Close Brothers

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Half Year Results for the Six Months to 31 January 2023

14 March 2023

Adrian Sainsbury, Chief Executive, said:

"It has been a challenging six months, with our half year results significantly impacted by the increased provisions in relation to Novitas, as announced previously in January 2023. While this is clearly disappointing, our underlying business remains resilient, enabling us to support almost three million customers, including over 360 thousand SMEs, as we continue to lend consistently through this period of uncertainty.

We are encouraged by the good demand and strong margins seen in Banking, as well as the underlying credit quality of our loan book. We continued to attract new client assets in CBAM, with healthy net inflows, and although trading activity remained subdued at Winterflood, WBS sustained its positive momentum. We are pleased to declare an increased interim dividend of 22.5p per share, reflecting our underlying performance and the Board's confidence in the group's outlook.

Our financial strength leaves us well placed to move forward and resume our track record of earnings growth and returns."

Financial performance in the first six months

- As previously announced, we have taken steps to **resolve the issues surrounding Novitas**, resulting in an **additional provision of £89.8 million**, with the total provisions in relation to Novitas taken in H1 2023 at £114.6 million. As a result, **statutory operating profit before tax decreased to £11.7 million** (H1 2022: £128.9 million). **Excluding Novitas, adjusted operating profit decreased to £117.5 million** (H1 2022: £160.5 million)
- We achieved **5% income growth in Banking** with a **strong net interest margin of 8.0%** (H1 2022: 7.9%) and **good levels of customer demand**, particularly in Commercial. As a result, **pre-provisions, adjusted operating profit in Banking increased 5% to £177.2 million** (H1 2022: £168.5 million)
- Although **underlying credit performance remains resilient**, the **increased uncertainty** in the economic outlook has been reflected in **higher forward-looking impairment provisions** and a **rise in arrears in Motor Finance**. As a result, the **annualised bad debt ratio (excluding Novitas) was 1.1%** (H1 2022: 0.2%)
- The **loan book** excluding Novitas was **£9.0 billion** (31 July 2022: £8.9 billion), as we remain committed to **lending consistently to our customers** under **responsible terms** in **all market conditions**
- We delivered **healthy net inflows of 6%**, with a **strong contribution from new hires**, as we continued to focus on **growing Close Brothers Asset Management** ("CBAM")
- **Winterflood's performance** continued to reflect **challenging market conditions**
- **Total funding increased 3% to £11.9 billion** (31 July 2022: £11.6 billion), as the **diversity of our funding sources** helped us **optimise funding costs** in an environment of rapid interest rate rises
- Our **Common Equity Tier 1 ("CET1") ratio was 14.0%** at 31 January 2023 (31 July 2022: 14.6%), **significantly above the applicable minimum regulatory requirement** of 8.5% and the group's **medium-term CET1 capital ratio target range of 12-13%**
- We are pleased to declare an **interim dividend of 22.5p per share** (H1 2022: 22.0p), reflecting **our underlying performance** and the Board's **confidence in the group's outlook**

Well placed to move forward on the delivery of our strategic priorities

- We are continuing to focus on our **strategic growth agenda**, with **over £90 million lent in the first half** towards our ambition to provide **£1 billion of funding for battery electric vehicles over five years** and the successful piloting of a **specialist buy-to-let extension** to our existing Property bridging finance clients. In CBAM, we continued to attract **new hires** and we were pleased to announce that **Winterflood Business Services** ("WBS") **exceeded the targeted £10 billion of total assets under administration** ("AuA")

- We have intensified our focus on **cost discipline** and **efficiency**, especially in light of recent inflationary pressures. We have a number of **strategic cost management initiatives in progress** and are evaluating **additional opportunities for efficiency** with a view to achieving **positive operating leverage over the medium term**

- We remain committed to **optimising further our capital structure**, including the **issuance of debt capital market securities if appropriate**, **targeting a CET1 capital ratio range of 12% to 13% over the medium term** in line with our capital management framework

Outlook

- Although we are alert to the impact of rising inflation and interest rates on our customers and wider financial market conditions, we are **well placed to move forward on the delivery of our strategic priorities**. We are **confident** we can **resume our track record of earnings growth and returns** by focusing on **disciplined growth, cost efficiency and capital optimisation**

Key Financials[1]	First half 2023	First half 2022	Change %
Adjusted operating profit[2]	**£12.6m**	£129.8m	(90)
Adjusted operating profit, pre provision	**£174.8m**	£178.1m	(2)
Operating profit before tax	**£11.7m**	£128.9m	(91)
Adjusted basic earnings per share[3]	**6.1p**	64.0p	-
Basic earnings per share[3]	**5.6p**	63.5p	-
Ordinary dividend per share	**22.5p**	22.0p	2
Return on opening equity	**1.1%**	12.2%	
Return on average tangible equity	**1.3%**	14.2%	
Net interest margin[4]	**8.0%**	7.9%	
Bad debt ratio[4]	**3.6%**	1.1%	

	31 January 2023	31 July 2022	Change %
Loan book	**£9.0bn**	£9.1bn	(1)
Total client assets	**£16.9bn**	£16.6bn	2
CET1 capital ratio (transitional)	**14.0%**	14.6%	
Total capital ratio (transitional)	**16.1%**	16.6%	

Key Financials (Excluding Novitas)	First half 2023	First half 2022	Change %
Adjusted operating profit	**£117.5m**	£160.5m	(27)
Adjusted operating profit, pre provision	**£165.1m**	£169.6m	(3)
Net interest margin[4]	**7.8%**	7.6%	
Bad debt ratio[4]	**1.1%**	0.2%	

	31 January 2023	31 July 2022	Change %
Loan book	**£9.0bn**	£8.9bn	-

1 Please refer to definitions on pages 26 to 28.
2 Adjusted operating profit is stated before amortisation of intangible assets on acquisition of £0.9 million (H1 2022: £0.9 million).
3 Refer to Note 4 for the calculation of basic and adjusted earnings per share.
4 Net interest margin and bad debt ratio calculated on an annualised basis.

