.3% (31 July 2016: 13.8%).

The leverage ratio, which is unaffected by the increase in risk weightings, remains strong and well ahead of regulatory requirements at 10.3%.

In early February we received our updated Individual Capital Guidance from the PRA, which confirmed an overall 1.9% add-on to minimum capital requirements corresponding to a CET1 add-on of 1.1%. Accordingly, all our capital ratios remain comfortably ahead of regulatory requirements. Going forward the profitability of our business, quality and security of our loan book and ongoing prudent management of our capital resources give us confidence that we can continue to support our business growth and development.

Group Funding[1]

	31 January 2017 £ million	31 July 2016 £ million
Customer deposits	**4,864.9**	4,894.6
Secured funding[2]	**1,383.1**	1,296.3
Unsecured funding[3]	**1,320.2**	866.0
Equity	**1,141.0**	1,096.9
Total available funding	**8,709.2**	8,153.8
Of which term funding (>1 year)	**4,964.2**	4,315.7
Total funding as % of loan book	**133%**	127%
Term funding as % of loan book	**76%**	67%
Average maturity of term funding (excluding equity)	**39 months**	31 months

1 Numbers relate to core funding and exclude working capital facilities at the business level.
2 Includes £100 million (31 July 2016: £nil) of Treasury Bills drawn under the Funding for Lending Scheme but not currently in repurchase agreements.
3 Unsecured funding excludes £33.1 million (2016: £21.0 million) of non-facility overdrafts included in borrowings and includes £295.0 million (2016: £245.0 million) of undrawn facilities.

Our conservative approach to funding and liquidity is a core part of our business model and we seek to maintain both diversity of funding and a prudent maturity profile. We continue to have good access to a wide range of funding sources, which include retail and corporate deposits, unsecured bonds and other wholesale facilities. We also have a range of secured funding facilities including the Bank of England's Funding for Lending Scheme and Term Funding Scheme.

In the first half, total funding increased £555.4 million to £8,709.2 million and accounted for 133% of the loan book. The increase primarily reflects the issue of £175 million tier 2 debt capital and a £250 million senior unsecured bond. These facilitated the repayment of a £200 million senior unsecured bond which matured in February and the funding of future loan book growth.

Term funding, with an average maturity of 39 months, increased significantly and now covers over three quarters of the loan book, reflecting the two debt issuances and renewal of facilities in the period.

In the period, both Moody's Investors Services ("Moody's") and Fitch Ratings ("Fitch") reaffirmed our credit ratings. Moody's rates Close Brothers Group ("CBG") A3/P2 and Close Brothers Limited ("CBL") Aa3/P1, with stable outlooks. Fitch rates both CBG and CBL at A/F1 with stable outlooks.

Group Liquidity

	31 January 2017 £ million	31 July 2016 £ million
Bank of England deposits	**1,120.8**	847.4
Sovereign and central bank debt	**40.7**	-
High quality liquid assets[1]	**1,161.5**	847.4
Certificates of deposit	**145.3**	201.0
Treasury assets	**1,306.8**	1,048.4

1 In addition to and not included in the above, at 31 January 2017 the group held £100 million (31 July 2016: £nil) of Treasury Bills drawn under the Funding for Lending Scheme but not currently in repurchase agreements which are classified as high quality liquid assets.

Treasury assets increased £258.4 million to £1,306.8 million, with the majority held as high quality liquid assets on deposit with the Bank of England. The increase reflects the timing of debt issuance in the period.

Our liquidity position remains in excess of internal and regulatory requirements, and we comfortably exceed the minimum level for the liquidity coverage ratio requirements under Capital Requirement Directive ("CRD") IV.

BANKING

Strong Financial Performance in the First Half

	First half 2017 £ million	First half 2016 £ million	Change %
Operating income	**274.0**	248.7	10
Adjusted operating expenses	**(134.0)**	(123.6)	8
Impairment losses on loans and advances	**(17.3)**	(16.7)	4
Adjusted operating profit	**122.7**	108.4	13
Net interest margin	**8.2%**	8.3%	
Expense/income ratio	**49%**	50%	
Bad debt ratio	**0.5%**	0.6%	
Return on net loan book	**3.7%**	3.6%	
Return on opening equity	**23%**	25%	
Average loan book and operating lease assets	**6,655**	5,987	11

The Banking division achieved a strong performance, with both good returns and profit growth. Adjusted operating profit increased 13% to £122.7 million (2016: £108.4 million) driven by continued strong net interest margin and low provisions for bad debt.

Operating income grew 10% to £274.0 million (2016: £248.7 million), with good growth across all lending areas. The net interest margin remained strong at 8.2% (2016: 8.3%), slightly lower than the prior year period but in line with full year 2016 reflecting our consistent pricing approach with strict lending criteria across our businesses.

We maintain a focus on cost control while at the same time continuing to invest for the future. Adjusted operating expenses increased 8% to £134.0 million (2016: £123.6 million), with approximately half of this increase attributable to strategic initiatives and investment in infrastructure to support future growth. Overall, the expense/income ratio decreased to 49% (2016: 50%) compared to the prior year and the compensation ratio was stable at 30% (2016: 30%).

The bad debt ratio reduced to 0.5% (2016: 0.6%), driven by provision releases in Property Finance. All businesses continue to benefit from the benign credit environment and underlying performance remains broadly in line with the prior year, supported by consistent application of our prudent underwriting criteria.

Loan Book Analysis

	31 January 2017 £ million	31 July 2016[1] £ million	Change %
Retail Finance	**2,571**	2,511	2.4
Motor finance	**1,719**	1,705	0.8
Premium finance	**852**	806	5.7
Commercial Finance	**2,468**	2,463	0.2
Asset finance	**2,049**	2,020	1.5
Invoice finance	**419**	443	(5.5)
Property Finance	**1,505**	1,457	3.3
Closing loan book	**6,544**	6,432	1.7

1 Minor differences compared to 2016 reported numbers reflect re-presentation of rentals and consumer point of sale loan books in line with internal management reporting.

At the current point in the cycle, some businesses are delivering good growth, notably premium and property, and other businesses are affected by high levels of competition. Although new business volumes remained solid, repayments were also higher in the period. Overall, the loan book grew 1.7% in the first half, or 9.6% year on year, to £6.5 billion.

The Banking division continued to generate strong returns with the return on net loan book of 3.7% remaining ahead of the long-term average of 3.4%. RoE was also strong at 23% (2016: 25%), albeit a slight decrease from the prior year as a result of the higher tax rate.

Banking: Retail Finance

	First half 2017 £ million	First half 2016 £ million	Change %
Operating income	**110.3**	100.4	10
Adjusted operating expenses	**(58.5)**	(53.3)	10
Impairment losses on loans and advances	**(11.9)**	(8.2)	45
Adjusted operating profit	**39.9**	38.9	3
Net interest margin	**8.7%**	8.7%	
Expense/income ratio	**53%**	53%	
Bad debt ratio	**0.9%**	0.7%	
Average loan book	**2,541**	2,299	11

Retail Finance provides intermediated finance, principally to individuals, through motor dealers, insurance brokers and retailers and incorporates our premium and motor finance businesses.

The Retail Finance loan book increased 2.4% in the first half to £2.6 billion (2016: £2.5 billion), representing 10.2% growth year on year. Growth was driven by the premium finance business, which grew 5.7% to £0.9 billion, with a number of new broker wins and increasing volumes from our existing brokers. The motor finance loan book grew slightly to £1.7 billion. In the UK competition is affecting loan book growth as we continue to prioritise margin over market share, while growth remains strong in Ireland.

Adjusted operating profit increased 3% to £39.9 million (2016: £38.9 million), with strong income and stable net interest margin of 8.7%. The bad debt ratio increased slightly to 0.9%, however remains below historical levels. Adjusted operating expenses increased 10% to £58.5 million (2016: £53.3 million), in line with income growth, driven mainly by staff costs across the segment as well as ongoing investment in the premium finance infrastructure and consumer point of sale initiative. The expense/income ratio remained unchanged from the prior year at 53%.

Retail Finance remains well positioned long term. We continue to consistently apply our disciplined lending principles, and invest to improve the existing business model and the customer experience.

Banking: Commercial Finance

	First half 2017 £ million	First half 2016 £ million	Change %
Operating income	**105.6**	97.2	9
Adjusted operating expenses	**(61.5)**	(57.2)	8
Impairment losses on loans and advances	**(7.6)**	(6.5)	17
Adjusted operating profit	**36.5**	33.5	9
Net interest margin	**8.0%**	8.2%	
Expense/income ratio	**58%**	59%	
Bad debt ratio	**0.6%**	0.6%	
Average loan book and operating leases	**2,632**	2,359	12

Commercial Finance, which focuses on specialist, secured lending to the SME market, performed well in the period and delivered good profit growth of 9% to £36.5 million (2016: £33.5 million), despite ongoing competition at this point in the cycle. The loan book remained stable at £2.5 billion, with growth driven by more specialist areas such as green energy.