Enquiries

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A virtual presentation to analysts and investors will be held today at 9.30 am GMT followed by a Q&A session. A webcast and dial-in facility will be available by registering at https://webcasts.closebrothers.com/results/HalfYearResults2023.

Basis of Presentation

Results are presented both on a statutory and an adjusted basis to aid comparability between periods. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. The loan book figure was re-presented for 31 January 2022 to incorporate closing loans and advances to customers and operating lease assets, previously shown separately. The Asset Finance and Invoice and Speciality Finance loan books have also been re-presented for 31 July 2022 to reflect the recategorisation of Close Brothers Vehicle Hire ("CBVH") from Invoice and Speciality Finance to Asset Finance. The condensed consolidated interim financial statements from page 34 to 70 are not impacted by these re-presentations.

About Close Brothers

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

CHIEF EXECUTIVE'S STATEMENT

It has been a challenging six months but our underlying business remains resilient, enabling us to support almost three million customers, including over 360 thousand small and medium-sized enterprises ("SMEs"), as we continue to lend consistently through this period of uncertainty. We are encouraged by the good demand and strong margins seen in Banking, as well as the underlying credit quality of our loan book. We continued to attract new client assets in CBAM, with healthy net inflows, though trading activity remained subdued at Winterflood.

We are pleased to declare an increased interim dividend of 22.5p per share (H1 2022: 22.0p per share), reflecting our underlying performance and the Board's confidence in the group's outlook. We remain committed to the group's dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover.

While developments at Novitas are disappointing, we are confident that the group is in a strong position to navigate the current environment and make the most of available opportunities. We remain well placed to continue to leverage our long-term relationships, the deep expertise of our people and our commitment to excellent customer service. Alongside the fundamental strengths of our model, which have been evidenced through many cycles, we are well positioned to move forward on the delivery of our strategic priorities, with a focus on delivering disciplined growth, cost efficiency and optimisation of our capital structure. I am confident that we are well placed to resume our track record of earnings growth and returns.

Financial performance

This period has seen a challenging market backdrop, with the weaker UK macroeconomic outlook creating significant uncertainty for both our individual and SME customers. Although we continued to see good levels of customer demand and a resilient underlying credit performance, the volatile external environment has been reflected in higher forward-looking impairment provisions and challenging market conditions in CBAM and Winterflood. Against this backdrop, we have maintained our through-the-cycle approach, retaining our pricing discipline whilst lending consistently to our customers. Our diverse funding model has also benefited us, allowing the group to optimise its funding mix and cost of funding in an environment of rapid interest rate rises.

The financial results were impacted by a significant increase in provisions in relation to the Novitas loan book, as we have taken steps to resolve the issues surrounding that business. As a result, statutory operating profit before tax decreased to £11.7 million (H1 2022: £128.9 million).

In Banking, excluding Novitas, performance reflected growth in income, offset by higher forward-looking provisions to take into account the weaker macroeconomic outlook and a rise in arrears in Motor Finance. CBAM delivered healthy net inflows although profit reduced year-on-year reflecting wider market conditions and performance at Winterflood reflected the continuation of challenging trading conditions.

We have maintained our strong capital, funding and liquidity position, in line with our prudent and conservative approach. Our Common Equity Tier 1 ("CET1") ratio was 14.0% at 31 January 2023 (31 July 2022: 14.6%), significantly above the applicable minimum regulatory requirement of 8.5% and the group's medium-term CET1 capital ratio target range of 12-13%.

Novitas

The decision to wind down Novitas, a provider of finance for the legal sector we acquired in 2017, and to withdraw from the legal services financing market, followed a strategic review in July 2021 which concluded that the business was not aligned with the Close Brothers model. Some of the key attributes of our model such as in-house lending expertise, a strong track record of performance and underlying security of the loans have proven not to be evident in Novitas.

The business continues to work with solicitors and insurers, to support existing customers and manage the existing book to ensure good customer outcomes. As announced in January 2023, we have accelerated our efforts to resolve the issues surrounding this business, including the initiation of formal legal action against one of the After the Event ("ATE") insurers, and are considering our position in respect of other insurers. We have recognised additional provisions of £114.6 million in the first half, taking the overall credit provisions against Novitas to £183.2 million. We are confident that this level of provisions adequately reflects the remaining risk of credit losses for the Novitas loan book and are focused on maximising the recovery of remaining loan balances.