The net interest margin reduced to 8.0% (2016: 8.2%), reflecting pricing pressure from competition as well as an increased contribution from lower margin products. The bad debt ratio remained low at 0.6%, with continued good credit performance. The expense/income ratio reduced marginally to 58% (2016: 59%), reflecting significant investment in the prior year period.

In February 2017 Close Brothers agreed to acquire a specialist provider of secured finance to law firms and their clients, which had a loan book of £32.7 million and reported profit before tax of £2.7 million for the year ended 31 March 2016. The total consideration, which is subject to certain performance conditions, is up to £31 million, and is expected to be satisfied by a combination of shares and cash. The acquisition is expected to close in the second half of the financial year.

Overall, we achieved solid performance from Commercial Finance in the period, with good profit growth and a stable loan book, despite ongoing competitive pressure. Our focus is on protecting the existing business while driving new growth initiatives, to maintain sustainability through the cycle.

Banking: Property Finance

	First half 2017 £ million	First half 2016 £ million	Change %
Operating income	**58.1**	51.1	14
Operating expenses	**(14.0)**	(13.1)	7
Impairment losses on loans and advances	**2.2**	(2.0)	
Operating profit	**46.3**	36.0	29
Net interest margin	**7.8%**	7.7%	
Expense/income ratio	**24%**	26%	
Bad debt ratio	**(0.3%)**	0.3%	
Average loan book	**1,481**	1,329	11

Property Finance is focused on specialist residential development finance to well established professional developers in the UK. We do not lend to the buy-to-let sector, or provide residential or commercial mortgages.

At this point in the cycle, the business is performing very well, with historically low impairments and strong growth in profitability. We continue to see good demand for core residential development finance, in both London and the regions, as well as for shorter-term bridging and refurbishment finance. The loan book increased 3.3% to £1.5 billion, with strong new business volumes, partly offset by a number of large loan settlements towards the end of the period. The net interest margin increased slightly to 7.8%.

Property Finance operating profit increased 29% to £46.3 million, driven by higher lending income as well as provision releases following the successful sale of a number of legacy properties. Accordingly, the bad debt ratio of (0.3%) reflects a net recovery in the period, while underlying credit performance remained strong and in line with 2016. The expense/income ratio remained low at 24% (2016: 26%) reflecting the relatively low volumes and larger transaction sizes in this business.

We remain confident in the quality of our loan book, with prudent underwriting and consistently low loan to value ratios, underpinning our ability to continue successfully lending to our customers in all market conditions.

SECURITIES

Significant Improvement in Trading

	First half 2017 £ million	First half 2016 £ million	Change %
Operating income	**53.9**	35.2[1]	53
Operating expenses	**(39.5)**	(28.4)	39
Operating profit	**14.4**	6.8[1]	112
Bargains per day ('000)	**58**	51	13
Operating margin	**27%**	19%	
Return on opening equity	**30%**	14%	

1 2016 operating income and operating profit includes £3.7 million and £1.9 million respectively relating to the disposal of Euroclear shares.

Winterflood achieved a significant improvement on the first half of last year with strong growth in income and operating profit, which increased to £14.4 million (2016: £6.8 million). This reflects strong trading supported by better market sentiment and retail investor risk appetite throughout the period, driven by political events and rising equity markets.

Operating income increased 53% to £53.9 million (2016: £35.2 million) reflecting higher trading income across all sectors but particularly in AIM, which benefited from increased retail trading activity. Average daily bargains increased 13% to 57,782 (2016: 51,359), with no loss days in the period (2016: 13 loss days).

Operating expenses increased 39% reflecting Winterflood's improved performance compared to the prior year period. The expense/income ratio decreased to 73% (2016: 81%), while the compensation ratio remained broadly stable at 48% (2016: 49%).

Although it remains sensitive to changes in market conditions, Winterflood's strong performance demonstrates its ability to benefit from increased trading activity and maintain a market leading position.

ASSET MANAGEMENT

Good Progress Supported by Favourable Market Environment

	First half 2017 £ million	First half 2016 £ million	Change %
Investment management	**30.8**	28.2	9
Advice and other services[1]	**17.4**	16.7	4
Other income[2]	**1.9**	2.1	(10)
Operating income	**50.1**	47.0	7
Adjusted operating expenses	**(41.0)**	(38.6)	6
Adjusted operating profit	**9.1**	8.4	8
Revenue margin (bps)	**96**	90	
Operating margin	**18%**	18%	
Return on opening equity	**27%**	29%	

1 Income from advice and self-directed services, excluding investment management income.
2 Net interest income and expense, income on principal investments and other income. Includes £1.6 million profit on disposal of OLIM Investment Managers, which completed in November 2016. The first half 2016 includes the £1.9 million profit on disposal of our corporate advice and investment management activities.

Asset Management reported improved results, with adjusted operating profit growth of 8% to £9.1 million. We made good progress in the period with new adviser hires, complementary acquisitions and continued investment in technology. All our channels performed well and delivered positive net flows, albeit lower than the previous period, of £125 million.

Excluding OLIM Investment Managers ("OLIM") which was sold in November, and our corporate business sold in 2016, the underlying profit increased 26% to £7.2 million (2016: £5.7 million). In the period, OLIM contributed £2.3 million (2016: £1.2 million) of income and profit of £0.3 million (2016: £0.4 million) with a profit on disposal of £1.6 million.

Operating income increased 7% to £50.1 million, with investment management income up 9%, driven by an increase in our managed assets over the last 12 months. The revenue margin rose to 96bps following the sale of OLIM.

Adjusted operating expenses increased 6% to £41.0 million, principally relating to staff costs, including a net increase of 17 advisers in the last year, and property related costs. The expense/income ratio remains flat at 82% and the compensation ratio increased to 54% (2016: 52%).

Movement in Client Assets

	31 January 2017 £ million
Opening managed assets	**8,047**
Inflows	**795**
Outflows	**(670)**
Net inflows	**125**
Market movements	**207**
Disposals[1]	**(492)**
Total managed assets	**7,887**
Advised only assets	**2,327**
Total client assets[2]	**10,214**
Net flows as % of opening managed assets (annualised)	**3%**

1 Sale of OLIM in November 2016.
2 Total client assets include £3.2 billion (31 July 2016: £3.0 billion) of assets that are both advised and managed.

Managed assets benefited from both favourable market movements and positive net inflows. Following a slower start to the year, all our channels performed well in the second quarter with a particularly strong contribution from our own advisers. Overall for the first half we achieved net inflows of £125 million, an annualised 3% of opening managed assets, and also benefited from £207 million of positive market movements. However, managed assets were broadly stable at £7.9 billion due to the sale of OLIM with c. £0.5 billion assets.

Total client assets closed 3% higher at £10.2 billion (31 July 2016: £9.9 billion) reflecting an increase in advised only assets to £2.3 billion (31 July 2016: £1.9 billion). The growth largely related to the acquisition of two independent financial advisory businesses during the period.

The business has made good progress since the beginning of the financial year and we continue to see significant long-term growth potential. We remain focused on growing organically through our business development efforts, selective hiring of advisers and fund managers, and, if appropriate, small complementary acquisitions.

DEFINITIONS

Adjusted: Adjusted measures are used to aid comparability between periods and exclude amortisation of intangible assets on acquisition, and any goodwill impairments and exceptional items

Bad debt ratio: Impairment losses on average net loans and advances to customers and operating lease assets

Compensation ratio: Total staff costs on operating income

Earnings per share ("EPS"): Profit after tax plus non-controlling interests on number of basic shares

Exceptional items: Income or costs which are material in size and non-recurring in nature

Expense/income ratio: Total adjusted operating expenses, excluding impairment losses on loans and advances, on adjusted operating income

High quality liquid assets: Assets which qualify as high quality liquid assets for FCA liquidity purposes, including deposits with the Bank of England, gilts and Treasury Bills drawn under the Funding for Lending Scheme

Leverage ratio: Tier 1 capital as a percentage of total balance sheet assets, adjusting for certain capital deductions, including intangible assets, and off balance sheet exposures

Net interest margin: Net income generated by lending activities, including net interest income, net fees and commissions and net operating lease income (deducting depreciation), on average net loans and advances to customers and operating lease assets

Return on net loan book: Adjusted operating profit from lending activities on average net loans and advances to customers and operating lease assets

Return on opening equity ("RoE"): Adjusted operating profit after tax and non-controlling interests on opening equity, excluding non-controlling interests

Revenue margin: Income from advice, investment management and related services on average total client assets

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

PRINCIPAL RISKS AND UNCERTAINTIES

The group is exposed to a number of risks in its day-to-day business which are managed by:

- Adhering to its prudent and established business model;
- Following a "three lines of defence" risk management approach; and
- Operating within a clearly defined risk appetite which is monitored against agreed metrics and limits.

A detailed description of the principal risks and uncertainties that the group faces and its approach to managing and mitigating those risks is set out on pages 28 to 31 of the Annual Report 2016 which can be accessed via the link on the Investor Relations home page of the group's website at www.closebrothers.com.

In the six months to 31 January 2017 there have been no significant changes to our business model, risk management approach or risk appetite. The risks and uncertainties detailed in the Annual Report 2016 also remain unchanged and are summarised below. This summary should not be regarded as a comprehensive list of all potential risks and uncertainties faced by the group but rather those risks which it currently believes may have a significant impact on its performance and future prospects.

Key risk and uncertainty	Description
Credit losses	At 31 January 2017 the group has £6.5 billion of loans to a range of small businesses and individuals. The group is exposed to credit losses if customers are unable to repay these loans and any outstanding interest and fees. The group is also exposed to counterparties with which it places deposits or trades.
Economic environment	Any downturn in economic conditions may impact the group's performance through lower demand for the group's products and services, lower investor risk appetite, higher bad debts and increased volatility in funding markets. While the performance of the UK economy has been resilient since the UK's decision to leave the EU, our relationship with the EU going forward remains unclear and as such the economic outlook remains uncertain. Recent and potential future changes to the political landscape both in the UK and abroad also have the ability to impact funding markets and investor risk appetite.
Legal and regulatory	Changes in legal, regulatory and tax environments could adversely impact on the group's performance, capital and liquidity as well as demand from its customers and counterparties. Failing to safeguard client assets or providing advice and products which are not in our customers' best interests has the potential to damage the group's reputation and may lead to sanctions including litigation and customer redress.
Competition	We continue to experience high levels of competition across our businesses, particularly in the Banking division. Any further intensification in competition may impact the group's performance.
Technology	Maintaining robust and secure IT infrastructure is fundamental in allowing the group to operate effectively, respond to new technology, protect client and company data and counter cyber threats. Failure to evolve with our customers' technological expectations or effectively manage transitions to new infrastructure also has the potential to impact group performance.
Employees	The calibre and expertise of our employees is critical to the success of the group. The loss of key individuals or teams may have an adverse impact on the group's operations and ability to deliver its strategy.
Funding	Access to stable funding markets remains key to support our lending activities and liquidity requirements. Any significant or sudden change in these markets has the potential to impact the group's ongoing performance.
Market exposure	Volatility or the absence of liquidity in financial markets may impact the group's profitability, particularly in our trading operations. Changes in interest and exchange rates have the potential to impact the group's earnings although the majority of these exposures are hedged.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- The condensed set of consolidated financial statements has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting";
- The Half Yearly Report 2017 includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- The Half Yearly Report 2017 includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.8R (disclosure of related parties' transactions and changes therein).

On behalf of the board

P.S.S. Macpherson	**P. Prebensen**
Chairman	Chief Executive

14 March 2017

INDEPENDENT REVIEW REPORT

Independent Review Report to Close Brothers Group plc

We have been engaged by the company to review the condensed set of financial statements in the half yearly financial report for the six months ended 31 January 2017 which comprises the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and related notes 1 to 16. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly financial report for the six months ended 31 January 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

14 March 2017

CONSOLIDATED INCOME STATEMENT
for the six months ended 31 January 2017

	Note	Six months ended 31 January 2017 Unaudited £ million	Six months ended 31 January 2016 Unaudited £ million[1]	Year ended 31 July 2016 Audited £ million
Interest income		**289.6**	272.1	550.1
Interest expense		**(62.5)**	(65.1)	(127.5)
Net interest income		**227.1**	207.0	422.6
Fee and commission income		**100.2**	92.9	189.2
Fee and commission expense		**(15.0)**	(14.7)	(28.5)
Gains less losses arising from dealing in securities		**48.7**	25.6	67.9
Other income		**29.2**	30.2	55.8
Depreciation of operating lease assets		**(11.9)**	(9.4)	(19.6)
Non-interest income		**151.2**	124.6	264.8
Operating income	2	**378.3**	331.6	687.4
Administrative expenses		**(226.8)**	(203.7)	(415.9)
Impairment losses on loans and advances	6	**(17.3)**	(16.7)	(37.9)
Total operating expenses before amortisation of intangible assets on acquisition		**(244.1)**	(220.4)	(453.8)
Operating profit before amortisation of intangible assets on acquisition		**134.2**	111.2	233.6
Amortisation of intangible assets on acquisition		**(2.8)**	(2.5)	(5.1)
Operating profit before tax		**131.4**	108.7	228.5
Tax	3	**(34.8)**	(20.1)	(42.2)
Profit after tax for the period		**96.6**	88.6	186.3
Loss attributable to non-controlling interests		**(0.2)**	-	(0.2)
Profit attributable to shareholders		**96.8**	88.6	186.5
Basic earnings per share	4	**65.1p**	59.7p	125.7p
Diluted earnings per share	4	**64.9p**	58.9p	124.3p
Ordinary dividend per share	5	**20.0p**	19.0p	57.0p

1 Re-presented – see note 1.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 31 January 2017

	Six months ended 31 January		Year ended 31 July
	2017	2016	2016
	Unaudited	Unaudited	Audited
	£ million	£ million	£ million
Profit after tax for the period	**96.6**	88.6	186.3
Other comprehensive income/(expense) that may be reclassified to income statement			
Currency translation gains	**0.2**	1.6	3.2
Gains/(losses) on cash flow hedging	**3.9**	(4.0)	(6.1)
(Losses)/gains on financial instruments classified as available for sale:			
Sovereign and central bank debt	**(0.7)**	-	-
Equity shares	**0.1**	-	0.2
Available for sale investment gains transferred to income statement on disposal	**-**	(4.0)	(4.2)
Tax relating to items that may be reclassified	**(0.9)**	1.9	0.9
	2.6	(4.5)	(6.0)
Other comprehensive income/(expense) that will not be reclassified to income statement			
Defined benefit pension scheme gains/(losses)	**2.8**	(1.7)	(1.9)
Tax relating to items that will not be reclassified	**(0.6)**	0.3	0.3
	2.2	(1.4)	(1.6)
Other comprehensive income/(expense) for the period, net of tax	**4.8**	(5.9)	(7.6)
Total comprehensive income for the period	**101.4**	82.7	178.7
Attributable to			
Non-controlling interests	**(0.2)**	-	(0.2)
Shareholders	**101.6**	82.7	178.9
	101.4	82.7	178.7

CONSOLIDATED BALANCE SHEET
at 31 January 2017

	Note	31 January 2017 Unaudited £ million	31 January 2016 Unaudited £ million	31 July 2016 Audited £ million
Assets				
Cash and balances at central banks		**1,120.8**	809.7	847.4
Settlement balances		**460.7**	332.2	478.1
Loans and advances to banks		**103.6**	88.3	121.5
Loans and advances to customers	6	**6,543.8**	5,968.8	6,431.6
Debt securities	7	**200.5**	213.1	221.3
Equity shares	8	**35.6**	37.7	28.2
Loans to money brokers against stock advanced		**55.4**	47.7	52.4
Derivative financial instruments		**29.8**	30.0	44.7
Intangible assets		**161.4**	143.7	147.9
Property, plant and equipment		**201.0**	164.9	185.8
Deferred tax assets		**51.5**	51.3	55.2
Prepayments, accrued income and other assets		**161.3**	133.4	134.1
Total assets		**9,125.4**	8,020.8	8,748.2
Liabilities				
Settlement balances and short positions	9	**466.3**	350.2	475.6
Deposits by banks	10	**70.0**	48.8	71.1
Deposits by customers	10	**4,864.9**	4,615.2	4,894.6
Loans and overdrafts from banks	10	**418.9**	315.9	469.1
Debt securities in issue	10	**1,703.1**	1,394.3	1,422.8
Loans from money brokers against stock advanced		**10.1**	10.0	30.0
Derivative financial instruments		**17.9**	9.6	16.3
Current tax liabilities		**25.1**	25.1	20.0
Accruals, deferred income and other liabilities		**188.7**	178.8	205.4
Subordinated loan capital	10	**219.4**	46.4	46.4
Total liabilities		**7,984.4**	6,994.3	7,651.3
Equity				
Called up share capital		**37.7**	37.7	37.7
Share premium account		**284.0**	284.0	284.0
Retained earnings		**840.7**	728.9	797.5
Other reserves		**(21.1)**	(24.1)	(22.1)
Total shareholders' equity		**1,141.3**	1,026.5	1,097.1
Non-controlling interests		**(0.3)**	-	(0.2)
Total equity		**1,141.0**	1,026.5	1,096.9
Total liabilities and equity		**9,125.4**	8,020.8	8,748.2