We evaluate continuously our businesses and initiatives against a set of criteria, our "Model Fit Assessment Framework", to ensure they are aligned with the key attributes of our model that have and will continue to generate long-term value. We are confident that there is no read-across from Novitas to other books in our portfolio and our prudent underwriting continues to be reflected in the asset quality and performance of the rest of our loan book. The financial strength of the group leaves us well placed to move forward on the delivery of our strategic priorities.

Protecting, Growing and Sustaining our business model

We have made good progress against our strategic priorities and remain dedicated to resuming our track record of returns. Our approach to investing through the cycle continues to provide tangible benefits and protect our strong margins. I am pleased to announce the conclusion of the Motor Finance transformation programme, which enabled us to make the most of growth opportunities in the second hand car market, enhance our digital capabilities and evolve our compelling dealer and customer proposition.

While investment to maintain the strengths of our high-touch model in Banking is critical, we have intensified our focus on cost discipline and efficiency, especially in light of recent inflationary pressures. We have a number of strategic cost management initiatives in progress, including the rationalisation of IT infrastructure and operational enhancements in Retail, which aim to create capacity to accommodate growth, inflation and investment to support our business. We continue to evaluate additional opportunities for efficiency with a view to achieving positive operating leverage over the medium term.

We remain committed to optimising further our capital structure, including the issuance of debt capital market securities if appropriate. In line with the group's Capital Management framework, we are targeting a CET1 capital ratio range of 12% to 13% over the medium term, which will allow the group to maintain a buffer to minimum regulatory requirements while also retaining the flexibility for growth.

We are focused on delivering disciplined growth and continue to actively review a range of opportunities in line with our model. In the first half, our recently hired specialist lending teams in Asset Finance executed new deals and have a healthy pipeline for the remainder of the year. Following the announcement last year of our first green growth ambition of providing funding for £1.0 billion of battery electric vehicles over five years, we are pleased to have funded over £90 million in the first six months. In addition, Winterflood Business Services exceeded the targeted £10 billion of total AuA following the onboarding of Fidelity International as a new client.

I am encouraged by the ongoing progress of our sustainability strategy. Earlier this year we set our group wide climate commitment, becoming signatories to the Net Zero Banking Alliance and Net Zero Asset Managers initiative. We are focused on improving the quality, granularity and accuracy of the data utilised across our emissions reporting, including our financed emissions. Our drive towards a net zero company car fleet by 2025 has continued, with over 40% of our car fleet now being fully electric.

Outlook

Although we are alert to the impact of rising inflation and interest rates on our customers and wider financial market conditions, we are well placed to move forward on the delivery of our strategic priorities. We are confident we can resume our track record of earnings growth and returns by focusing on disciplined growth, cost efficiency and capital optimisation.

OVERVIEW OF FINANCIAL PERFORMANCE

SUMMARY GROUP INCOME STATEMENT[1]

	First half 2023 £ million	First half 2022 £ million	Change %
Operating income	**474.3**	471.6	1
Adjusted operating expenses	**(299.5)**	(293.5)	2
Impairment losses on financial assets	**(162.2)**	(48.3)	236
Adjusted operating profit	**12.6**	129.8	(90)
Banking	**15.0**	120.2	(88)
Commercial	**(33.1)**	37.7	(188)
Of which: Novitas	***(104.9)***	*(30.7)*	242
Retail	**14.7**	42.5	(65)
Property	**33.4**	40.0	(17)
Asset Management	**8.6**	14.5	(41)
Winterflood	**2.4**	8.8	(73)
Group	**(13.4)**	(13.7)	(2)
Amortisation of intangible assets on acquisition	**(0.9)**	(0.9)	-
Operating profit before tax	**11.7**	128.9	(91)
Tax	**(3.3)**	(33.8)	(90)
Profit after tax	**8.4**	95.1	(91)
Profit attributable to shareholders	**8.4**	95.1	(91)
Adjusted basic earnings per share[2]	**6.1p**	64.0p	(90)
Basic earnings per share[2]	**5.6p**	63.5p	(91)
Ordinary dividend per share	**22.5p**	22.0p	2
Return on opening equity	**1.1%**	12.2%	
Return on average tangible equity	**1.3%**	14.2%	

1 Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses. Further detail on the reconciliation between statutory and adjusted measures can be found in Note 2.
2 Refer to Note 4 for the calculation of basic and adjusted earnings per share.

FINANCIAL PERFORMANCE

Operating profit and returns

Adjusted operating profit decreased 90% to £12.6 million (H1 2022: £129.8 million), mainly driven by higher impairment charges in relation to Novitas. Excluding Novitas, adjusted operating profit reduced 27% to £117.5 million (H1 2022: £160.5 million), primarily reflecting an increase in impairment charges and a reduction in income in Winterflood.

Statutory operating profit before tax decreased to £11.7 million (H1 2022: £128.9 million). Return on opening equity reduced to 1.1% (H1 2022: 12.2%) and return on average tangible equity was 1.3%

(H1 2022: 14.2%). The loss after tax recorded by Novitas in the first half reduced the group's RoTE by 11.2%.