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 January 2017

				Other reserves						
	Called up share capital £ million	Share premium account £ million	Retained earnings £ million	Available for sale movements 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 2015 (audited)	37.7	284.0	694.4	3.3	(4.5)	(2.8)	(2.3)	1,009.8	0.1	1,009.9
Profit/(loss) for the period	-	-	88.6	-	-	-	-	88.6	-	88.6
Other comprehensive (expense)/income for the period	-	-	(1.4)	(3.3)	-	1.6	(2.8)	(5.9)	-	(5.9)
Total comprehensive income/(expense) for the period	-	-	87.2	(3.3)	-	1.6	(2.8)	82.7	-	82.7
Exercise of options	-	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	(52.3)	-	-	-	-	(52.3)	-	(52.3)
Shares purchased	-	-	-	-	(24.6)	-	-	(24.6)	-	(24.6)
Shares issued	-	-	-	-	-	-	-	-	-	-
Shares released	-	-	-	-	10.6	-	-	10.6	-	10.6
Other movements	-	-	(1.1)	-	0.7	-	-	(0.4)	(0.1)	(0.5)
Income tax	-	-	0.7	-	-	-	-	0.7	-	0.7
At 31 January 2016 (unaudited)	37.7	284.0	728.9	-	(17.8)	(1.2)	(5.1)	1,026.5	-	1,026.5
Profit for the period	-	-	97.9	-	-	-	-	97.9	(0.2)	97.7
Other comprehensive income/(expense) for the period	-	-	(0.2)	-	-	0.1	(1.6)	(1.7)	-	(1.7)
Total comprehensive income/(expense) for the period	-	-	97.7	-	-	0.1	(1.6)	96.2	(0.2)	96.0
Exercise of options	-	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	(28.0)	-	-	-	-	(28.0)	-	(28.0)
Shares purchased	-	-	-	-	0.2	-	-	0.2	-	0.2
Shares issued	-	-	-	-	-	-	-	-	-	-
Shares released	-	-	-	-	2.2	-	-	2.2	-	2.2
Other movements	-	-	(1.4)	-	1.1	-	-	(0.3)	-	(0.3)
Income tax	-	-	0.3	-	-	-	-	0.3	-	0.3
At 31 July 2016 (audited)	37.7	284.0	797.5	-	(14.3)	(1.1)	(6.7)	1,097.1	(0.2)	1,096.9
Profit for the period	-	-	96.8	-	-	-	-	96.8	(0.2)	96.6
Other comprehensive (expense)/income for the period	-	-	2.2	(0.4)	-	0.2	2.8	4.8	-	4.8
Total comprehensive income/(expense) for the period	-	-	99.0	(0.4)	-	0.2	2.8	101.6	(0.2)	101.4
Exercise of options	-	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	(56.0)	-	-	-	-	(56.0)	-	(56.0)
Shares purchased	-	-	-	-	(12.7)	-	-	(12.7)	-	(12.7)
Shares issued	-	-	-	-	-	-	-	-	-	-
Shares released	-	-	-	-	13.3	-	-	13.3	-	13.3
Other movements	-	-	(0.7)	-	(2.2)	-	-	(2.9)	0.1	(2.8)
Income tax	-	-	0.9	-	-	-	-	0.9	-	0.9
At 31 January 2017 (unaudited)	**37.7**	**284.0**	**840.7**	**(0.4)**	**(15.9)**	**(0.9)**	**(3.9)**	**1,141.3**	**(0.3)**	**1,141.0**

CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 31 January 2017

	Note	Six months ended 31 January **2017** **Unaudited** **£ million**	Six months ended 31 January 2016 Unaudited £ million	Year ended 31 July 2016 Audited £ million
Net cash inflow/(outflow) from operating activities	14(a)	**359.2**	(142.3)	(18.8)
Net cash (outflow)/inflow from investing activities				
Purchase of:				
Property, plant and equipment		**(5.4)**	(4.6)	(13.6)
Intangible assets – software		**(11.5)**	(7.4)	(21.7)
Subsidiaries and non-controlling interest	14(b)	**(6.3)**	-	(3.6)
Sale of:				
Property, plant and equipment		**0.1**	0.1	0.1
Equity shares held for investment		**-**	6.1	7.6
Subsidiary	14(c)	**(0.3)**	2.3	2.3
		(23.4)	(3.5)	(28.9)
Net cash inflow/(outflow) before financing activities		**335.8**	(145.8)	(47.7)
Financing activities	14(d)			
Purchase of own shares for employee share award schemes		**(12.7)**	(24.6)	(24.4)
Equity dividends paid		**(56.0)**	(52.3)	(80.3)
Interest paid on subordinated loan capital and debt financing		**(8.2)**	(8.2)	(28.0)
Net increase/(decrease) in cash		**258.9**	(230.9)	(180.4)
Cash and cash equivalents at beginning of period		**923.3**	1,103.7	1,103.7
Cash and cash equivalents at end of period	14(e)	**1,182.2**	872.8	923.3

THE NOTES

1. Basis of preparation and accounting policies

The half yearly financial information has been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and in accordance with the International Financial Reporting Standards ("IFRS") endorsed by the European Union. These include International Accounting Standard ("IAS") 34, Interim Financial Reporting, which specifically addresses the contents of condensed half yearly financial statements. The consolidated financial statements incorporate the individual financial statements of Close Brothers Group plc and the entities it controls, using the acquisition method of accounting. The accounting policies applied are consistent with those set out on pages 94 to 98 of the Annual Report 2016.

After making enquiries, the directors have a reasonable expectation that the company and the group as a whole have adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. For this reason, they continue to adopt the going concern basis in preparing the condensed consolidated half yearly financial statements.

The preparation of the half yearly report requires management to make estimates and assumptions that affect the reported income and expense, assets and liabilities and disclosure of contingencies at the date of the half yearly report. Although these estimates and assumptions are based on the management's best judgement at that date, actual results may differ from these estimates. There have been no significant changes in the basis upon which estimates have been determined compared to that applied at 31 July 2016.

The half yearly report is unaudited and does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. However, the information has been reviewed by the company's auditor, Deloitte LLP, and their report appears on page 19.

The financial information for the year ended 31 July 2016 contained within this half yearly report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of those statutory accounts has been reported on by Deloitte LLP and delivered to the Registrar of Companies. The report of the auditor on those statutory accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

As disclosed in the Annual Report 2016, following a review of our financial reporting, we have implemented minor changes to the calculation of key metrics in the Banking division to better represent the contribution of operating lease assets and the role of Treasury. This has resulted in depreciation of operating lease assets, previously included in administrative expenses, to be reported as a cost of sales and included in operating income in the consolidated income statement.

To enable comparisons and in line with the treatment adopted in the consolidated income statement for the period ended 31 January 2017, the comparative information for the period ended 31 January 2016 has also been re-presented. This has resulted in non-interest income and operating income decreasing by £9.4 million with a corresponding decrease in administrative expenses and total operating expenses before amortisation of intangible assets on acquisition. There has been no impact on profit attributable to shareholders or equity.

2. Segmental analysis

The directors manage the group by class of business and we present the segmental analysis on that basis. As announced on 20 February 2017, following the growth of the group and particularly the Banking division in recent years, the group's activities are now presented in five (2016: three) operating divisions: Commercial Finance, Retail Finance, Property Finance (previously all Banking), Securities and Asset Management. The day-to-day operations of these businesses remain unchanged. Prior periods have been re-presented for comparability.

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.

2. Segmental analysis continued

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 six months ended 31 January 2017

	Banking						
	Retail Finance £ million	Commercial Finance £ million	Property Finance £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Net interest income/(expense)	**98.2**	**72.2**	**57.0**	**(0.5)**	**(0.1)**	**0.3**	**227.1**
Non-interest income	**12.1**	**33.4**	**1.1**	**54.4**	**50.2**	**-**	**151.2**
Operating income	**110.3**	**105.6**	**58.1**	**53.9**	**50.1**	**0.3**	**378.3**
Administrative expenses	**(52.7)**	**(57.7)**	**(12.9)**	**(38.6)**	**(39.9)**	**(12.1)**	**(213.9)**
Depreciation and amortisation	**(5.8)**	**(3.8)**	**(1.1)**	**(0.9)**	**(1.1)**	**(0.2)**	**(12.9)**
Impairment losses on loans and advances	**(11.9)**	**(7.6)**	**2.2**	**-**	**-**	**-**	**(17.3)**
Total operating expenses	**(70.4)**	**(69.1)**	**(11.8)**	**(39.5)**	**(41.0)**	**(12.3)**	**(244.1)**
Adjusted operating profit/(loss)[1]	**39.9**	**36.5**	**46.3**	**14.4**	**9.1**	**(12.0)**	**134.2**
Amortisation of intangible assets on acquisition	**-**	**(0.3)**	**-**	**-**	**(2.5)**	**-**	**(2.8)**
Operating profit/(loss) before tax	**39.9**	**36.2**	**46.3**	**14.4**	**6.6**	**(12.0)**	**131.4**
External operating income/(expense)	**134.2**	**130. 7**	**69.8**	**53.9**	**50.3**	**(60.6)**	**378.3**
Inter segment operating income/(expense)	**(23.9)**	**(25.1)**	**(11.7)**	**-**	**(0.2)**	**60.9**	**-**
Segment operating income	**110.3**	**105.6**	**58.1**	**53.9**	**50.1**	**0.3**	**378.3**

1 Adjusted operating profit/(loss) is stated before amortisation of intangible assets on acquisition, profit on disposal of discontinued operations and tax.

Balance Sheet Information at 31 January 2017

	Banking						
	Retail Finance £ million	Commercial Finance £ million	Property Finance £ million	Securities £ million	Asset Management £ million	Group[2] £ million	Total £ million
Total assets[1]	**2,570.8**	**2,643.2**	**1,504.8**	**626.7**	**105.3**	**1,674.6**	**9,125.4**
Total liabilities	**-**	**-**	**-**	**556.8**	**49.7**	**7,377.9**	**7,984.4**

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Includes £1,665.5 million assets and £7,485.3 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

2. Segmental analysis continued

Equity is allocated across the Group as set out below with equity managed for the Banking division as a whole rather than on a segmental basis. Equity for the Banking division is inclusive of the loan book and operating lease assets of £6,718.8 million, as well as assets and liabilities of £1,665.5 million and £7,485.3 million respectively primarily comprising treasury balances which are included within the Group column above.

	Banking total £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Equity	**899.0**	**69.9**	**55.6**	**116.5**	**1,141.0**

Summary Income Statement for the six months ended 31 January 2016[1]

	Banking						
	Retail Finance £ million	Commercial Finance £ million	Property Finance £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Net interest income/(expense)	89.4	67.2	50.4	(0.2)	-	0.2	207.0
Non-interest income	11.0	30.0	0.7	35.4	47.0	0.5	124.6
Operating income	100.4	97.2	51.1	35.2	47.0	0.7	331.6
Administrative expenses	(47.4)	(54.2)	(12.2)	(27.7)	(37.8)	(13.1)	(192.4)
Depreciation and amortisation	(5.9)	(3.0)	(0.9)	(0.7)	(0.8)	-	(11.3)
Impairment losses on loans and advances	(8.2)	(6.5)	(2.0)	-	-	-	(16.7)
Total operating expenses	(61.5)	(63.7)	(15.1)	(28.4)	(38.6)	(13.1)	(220.4)
Adjusted operating profit/(loss)[1]	38.9	33.5	36.0	6.8	8.4	(12.4)	111.2
Amortisation of intangible assets on acquisition	(0.1)	(0.1)	-	-	(2.3)	-	(2.5)
Operating profit/(loss) before tax	38.8	33.4	36.0	6.8	6.1	(12.4)	108.7
External operating income/(expense)	124.8	122.5	63.5	35.2	47.3	(61.7)	331.6
Inter segment operating income/(expense)	(24.4)	(25.3)	(12.4)	-	(0.3)	62.4	-
Segment operating income	100.4	97.2	51.1	35.2	47.0	0.7	331.6

1 Re-presented – see note 1.
2 Adjusted operating profit/(loss) is stated before amortisation of intangible assets on acquisition, profit on disposal of discontinued operations and tax.

2. Segmental analysis continued

Balance Sheet Information at 31 January 2016

	Banking						
	Retail Finance £ million	Commercial Finance £ million	Property Finance £ million	Securities £ million	Asset Management £ million	Group[2] £ million	Total £ million
Total assets[1]	2,332.3	2,418.3	1,358.2	477.5	105.7	1,328.8	8,020.8
Total liabilities	-	-	-	408.1	53.2	6,533.0	6,994.3

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Includes £1,323.0 million assets and £6,705.2 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

	Banking total £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Equity[1]	726.6	69.4	52.5	178.0	1,026.5

1 Equity for the Banking division is inclusive of the loan book and operating lease assets of £6,108.8 million, as well as assets and liabilities of £1,323.0 million and £6,705.2 million respectively primarily comprising treasury balances which are included within the Group column.

Summary Income Statement for the year ended 31 July 2016

	Banking						
	Retail Finance £ million	Commercial Finance £ million	Property Finance £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Net interest income/(expense)	181.1	139.2	101.9	(0.6)	0.4	0.6	422.6
Non-interest income	23.5	63.1	2.4	82.9	91.9	1.0	264.8
Operating income	204.6	202.3	104.3	82.3	92.3	1.6	687.4
Administrative expenses	(95.5)	(110.3)	(23.9)	(61.7)	(75.9)	(24.2)	(391.5)
Depreciation and amortisation	(12.2)	(5.9)	(2.5)	(1.6)	(2.0)	(0.2)	(24.4)
Impairment losses on loans and advances	(17.8)	(16.5)	(3.6)	-	-	-	(37.9)
Total operating expenses	(125.5)	(132.7)	(30.0)	(63.3)	(77.9)	(24.4)	(453.8)
Adjusted operating profit/(loss)[1]	79.1	69.6	74.3	19.0	14.4	(22.8)	233.6
Amortisation of intangible assets on acquisition	(0.3)	(0.2)	-	-	(4.6)	-	(5.1)
Operating profit/(loss) before tax	78.8	69.4	74.3	19.0	9.8	(22.8)	228.5
External operating income/(expense)	251.9	272.1	128.3	82.3	92.9	(140.1)	687.4
Inter segment operating income/(expense)	(47.3)	(69.8)	(24.0)	-	(0.6)	141.7	-
Segment operating income	204.6	202.3	104.3	82.3	92.3	1.6	687.4

1 Adjusted operating profit/(loss) is stated before amortisation of intangible assets on acquisition, profit on disposal of discontinued operations and tax.

2. Segmental analysis continued

Balance Sheet Information at 31 July 2016

	Banking						
	Retail Finance £ million	Commercial Finance £ million	Property Finance £ million	Securities £ million	Asset Management £ million	Group[2] £ million	Total £ million
Total assets[1]	2,511.0	2,623.2	1,457.2	647.5	104.8	1,404.5	8,748.2
Total liabilities	-	-	-	577.8	49.1	7,024.4	7,651.3

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Includes £1,400.0 million assets and £7,198.2 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

	Banking total £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Equity[1]	793.2	69.7	55.7	178.3	1,096.9

1 Equity for the Banking division is inclusive of the loan book and operating lease assets of £6,591.4 million, as well as assets and liabilities of £1,400.0 million and £7,198.2 million respectively primarily comprising treasury balances which are included within the Group column.

3. Taxation

	Six months ended 31 January		Year ended 31 July
	2017	2016	2016
	£ million	£ million	£ million
Tax charged/(credited) to the income statement			
Current tax:			
UK corporation tax	**32.8**	31.6	56.5
Foreign tax	**1.2**	1.5	2.5
Adjustments in respect of previous periods	**-**	(2.1)	(1.1)
	34.0	31.0	57.9
Deferred tax:			
Deferred tax charge/(credit) for the current period	**0.7**	(13.0)	(16.5)
Adjustments in respect of previous periods	**0.1**	2.1	0.8
	34.8	20.1	42.2
Tax on items not (credited)/charged to the income statement			
Current tax relating to:			
Financial instruments classified as available for sale	**(0.2)**	-	-
Share-based payments	**(0.9)**	(1.9)	(2.1)
Deferred tax relating to:			
Cash flow hedging	**1.1**	(1.2)	(1.7)
Defined benefit pension scheme	**0.6**	(0.3)	(0.3)
Financial instruments classified as available for sale	**-**	(0.7)	(0.7)
Share-based payments	**-**	1.2	1.1
Currency translation gains/(losses)	**-**	-	1.5
	0.6	(2.9)	(2.2)
Reconciliation to tax expense			
UK corporation tax for the period at 19.7% (2016: 20.0%) on operating profit	**25.9**	21.7	45.7
Gain on sale of subsidiaries and available for sale investment	**(0.3)**	-	(0.5)
Effect of different tax rates in other jurisdictions	**(0.1)**	(0.3)	(0.6)
Disallowable items and other permanent differences	**0.6**	0.7	1.5
Banking surcharge	**7.6**	3.4	8.2
Deferred tax impact of (increased)/decreased tax rates	**1.1**	(5.4)	(11.8)
Prior period tax provision	**-**	-	(0.3)
	34.8	20.1	42.2

The effective tax rate for the period is 26.5% (six months ended 31 January 2016: 18.5%; year ended 31 July 2016: 18.5%), representing the best estimate of the annual effective tax rate expected for the full year.