Adjusted operating profit in the Banking division decreased by 88% to £15.0 million (H1 2022: £120.2 million), primarily reflecting higher impairment charges related to Novitas, with income growth partially offset by increased costs. In the Asset Management division, adjusted operating profit declined by 41% to £8.6 million (H1 2022: £14.5 million) as stable costs were more than offset by the reduction in income. Winterflood saw a 73% reduction in operating profit to £2.4 million (H1 2022: £8.8 million), with performance adversely impacted by the continued market-wide slowdown in trading activity in higher margin sectors and difficult market conditions. Group net expenses, which include the central functions such as finance, legal and compliance, risk and human resources, were broadly stable on the prior year period at £13.4 million (H1 2022: £13.7 million).

Operating income

Operating income increased 1% to £474.3 million (H1 2022: £471.6 million), with growth in Banking offsetting a reduction in income in Asset Management and Winterflood. Income in the Banking division increased by 5%, reflecting a strong net interest margin of 8.0% (H1 2022: 7.9%) and continued loan book growth year-on-year. Income in the Asset Management division reduced 7%, mainly due to negative market movements and lower client activity. Income in Winterflood reduced by 21%, primarily driven by lower trading revenues following a market-wide slowdown in activity.

Operating expenses

Operating expenses rose 2% to £299.5 million (H1 2022: £293.5 million) as increased investment and higher staff costs in Banking more than offset lower variable costs in Asset Management and Winterflood.

In Banking, costs increased 5% as we progressed our key investment programmes and continued to exercise rigorous control of our costs, notwithstanding the current inflationary environment. Costs were broadly stable in Asset Management as lower variable compensation offset higher fixed staff costs, new hires and technology spend. Winterflood's costs fell by 10% primarily driven by lower variable staff costs accrued in the period to reflect the reduction in income.

Overall, the group's expense/income ratio increased marginally on the prior year period to 63% (H1 2022: 62%), whilst the group's compensation ratio reduced marginally to 36% (H1 2022: 37%). Statutory operating expenses increased to £299.5 million (H1 2022: £293.5 million).

Impairment charges and IFRS 9 provisioning

Impairment charges increased significantly to £162.2 million (H1 2022: £48.3 million), corresponding to an annualised bad debt ratio of 3.6% (H1 2022: 1.1% annualised). This increase primarily reflected provisions of £114.6 million taken in relation to Novitas (H1 2022: £39.2 million), in line with the announcement in January 2023. As a result, there was an increase in provision coverage to 4.3% (31 July 2022: 3.1%).

Excluding Novitas, the increase in impairment charges was primarily driven by higher provisions as a result of weaker macroeconomic variables and outlook and a rise in arrears in Motor Finance, as well as an ongoing review of provisions and coverage across our loan portfolios and model refinements. The bad debt ratio, excluding Novitas, increased to 1.1% annualised (H1 2022: 0.2%) and the coverage ratio increased to 2.3% (31 July 2022: 1.9%).

Since the previous financial year end, we have updated the macroeconomic scenarios to reflect the weaker macroeconomic environment and outlook, although the weightings assigned to them remain unchanged. At 31 January 2023, there was a 30% strong upside, 32.5% baseline, 20% mild downside, 10.5% moderate downside and 7% severe downside.

Whilst we have not seen a significant impact on credit performance at this stage, with actual realised losses, excluding Novitas, equivalent to c.£10 million in the period, we continue to monitor closely the evolving impacts of rising inflation and cost of living on our customers. We remain confident in the quality of our loan book, which is predominantly secured, prudently underwritten, diverse, and supported by the deep expertise of our people.

Tax expense

The tax expense in the first half of the year was £3.3 million (H1 2022: £33.8 million), which corresponds to an effective tax rate of 28.2% (H1 2022: 26.2%) for the period, 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 21.0% (six months ended 31 January 2022: 19.0%; year ended 31 July 2022: 19.0%). However, an additional 6.3% surcharge applies to the profits of banking companies as defined in legislation (and only above a threshold amount). The effective tax rate is above the UK corporation tax rate primarily due to the surcharge applying to the majority of the group's profits.

Earnings per share

Adjusted basic earnings per share ("EPS") was 6.1p (H1 2022: 64.0p) and basic EPS was 5.6p (H1 2022: 63.5p). The loss after tax recorded by Novitas in the first half reduced both the group's adjusted and basic EPS by 52.9p.

Dividend

We are pleased to declare an interim dividend of 22.5p (H1 2022: 22.0p), reflecting our underlying performance and the Board's confidence in the group's outlook. We remain committed to our dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover. The interim dividend is due to be paid on 26 April 2023 to shareholders on the register at 24 March 2023.

SUMMARY GROUP BALANCE SHEET

	31 January 2023 £ million	31 July 2022 £ million
Loans and advances to customers and operating lease assets[1]	**9,041.0**	9,098.9
Treasury assets[2]	**2,128.3**	1,855.1
Market-making assets[3]	**730.0**	887.2
Other assets	**993.7**	837.1
Total assets	**12,893.0**	12,678.3
Deposits by customers	**7,253.7**	6,770.4
Borrowings[4]	**2,827.5**	2,870.1
Market-making liabilities[3]	**629.8**	796.1
Other liabilities	**575.9**	584.2
Total liabilities	**11,286.9**	11,020.8
Equity	**1,606.1**	1,657.5
Total liabilities and equity	**12,893.0**	12,678.3

1 Includes operating lease assets of £199.6 million (31 July 2022: £185.4 million) that relate to Asset Finance and £56.7 million (31 July 2022: £54.6 million) to Invoice and Speciality Finance.
2 Treasury assets comprise cash and balances at central banks, certificates of deposit and sovereign and central bank debt.
3 Market-making assets and liabilities comprise settlement balances, long and short trading positions and loans to or from money brokers.
4 Borrowings comprise debt securities in issue, loans and overdrafts from banks and subordinated loan capital.

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

Total assets increased 2% to £12.9 billion (31 July 2022: £12.7 billion), mainly reflecting higher Treasury assets due to an increased cash balance, an increase in other assets driven by market movements due to higher interest rates, and a reduction in market-making assets. Total liabilities were also 2% higher at £11.3 billion (31 July 2022: £11.0 billion), driven primarily by higher customer deposits, partly offset by a reduction in market-making liabilities.

Total equity reduced 3% to £1.6 billion (31 July 2022: £1.7 billion), with profit in the first half more than offset by dividend payments of £65.6 million (31 January 2022: £62.7 million). The group's return on assets decreased to 0.1% (H1 2022: 1.5%).

GROUP CAPITAL[1]

	31 January 2023 £ million	**31 July 2022 £ million**
CET1 capital	**1,310.7**	1,396.7
Total capital	**1,510.7**	1,596.7
Risk weighted assets ("RWAs")	**9,383.3**	9,591.3
CET1 capital ratio (transitional)	**14.0%**	14.6%
Tier 1 capital ratio (transitional)	**14.0%**	14.6%
Total capital ratio (transitional)	**16.1%**	16.6%
Leverage ratio[2]	**12.0%**	12.0%

1 The impact of Novitas on the CET1 capital ratio was –c.125bps, of which -c.90bps relates to retained earnings, -c.45bps relates to the IFRS 9 transitional arrangements and c.10bps relates to RWAs.
2 The leverage ratio is calculated as tier 1 capital as a percentage of total balance sheet assets excluding central bank claims, adjusting for certain capital deductions, including intangible assets, and off-balance sheet exposures, in line with the UK leverage framework under CRR.

Movements in capital and other regulatory metrics

The CET1 capital ratio reduced from 14.6% to 14.0%, mainly driven by the impact of the IFRS 9 transitional arrangements (–c.45bps) and profits net of dividends paid and foreseen (–c.35bps), partly offset by a decrease in risk weighted assets (c.30bps). The impact of Novitas on the CET1 capital ratio was –c.125bps, of which –c.75bps related to the increased provision against Novitas taken in January.

CET1 capital decreased 6% to £1,310.7 million (31 July 2022: £1,396.7 million), reflecting a decrease in the transitional IFRS 9 add-back to capital of £49.0 million, the regulatory deduction of dividends paid and foreseen of £33.5 million and an increase in the intangible assets deducted from capital of £8.4 million. This was partially offset by the capital generation through profit of £8.4 million.

Total capital decreased 5% to £1,510.7 million (31 July 2022: £1,596.7 million).

RWAs fell by 2% to £9.4 billion (31 July 2022: £9.6 billion), mainly driven by a reduction in risk weighted assets related to derivatives held for hedging purposes and the IFRS 9 transitional adjustment, partly offset by an increase in the loan book.

As a result, CET1, tier 1 and total capital ratios were 14.0% (31 July 2022: 14.6%), 14.0% (31 July 2022: 14.6%) and 16.1% (31 July 2022: 16.6%), respectively.

At 31 January 2023, the applicable minimum CET1, tier 1 and total capital ratio requirements, excluding any applicable Prudential Regulation Authority ("PRA") buffer, were 8.5%, 10.2% and 12.4%, respectively. Accordingly, we continue to have headroom significantly above the applicable minimum regulatory requirements of 550bps in the CET1 capital ratio, 380bps in the tier 1 capital ratio and 365bps in the total capital ratio.

The group applies IFRS 9 regulatory transitional arrangements which allows banks to add back to their capital base a proportion of the IFRS 9 impairment charges during the transitional period. Our capital ratios are presented on a transitional basis after the application of these arrangements. On a fully loaded basis, without their application, the CET1, tier 1 and total capital ratios would be 13.7%, 13.7% and 15.8%, respectively.

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

The PRA Consultation Paper 16/22 on Basel 3.1 standards was published in November, with changes expected to be implemented or phased in from 2025-2030. Following initial analysis, we estimate that if implemented in its current form, it would represent an increase of up to c.10% in the group's RWAs calculated under the standardised approach. This is primarily as a result of the proposed removal of the SME supporting factor and the proposed approach to the classification of Retail SMEs and associated risk weights.

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

Capital management framework

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

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

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

GROUP FUNDING[1]

	31 January 2023 £ million	31 July 2022 £ million
Customer deposits	**7,253.7**	6,770.4
Secured funding	**1,570.9**	1,598.7
Unsecured funding[2]	**1,500.1**	1,544.3
Equity	**1,606.1**	1,657.5
Total available funding	**11,930.8**	11,570.9
Total funding as % of loan book[3]	**132%**	127%
Average maturity of funding allocated to loan book[4]	**18 months**	21 months

1 Numbers relate to core funding and exclude working capital facilities at the business level.
2 Unsecured funding excludes £31.0 million (31 July 2022: £22.1 million) of non-facility overdrafts included in borrowings and includes £274.7 million (31 July 2022: £295.0 million) of undrawn facilities.
3 Total funding as a % of loan book has been re-presented to include £256.3 million (31 July 2022: £240.0 million) of operating lease assets in the loan book figure. The revised definition is total funding as a % of loan book including operating lease assets.
4 Average maturity of total funding excluding equity and funding held for liquidity purposes.