The standard UK corporation tax rate for the financial year is 19.7% (six months ended 31 January 2016: 20.0%; year ended 31 July 2016: 20.0%). However an additional 8% surcharge applies to banking company profits as defined in legislation. The effective tax rate is above the UK corporation tax rate primarily due to the surcharge applying to most of the group's profits, and a write down of deferred tax assets due to a 1% cut in the standard corporation tax rate applying from April 2020 which was passed into law in the period.

4. 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.

	Six months ended 31 January		Year ended 31 July
	2017	2016	2016
Earnings per share			
Basic	**65.1p**	59.7p	125.7p
Diluted	**64.9p**	58.9p	124.3p
Adjusted basic[1]	**66.6p**	61.1p	128.4p
Adjusted diluted[1]	**66.4p**	60.3p	127.0p

1 Excludes amortisation of intangible assets on acquisition, discontinued operations and their tax effects.

	Six months ended 31 January		Year ended 31 July
	2017	2016	2016
	£ million	£ million	£ million
Profit attributable to shareholders	**96.8**	88.6	186.5
Adjustment:			
Amortisation of intangible assets on acquisition	**2.8**	2.5	5.1
Tax effect of adjustment	**(0.6)**	(0.5)	(1.0)
Adjusted profit attributable to shareholders	**99.0**	90.6	190.6

	Six months ended 31 January		Year ended 31 July
	2017	2016	2016
	million	million	million
Average number of shares			
Basic weighted	**148.6**	148.4	148.4
Effect of dilutive share options and awards	**0.6**	1.9	1.7
Diluted weighted	**149.2**	150.3	150.1

5. Dividends

	Six months ended 31 January		Year ended 31 July
	2017	2016	2016
	£ million	£ million	£ million
For each ordinary share			
Interim dividend for previous financial year paid in April 2016: 19.0p	**-**	-	28.0
Final dividend for previous financial year paid in November 2016: 38.0p (November 2015: 35.5p)	**56.0**	52.3	52.3
	56.0	52.3	80.3

An interim dividend relating to the six months ended 31 January 2017 of 20.0p, amounting to an estimated £29.5 million, is declared. This interim dividend, which is due to be paid on 26 April 2017 to shareholders on the register at 24 March 2017, is not reflected in these financial statements.

6. Loans and advances to customers

The contractual maturity of loans and advances to customers is set out below:

	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	Impairment provisions £ million	Total £ million
At 31 January 2017	**58.3**	**1,900.7**	**1,872.4**	**1,324.6**	**1,355.9**	**81.9**	**(50.0)**	**6,543.8**
At 31 January 2016	87.0	1,614.5	1,801.2	1,160.3	1,304.6	55.0	(53.8)	5,968.8
At 31 July 2016	58.1	1,746.0	2,014.4	1,279.3	1,328.2	65.3	(59.7)	6,431.6

	31 January		31 July
	2017	2016	2016
	£ million	£ million	£ million
Impairment provisions on loans and advances to customers			
Opening balance	**59.7**	56.1	56.1
Charge for the period	**17.3**	16.7	37.9
Amounts written off net of recoveries	**(27.0)**	(19.0)	(34.3)
Impairment provisions	**50.0**	53.8	59.7

At 31 January 2017, gross impaired loans were £126.2 million (31 January 2016: £160.0 million; 31 July 2016: £158.5 million) and equate to 2% (31 January 2016: 3%; 31 July 2016: 2%) of the gross loan book before impairment provisions. The majority of the group's lending is secured and therefore the gross impaired loans quoted do not reflect the expected loss.

7. Debt securities

	Held for trading £ million	**Available for sale £ million**	**Loans and receivables £ million**	**Total £ million**
Long trading positions in debt securities	**14.5**	**-**	**-**	**14.5**
Certificates of deposit	**-**	**-**	**145.3**	**145.3**
Sovereign and central bank debt	**-**	**40.7**	**-**	**40.7**
At 31 January 2017	**14.5**	**40.7**	**145.3**	**200.5**

	Held for trading £ million	Available for sale £ million	Loans and receivables £ million	Total £ million
Long trading positions in debt securities	12.2	-	-	12.2
Certificates of deposit	-	-	200.9	200.9
Sovereign and central bank debt	-	-	-	-
At 31 January 2016	12.2	-	200.9	213.1

	Held for trading £ million	Available for sale £ million	Loans and receivables £ million	Total £ million
Long trading positions in debt securities	20.3	-	-	20.3
Certificates of deposit	-	-	201.0	201.0
Sovereign and central bank debt	-	-	-	-
At 31 July 2016	20.3	-	201.0	221.3

Movements in the book value of sovereign and central bank debt held as available for sale during the period comprise:

	Sovereign and central bank debt £ million
At 1 August 2015	20.1
Additions	-
Disposals	-
Redemptions at maturity	(20.0)
Currency translation differences	-
Movement in value	(0.1)
At 31 January 2016	-
Additions	-
Disposals	-
Redemptions at maturity	-
Currency translation differences	-
Movement in value	-
At 31 July 2016	-
Additions	41.6
Disposals	-
Redemptions at maturity	-
Currency translation differences	-
Movement in value	(0.9)
At 31 January 2017	**40.7**

8. Equity shares

	31 January 2017 £ million	31 January 2016 £ million	31 July 2016 £ million
Long trading positions	**33.5**	35.5	26.1
Other equity shares	**2.1**	2.2	2.1
	35.6	37.7	28.2

Movements in the book value of other equity shares held during the period comprise:

	Available for sale £ million	Fair value through profit or loss £ million	Total £ million
At 1 August 2015	10.0	0.1	10.1
Additions	-	-	-
Disposals	(7.5)	-	(7.5)
Currency translation differences	0.2	-	0.2
Movement in value of:			
Equity shares classified as available for sale	(0.6)	-	(0.6)
At 31 January 2016	2.1	0.1	2.2
Additions	-	-	-
Disposals	(0.2)	-	(0.2)
Currency translation differences	0.2	-	0.2
Movement in value of:			
Equity shares classified as available for sale	(0.1)	-	(0.1)
At 31 July 2016	2.0	0.1	2.1
Additions	-	-	-
Disposals	-	(0.1)	(0.1)
Currency translation differences	-	-	-
Movement in value of:			
Equity shares classified as available for sale	0.1	-	0.1
At 31 January 2017	**2.1**	**-**	**2.1**

9. Settlement balances and short positions

	31 January 2017 £ million	31 January 2016 £ million	31 July 2016 £ million
Settlement balances	**442.3**	325.2	456.3
Short positions held for trading:			
Debt securities	**11.2**	10.6	5.8
Equity shares	**12.8**	14.4	13.5
	24.0	25.0	19.3
	466.3	350.2	475.6

10. Financial liabilities

The contractual maturity of financial liabilities is set out below:

	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	**17.1**	**17.2**	**34.2**	**1.5**	**-**	**-**	**70.0**
Deposits by customers	**112.8**	**770.7**	**2,284.3**	**1,111.8**	**585.3**	**-**	**4,864.9**
Loans and overdrafts from banks	**13.1**	**54.7**	**50.8**	**90.2**	**210.1**	**-**	**418.9**
Debt securities in issue	**10.4**	**208.8**	**111.1**	**189.0**	**897.4**	**286.4**	**1,703.1**
Subordinated loan capital[1]	**(0.9)**	**1.4**	**0.2**	**-**	**-**	**218.7**	**219.4**
At 31 January 2017	**152.5**	**1,052.8**	**2,480.6**	**1,392.5**	**1,692.8**	**505.1**	**7,276.3**

1 Comprises issuances of £175 million and £45 million with contractual maturity dates of 2027 and 2026 and optional prepayment dates of 2022 and 2021 respectively.