Our Treasury function is focused on managing funding and liquidity to support the Banking businesses, as well as interest rate risk. This incorporates our Savings business, which provides simple and straightforward savings products to both individuals and businesses at consistently competitive rates, whilst being committed to providing the highest level of customer service.

Our diverse funding sources enable us to adapt our position through the cycle, based on market conditions and demand.

Our conservative approach to funding is based on the principle of "borrow long, lend short", with a spread of maturities over the medium and longer term, comfortably ahead of a shorter average loan book maturity. We do this through drawing on a wide range of wholesale and deposit markets including several public debt securities at both group and operating company level, as well as public and private secured funding programmes and a diverse mix of customer deposits.

We increased total funding in the first half by 3% to £11.9 billion (31 July 2022: £11.6 billion) which accounted for 132% (31 July 2022: 127%) of the loan book at the balance sheet date. Although the average cost of funding increased to 2.6% (2022: 1.3%) due to rapidly rising interest rates, we took actions to mitigate this pressure by optimising the group's liability mix based on funding needs, customer demand and market pricing. While we are well positioned to continue benefiting from our diverse funding base, we expect cost of funds to remain elevated in the next financial year as a result of higher interest rates and customer deposit pricing pressure, particularly in notice accounts.

Customer deposits increased 7% to £7.3 billion (31 July 2022: £6.8 billion) with non-retail deposits broadly stable at £3.7 billion (31 July 2022: £3.7 billion) and retail deposits increasing by 14% to £3.5 billion (31 July 2022: £3.1 billion), as we actively sought to grow our retail deposit base and optimise our funding mix in light of market conditions.

The Savings business continues to benefit from the investment made in our customer deposit platform, with the scalable platform and broadened proposition enabling us to adapt our offering and pricing. The new Notice Account range launched for our retail, corporate, pension and SME customers has gained good traction, with balances currently at c.£900 million. We are focused on identifying further opportunities to expand our product range, which will support us in growing and diversifying our retail deposit base and further optimise our cost of funding and maturity profile.

Secured funding remained broadly stable at £1.6 billion (31 July 2022: £1.6 billion) as we maintained our current drawings under the Term Funding Scheme for Small and Medium-sized Enterprises ("TFSME") at £600 million (31 July 2022: £600 million).

Unsecured funding, which includes senior unsecured and subordinated bonds and undrawn committed revolving facilities, remained broadly stable at £1.5 billion (31 July 2022: £1.5 billion).

We have maintained a prudent maturity profile. The average maturity of funding allocated to the loan book was 18 months (31 July 2022: 21 months), ahead of the average loan book maturity at 16 months (31 July 2022: 17 months). This is in line with our "borrow long, lend short" principle, reflecting the timing and mix of funding raised in the period.

Our credit ratings remain strong, reflecting the group's profitability, capital position, diversified business model and consistent risk appetite. Moody's Investors Services ("Moody's") reaffirmed their rating for Close Brothers Group as "A2/P1" and Close Brothers Limited as "Aa3/P1", whilst upgrading the outlook from "negative" to "stable" for both in November 2022. Fitch Ratings ("Fitch") reaffirmed their rating for both Close Brothers Group and Close Brothers Limited as ''A-/F2'', whilst downgrading the outlook from ''stable'' to "negative" in March 2023.

GROUP LIQUIDITY

	31 January 2023 £ million	31 July 2022 £ million
Cash and balances at central banks	**1,876.6**	1,254.7
Sovereign and central bank debt[1]	**201.1**	415.4
Certificates of deposit	**50.6**	185.0
Treasury assets	**2,128.3**	1,855.1

1 There was £nil million encumbered sovereign and central bank debt at 31 January 2023 (31 July 2022: £216.9 million).

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

We continued to maintain higher liquidity relative to the pre-Covid-19 position to provide additional flexibility given the uncertain UK economic outlook, whilst enabling us to maximise any opportunities available. In the first half, treasury assets increased 15% to £2.1 billion (31 July 2022: £1.9 billion) and were predominantly held on deposit with the Bank of England.

We regularly assess and stress test the group's liquidity requirements and continue to meet the liquidity coverage ratio ("LCR") regulatory requirements, with a 12-month average to 31 January 2023 LCR of 1034% (31 July 2022: 924%). In addition to internal measures, we monitor funding risk based on the CRR rules for the net stable funding ratio ("NSFR") which became effective on 1 January 2022. The NSFR at 31 January 2023 was 124.4% (31 July 2022: 118.1%).

BUSINESS REVIEW

BANKING

Key Financials[1]

	First half 2023 £ million	First half 2022 £ million	Change %
Operating income	**363.9**	345.7	5
Adjusted operating expenses[2]	**(186.7)**	(177.2)	5
Impairment losses on loans and advances	**(162.2)**	(48.3)	n/a
Adjusted operating profit	**15.0**	120.2	(88)
Adjusted operating profit, pre provisions	**177.2**	168.5	5
Net interest margin	**8.0%**	7.9%	
Expense/income ratio	**51%**	51%	
Bad debt ratio	**3.6%**	1.1%	
Return on net loan book	**0.3%**	2.7%	
Return on opening equity	**1.1%**	13.6%	
Closing loan book and operating lease assets	**9,041.0**	8,835.8	2

Key Financials (Excluding Novitas)[1]

	First half 2023 £ million	First half 2022 £ million	Change %
Operating income	**349.9**	327.8	7
Adjusted operating expenses[2]	**(182.4)**	(167.8)	9
Impairment losses on loans and advances	**(47.6)**	(9.1)	n/a
Adjusted operating profit	**119.9**	150.9	(21)
Adjusted operating profit, pre provisions	**167.5**	160.0	5
Net interest margin	7.8%	7.6%	
Bad debt ratio	**1.1%**	0.2%	
Closing loan book and operating lease assets	**8,979.1**	8,673.7	4

1 Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between statutory and adjusted measures can be found in note 2.
2 Related ongoing costs resulting from investment projects are recategorised from investment costs to BAU costs after one year. For comparison purposes, £4.1 million has been recategorised from investment costs to BAU costs in the 2022 financial year to adjust for investment projects' ongoing costs that commenced prior to the 2023 financial year. Costs related to Novitas were £4.3 million in H1 2023 (H1 2022: £9.5 million).

Performance reflected significant increase in impairments related to Novitas

This period has seen a challenging market backdrop, with rising inflation and interest rates in particular, creating significant uncertainty for both our individual and SME customers. The deterioration in the external environment has also adversely impacted the economic variables our businesses are sensitive to, which has been reflected in higher forward-looking impairment

provisions. Nevertheless, we have maintained our through-the-cycle approach, retaining our pricing discipline whilst continuing to support our customers.

Banking adjusted operating profit reduced 88% to £15.0 million (H1 2022: £120.2 million), primarily reflecting higher impairment charges, which more than offset income growth. Nevertheless, we maintained our strong margin and pricing discipline, saw a resilient underlying credit performance overall and made progress in delivering our investment programmes. Statutory operating profit decreased to £14.9 million (H1 2022: £120.1 million) and return on opening equity decreased to 1.1% (H1 2022: 13.6%).

On a pre-provision basis, adjusted operating profit increased 5% to £177.2 million (H1 2022: £168.5 million), reflecting good income growth and cost discipline.

Excluding Novitas, Banking adjusted operating profit reduced 21% to £119.9 million (H1 2022: £150.9 million), primarily driven by higher impairment charges, particularly in the Retail business, and increased costs, which more than offset income growth.

The loan book declined 1% in the six months to 31 January 2023 to £9.0 billion (31 July 2022: £9.1 billion) and grew 2% year-on-year to £9.0 billion (31 January 2022: £8.8 billion), primarily driven by continued good demand in the Commercial businesses and growth in the Property Finance book. This was offset by a seasonal decline in Premium Finance and a reduction in the Motor Finance loan book as the Republic of Ireland business runs off, as well as the reduction in the Novitas net loan book.

Excluding Novitas, the loan book increased marginally in the first half and 4% year-on-year to £9.0 billion (31 July 2022: £8.9 billion, 31 January 2022: £8.7 billion).

The net interest margin increased on the prior year period to 8.0% (H1 2022: 7.9%). This reflected both pricing discipline on new lending and actions taken to optimise the group's liability mix and funding costs in a rising rate environment. In addition, our net interest margin was supported by 14bps of one-off benefits from mark-to-market swaps resulting from higher interest rates. While we are well positioned to maintain a strong net interest margin, we expect cost of funds to remain elevated in the next financial year.

Excluding Novitas, the net interest margin increased on the prior year period to 7.8% (H1 2022: 7.6%)

Operating income increased 5%, to £363.9 million (H1 2022: £345.7 million), reflecting the strong net interest margin and year-on-year loan book growth. Excluding Novitas, operating income grew 7%.

Adjusted operating expenses grew in line with income, increasing 5% to £186.7 million (H1 2022: £177.2 million) as we progressed our key investment programmes and continued to exercise rigorous control of our costs, notwithstanding the inflationary pressures. As we kept the growth in our cost base commensurate with income growth, the expense/income ratio was stable at 51% (H1 2022: 51%). The compensation ratio was also flat on the prior year period at 29% (H1 2022: 29%).

Business-as-Usual ("BAU") costs increased by 5% to £147.6 million (H1 2022: £140.1 million), primarily driven by salary increases in the current inflationary environment and new hires focused on compliance, regulation, and IT security. Costs related to Novitas reduced to £4.3 million in the first half (H1 2022: £9.5 million) as we continue to wind down the business. Investment costs rose 26% to £34.8 million (H1 2022: £27.6 million) and included spend on our multi-year investment projects, strategic initiatives and operational resilience of £16.5 million (H1 2022: £10.8 million) and related depreciation charges of £18.3 million (H1 2022: £16.8 million). We expect costs related to our existing investment programmes to stabilise over the next financial years, with depreciation charges related to these programmes continuing to increase.