	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	18.7	3.5	15.1	11.5	-	-	48.8
Deposits by customers	496.0	896.3	2,005.0	859.2	358.7	-	4,615.2
Loans and overdrafts from banks	12.3	153.3	-	60.3	90.0	-	315.9
Debt securities in issue	20.5	6.6	201.0	602.2	246.2	317.8	1,394.3
Subordinated loan capital[1]	-	1.4	-	-	-	45.0	46.4
At 31 January 2016	547.5	1,061.1	2,221.1	1,533.2	694.9	362.8	6,420.6

1 Comprises two issuances totalling £45 million with a contractual maturity date of 2026 and an optional prepayment date of 2021.

10. Financial liabilities continued

	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	31.9	1.9	26.5	10.1	0.7	-	71.1
Deposits by customers	130.8	918.0	2,117.3	1,233.4	495.1	-	4,894.6
Loans and overdrafts from banks	11.0	207.8	160.1	90.2	-	-	469.1
Debt securities in issue	30.2	7.1	557.1	201.5	589.1	37.8	1,422.8
Subordinated loan capital[1]	-	1.4	-	-	-	45.0	46.4
At 31 July 2016	203.9	1,136.2	2,861.0	1,535.2	1,084.9	82.8	6,904.0

1 Comprises two issuances totalling £45 million with a contractual maturity date of 2026 and an optional prepayment date of 2021.

At 31 January 2017, asset finance loan receivables of £745.7 million (31 January 2016: £745.2 million; 31 July 2016: £737.4 million) and part of the £168.1 million (31 January 2016: £nil; 31 July 2016: £168.1 million) asset-backed securities in issue retained for liquidity purposes were positioned with the Bank of England. These loan receivables and asset-backed securities were used as collateral within the Bank of England's Funding for Lending Scheme and Term Funding Scheme, against which £275.0 million of UK Treasury Bills (31 January 2016: £375.0 million; 31 July 2016: £451.0 million) and £210.0 million cash (31 January 2016: £nil; 31 July 2016: £nil) had been drawn at the reporting date. The term of these transactions is four years from the date of each drawdown.

The group also had repurchase agreements whereby £175.0 million (31 January 2016: £300.0 million; 31 July 2016: £451.0 million) from a total of £275.0 million (31 January 2016: £375.0 million; 31 July 2016: £451.0 million) UK Treasury Bills drawn, have been lent in exchange for cash included within loans and overdrafts from banks.

The Treasury Bills are not recorded on the group's consolidated balance sheet as ownership remains with the Bank of England. The risk and rewards of the loans and advances to customers remain with the group and continue to be recognised in the consolidated balance sheet.

The group has securitised without recourse and restrictions £1,458.2 million (31 January 2016: £1,200.8 million; 31 July 2016: £1,443.9 million) of its insurance premium and motor loan receivables in return for asset-backed securities in issue of £1,065.5 million (31 January 2016: £848.4 million; 31 July 2016: £1,015.9 million) which includes £168.1 million (31 January 2016: £nil; 31 July 2016: £168.1 million) asset-backed securities in issue retained for liquidity purposes. As the group has retained exposure to substantially all the credit risk and rewards of the residual benefit of the underlying assets it continues to recognise these assets in loans and advances to customers in its consolidated balance sheet.

11. Capital

The group's individual regulated entities and the group as a whole complied with all of the externally imposed capital requirements to which they were subject for the periods to 31 January 2017 and 31 January 2016, and the year ended 31 July 2016. The table below summarises the composition of regulatory capital and Pillar 1 risk weighted assets at those financial period ends.

	31 January		31 July
	2017	2016	2016
	£ million	£ million	£ million
Common equity tier 1 capital			
Called up share capital	**37.7**	37.7	37.7
Share premium account	**284.0**	284.0	284.0
Retained earnings[1]	**840.7**	728.9	797.5
Other reserves recognised for common equity tier 1 capital	**19.3**	20.6	21.8
Deductions from common equity tier 1 capital			
Intangible assets, net of associated deferred tax liabilities	**(158.2)**	(140.8)	(145.3)
Foreseeable dividend[2]	**(44.8)**	(43.8)	(56.1)
Investment in own shares	**(36.6)**	(39.6)	(37.2)
Pension asset, net of associated deferred tax liabilities	**(3.1)**	(1.1)	(0.9)
Prudent valuation adjustment	**(0.2)**	(0.1)	(0.1)
Common equity tier 1 capital	**938.8**	845.8	901.4
Tier 2 capital			
Subordinated debt[3]	**203.8**	23.9	24.0
Unrealised gains on available for sale equity shares	**0.1**	-	-
Tier 2 capital	**203.9**	23.9	24.0
Total regulatory capital	**1,142.7**	869.7	925.4
Risk weighted assets (notional) – unaudited			
Credit and counterparty risk	**6,585.2**	5,385.8	5,824.9
Operational risk[4]	**784.9**	753.5	784.9
Market risk[4]	**85.9**	78.8	72.7
	7,456.0	6,218.1	6,682.5
Common equity tier 1 capital ratio	**12.6%**	13.6%	13.5%
Total capital ratio	**15.3%**	14.0%	13.8%

1 Retained earnings for periods ended 31 January 2017 and 31 January 2016 include all profits (both verified and unverified) for the respective six month period.

2 Under the Regulatory Technical Standard on own funds, a deduction has been recognised for a foreseeable dividend. In accordance with this standard, for 31 January 2017 and 31 January 2016 a foreseeable dividend has been determined based on the average payout ratio over the previous three years applied to the retained earnings for the period. For 31 July 2016 a foreseeable dividend was determined as the proposed final dividend.

3 Shown after applying the Capital Requirements Regulation's transitional and qualifying own funds arrangements.

4 Operational and market risk include a notional adjustment at 8% in order to determine notional risk weighted assets.

During the period ending 31 January 2017, credit risk RWAs increased due to the application of the EBA's guidance mandating 150% risk weighting of property development loans. During the same period, the group issued £175 million of tier 2 capital. More information on these developments can be found on page 7.

11. Capital continued

The following table shows a reconciliation between equity and common equity tier 1 capital after deductions:

	31 January		31 July
	2017	2016	2016
	£ million	£ million	£ million
Equity	**1,141.0**	1,026.5	1,096.9
Regulatory deductions from equity:			
Intangible assets, net of associated deferred tax liabilities	**(158.2)**	(140.8)	(145.3)
Foreseeable dividend[1]	**(44.8)**	(43.8)	(56.1)
Pension asset, net of associated deferred tax liabilities	**(3.1)**	(1.1)	(0.9)
Prudent valuation adjustment	**(0.2)**	(0.1)	(0.1)
Other reserves not recognised for common equity tier 1 capital:			
Available for sale movements reserve	**(0.1)**	-	-
Cash flow hedging reserve	**3.9**	5.1	6.7
Non-controlling interests	**0.3**	-	0.2
Common equity tier 1 capital	**938.8**	845.8	901.4

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised for a foreseeable dividend. In accordance with this standard, for 31 January 2017 and 31 January 2016 a foreseeable dividend has been determined based on the average payout ratio over the previous three years applied to the retained earnings for the period. For 31 July 2016 a foreseeable dividend was determined as the proposed final dividend.

The following table shows the movement in common equity tier 1 capital during the period:

	£ million
Common equity tier 1 capital at 31 July 2016	901.4
Profit in the period attributable to shareholders	96.8
Dividends paid and foreseen	(44.7)
Other movements in retained reserves	2.4
Decrease in share-based payments reserve	(1.6)
Increase in exchange movements reserve	0.2
Decrease in available for sale movements reserve	(0.5)
Increase in prudent valuation adjustment	(0.1)
Increase in intangible assets, net of associated deferred tax liabilities	(12.9)
Increase in pension assets, net of associated deferred tax liabilities	(2.2)
Common equity tier 1 capital at 31 January 2017	**938.8**

12. Contingent liabilities

Financial Services Compensation Scheme ("FSCS")

As disclosed in note 23 of the Annual Report 2016, the group is exposed to the FSCS which provides compensation to customers of financial institutions in the event that an institution is unable, or is likely to be unable, to pay claims against it. The FSCS raises levies on UK licensed deposit-taking institutions to meet such claims based on their share of UK deposits on 31 December of the year preceding the scheme year (which runs from 1 April to 31 March).

Following the default of a number of deposit takers in 2008, the FSCS borrowed funds from HM Treasury to meet the compensation costs for customers of those firms. While it is expected that the substantial majority of the principal will be repaid from funds the FSCS receives from asset sales, surplus cash flow or other recoveries in relation to the assets of the institutions that defaulted, to the extent that there remains a shortfall, the FSCS will raise compensation levies on all deposit-taking participants.

The amount of any future compensation levies payable by the group also depends on a number of factors including participation in the market at 31 December, the level of protected deposits and the population of deposit-taking participants. The group continues to accrue for its share of levies that have been raised by the FSCS.

13. Related party transactions

Related party transactions, including salary and benefits provided to directors and key management, did not have a material effect on the financial position or performance of the group during the period. There were no changes to the type and nature of the related party transactions disclosed in the Annual Report 2016 that could have a material effect on the financial position and performance of the group in the six months to 31 January 2017.

14. Consolidated cash flow statement reconciliation

	31 January		31 July
	2017	2016	2016
	£ million	£ million	£ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities			
Operating profit before tax	**131.4**	108.7	228.5
Tax paid	**(27.5)**	(21.4)	(53.7)
Depreciation and amortisation	**27.6**	23.2	49.1
(Increase)/decrease in:			
Interest receivable and prepaid expenses	**(15.5)**	(5.5)	(16.0)
Net settlement balances and trading positions	**6.5**	9.5	(9.7)
Net loans to/from money broker against stock advanced	**(22.9)**	0.7	16.0
(Decrease)/increase in interest payable and accrued expenses	**(17.7)**	(35.8)	3.2
Net cash inflow from trading activities	**81.9**	79.4	217.4
(Increase)/decrease in:			
Loans and advances to banks not repayable on demand	**3.4**	(6.3)	(26.7)
Loans and advances to customers	**(112.2)**	(231.0)	(693.8)
Assets held under operating leases	**(27.1)**	(22.4)	(51.9)
Certificates of deposit	**55.7**	(85.6)	(85.7)
Sovereign and central bank debt	**(41.6)**	20.0	20.0
Other assets less other liabilities	**9.2**	2.4	28.9
Increase/(decrease) in:			
Deposits by banks	**(1.1)**	13.7	36.0
Deposits by customers	**(29.7)**	133.8	413.2
Loans and overdrafts from banks	**(50.2)**	(65.3)	87.9
Debt securities in issue, net of transaction costs	**470.9**	19.0	35.9
Net cash inflow/(outflow) from operating activities	**359.2**	(142.3)	(18.8)
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and non-controlling interests			
Cash consideration paid	**(6.3)**	-	(3.6)
(c) Analysis of net cash (outflow)/inflow in respect of the sale of a subsidiary			
Cash consideration received	**0.3**	2.4	2.4
Cash and cash equivalents disposed of	**(0.6)**	(0.1)	(0.1)
	(0.3)	2.3	2.3
(d) Analysis of changes in financing activities			
Share capital (including premium), CBG bond and subordinated loan capital[1]:			
Opening balance	**566.6**	566.6	566.6
Prepayment of subordinated loan capital	**-**	-	-
Shares issued for cash	**-**	-	-
Closing balance	**566.6**	566.6	566.6

14. Consolidated cash flow statement reconciliation continued

	31 January 2017 £ million	31 January 2016 £ million	31 July 2016 £ million
(e) Analysis of cash and cash equivalents[2]			
Cash and balances at central banks	**1,113.8**	802.5	840.6
Loans and advances to banks repayable on demand	**68.4**	70.3	82.7
	1,182.2	872.8	923.3

1 Excludes accrued interest.
2 Excludes Bank of England cash reserve account and amounts held as collateral.

15. 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 January 2017		31 January 2016		31 July 2016	
	Fair value £ million	**Carrying value £ million**	Fair value £ million	Carrying value £ million	Fair value £ million	Carrying value £ million
Subordinated loan capital	**230.9**	**219.4**	54.1	46.4	52.4	46.4
Debt securities in issue	**1,722.3**	**1,703.1**	1,400.6	1,394.3	1,432.2	1,422.8

The group issued £175 million of subordinated loan capital in the period ended 31 January 2017.

The group holds financial instruments that are measured at fair value subsequent to initial recognition. Each instrument has been categorised within one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. These levels are based on the degree to which the fair value is observable and are defined in note 28 "Financial risk management" of the Annual Report 2016.

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 January 2017				
Assets				
Debt securities:				
Long trading positions in debt securities held for trading	**12.7**	**1.8**	**-**	**14.5**
Sovereign and central bank debt classified as available for sale	**40.7**	**-**	**-**	**40.7**
Equity shares:				
Held for trading	**5.8**	**27.7**	**-**	**33.5**
Fair value through profit or loss	**-**	**-**	**-**	**-**
Available for sale	**-**	**-**	**2.1**	**2.1**
Derivative financial instruments	**-**	**29.8**	**-**	**29.8**
Contingent consideration	**-**	**-**	**2.4**	**2.4**
	59.2	**59.3**	**4.5**	**123.0**
Liabilities				
Short positions:				
Debt securities	**8.6**	**2.6**	**-**	**11.2**
Equity shares	**3.7**	**9.1**	**-**	**12.8**
Derivative financial instruments	**-**	**17.9**	**-**	**17.9**
Contingent consideration	**-**	**-**	**4.6**	**4.6**
	12.3	**29.6**	**4.6**	**46.5**

15. Fair value of financial assets and liabilities continued

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 January 2016				
Assets				
Debt securities:				
Long trading positions in debt securities held for trading	9.8	2.4	-	12.2
Sovereign and central bank debt classified as available for sale	-	-	-	-
Equity shares:				
Held for trading	7.8	27.7	-	35.5
Fair value through profit or loss	-	0.1	-	0.1
Available for sale	-	-	2.1	2.1
Derivative financial instruments	-	30.0	-	30.0
Contingent consideration	-	-	-	-
	17.6	60.2	2.1	79.9
Liabilities				
Short positions:				
Debt securities	8.5	2.1	-	10.6
Equity shares	5.2	9.2	-	14.4
Derivative financial instruments	-	9.6	-	9.6
Contingent consideration	-	-	-	-
	13.7	20.9	-	34.6

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2016				
Assets				
Debt securities:				
Long trading positions in debt securities held for trading	16.1	4.2	-	20.3
Sovereign and central bank debt classified as available for sale	-	-	-	-
Equity shares:				
Held for trading	3.4	22.7	-	26.1
Fair value through profit or loss	-	0.1	-	0.1
Available for sale	-	-	2.0	2.0
Derivative financial instruments	-	44.7	-	44.7
Contingent consideration	-	-	-	-
	19.5	71.7	2.0	93.2
Liabilities				
Short positions:				
Debt securities	3.0	2.8	-	5.8
Equity shares	3.7	9.8	-	13.5
Derivative financial instruments	-	16.3	-	16.3
Contingent consideration	-	-	-	-
	6.7	28.9	-	35.6

15. Fair value of financial assets and liabilities continued

At 31 January 2017, financial instruments classified as Level 3 predominantly comprise a legacy investment property fund (as described in note 28 "Financial risk management" of the Annual Report 2016) and contingent consideration payable and receivable in relation to two acquisitions and the disposal of a subsidiary.

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

In the year ended 31 July 2016 a number of listed equity shares were classified as Level 2 (classified as Level 1 in the previous year) following an assessment of the frequency of transactions in these shares. These shares remain classified as Level 2 in the current period and the prior period has been re-presented for comparability. Aside from this there were no significant transfers between Level 1, 2 and 3 during the periods.

Movements in financial instruments categorised as Level 3 during the periods were:

	Equity shares available for sale £ million	Contingent consideration £ million
At 1 August 2015	10.0	-
Total losses recognised in the consolidated income statement	(0.4)	-
Total losses recognised in other comprehensive income	-	-
Purchases and issues	-	-
Sales and settlements	(7.5)	-
At 31 January 2016	2.1	-
Total losses recognised in the consolidated income statement	0.1	-
Total gains recognised in other comprehensive income	-	-
Purchases and issues	-	-
Sales and settlements	(0.2)	-
At 31 July 2016	2.0	-
Total losses recognised in the consolidated income statement	-	-
Total gains recognised in other comprehensive income	0.1	-
Purchases and issues	-	(4.6)
Sales and settlements	-	2.4
At 31 January 2017	**2.1**	**(2.2)**

There were £nil unrealised losses recognised in the consolidated income statement relating to instruments held at 31 January 2017 (31 January 2016: £0.4 million losses; 31 July 2016: £0.3 million losses).

16. Post balance sheet event

On 3 February 2017, the group agreed to acquire a specialist provider of secured finance to law firms and their clients which had net assets of £3.8 million including a loan book of £32.7 million at 31 March 2016. The acquisition is expected to complete during the current financial year.

Cautionary Statement

Certain statements included or incorporated by reference within this 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. 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 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 adviser.

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