We continue to see investment through the cycle as vital in protecting our model, enhancing efficiency and future-proofing our income generation capabilities. Our investments in cyber and data centres are part of a programme to enhance continually our business and operational resilience, and preparations for the upcoming implementation of the FCA's new Consumer Duty regime continue. We have recently concluded our Motor Finance transformation programme and our investment in Asset Finance systems has added new functionality and improved customer insights. Our previous investment in our Customer Deposit platform has enabled us to grow our Savings proposition and achieve good customer satisfaction scores, whilst also supporting growth in our retail deposits.

We have intensified our focus on cost efficiency, particularly in light of recent inflationary pressures. We have a number of strategic cost management initiatives in progress, with more in the pipeline, which aim to create capacity to accommodate growth, inflation and investment to support our business. These include a multi-year technology transformation programme focused on strategic IT services, and a Retail operations simplification programme that will create efficiencies whilst delivering customer and control benefits. We continue to evaluate additional opportunities for efficiency with a view to achieving positive operating leverage over the medium term.

Impairment charges increased significantly to £162.2 million (H1 2022: £48.3 million), equating to an annualised bad debt ratio of 3.6% (H1 2022: 1.1%). This includes a charge in relation to Novitas of £114.6 million (H1 2022: £39.2 million). As a result, there was an increase in overall provision coverage to 4.3% (31 July 2022: 3.1%).

A further £47.6 million of impairment charges were recognised to take into account weaker macroeconomic variables and outlook, which have impacted the Retail business' provisioning models in particular, as well as a rise in arrears in the Motor Finance business as a result of cost of living pressures on customers. They also reflect an ongoing review of provisions and coverage across our loan portfolios and model refinements. Excluding Novitas, the bad debt ratio increased to 1.1% annualised (H1 2022: 0.2%) and the coverage ratio increased to 2.3% (31 July 2022: 1.9%).

Whilst we have not seen a significant impact on credit performance, with actual realised losses, excluding Novitas, equivalent to c.£10 million in the period, we continue to monitor closely the evolving impacts of rising inflation and cost of living on our customers. We remain confident in the quality of our loan book, which is predominantly secured, prudently underwritten, diverse, and supported by the deep expertise of our people.

Accelerating our efforts to resolve issues surrounding Novitas

As announced at the pre-close trading update in January 2023, the group has initiated formal legal action against one of the After the Event ("ATE") insurers regarding the potential recoverability of funds in relation to failed cases and is considering its position in respect of other insurers. As a result, an increased provision to reflect the expectation of a longer time frame to recovery for related loans was included in the £24.8 million of provisions taken in the first five months of the 2023 financial year.

Furthermore, an additional provision of £89.8 million has been recognised following a review of certain cases being funded which now have limited prospects of successfully progressing through the courts. This assumes a material increase in the Probability of Default ("PD") and Loss Given Default ("LGD") assumptions and a longer time frame to recovery across the majority of the portfolio. It also assumes reassessed estimates for recoverability of interest on the relevant loans, in line with accounting requirements.

While we will continue to review provisioning levels in light of future developments, including the experienced credit performance of the book and the outcome of the group's initiated legal action, we believe the anticipated additional provisions adequately reflect the remaining risk of credit losses for the Novitas loan book (c.£62 million net loan book at 31 January 2023). In addition, in line with IFRS 9 requirements, a proportion of the expected credit loss is expected to unwind, over the estimated time to recovery period, to interest income. The group remains focused on maximising the recovery

of remaining loan balances, either through successful outcome of cases or recourse to the customers' ATE insurers, whilst complying with its regulatory obligations and always focusing on ensuring good customer outcomes.

As outlined previously, we expect net income related to Novitas to reduce from c.£36 million in FY 2022 to c.£8 million in FY 2024.

Continued focus on disciplined growth

Loan book growth continues to be an output of our business model, as we focus on delivering disciplined growth whilst prioritising our margins and credit quality. We continue to actively work to identify incremental and new opportunities in both our existing and adjacent markets and overall, we remain confident in the growth outlook for the loan book over both the short and medium term.

As highlighted at our 2022 full year results, we recognise a significant opportunity in broadening our financing of green and transition assets, as the UK aligns towards a net zero economy, and we will continue to build our expertise in green and transition assets. We remain committed to our ambition of providing funding for £1.0 billion of battery electric vehicles over five years and have lent over £90 million in the first half.

The Asset Finance business remains well positioned to capitalise on continued demand for finance from SMEs. The recently hired agricultural equipment and materials handling teams have both built healthy pipelines and executed a number of deals, as we expand our coverage into adjacent asset classes and markets.

In Invoice Finance, we expect the growth trajectory to follow the economic conditions. We remain focused on taking advantage of opportunities in the asset-based lending ("ABL") space, including via syndication partnerships and larger loans. We have also hired a new team providing bespoke term loan structures to SMEs requiring growth and investment capital, which complements our existing Invoice Finance and ABL offerings.

The Motor Finance transformation programme, which is now complete, has created the digital capabilities for us to enhance our proposition for dealers, partners and customers. Our partnership with AutoTrader provides dealers with data and insights to effectively manage their forecourts and we will evolve further our forecourt offering over the coming months. Our partnership with iVendi has driven an uplift in proposal volumes as we offer our finance at various points of the customer journey. In addition, we have expanded our credit policy to provide broader coverage of Alternatively Fuelled Vehicles ("AFVs") as they become more prevalent in the second hand car market.

In Premium Finance, we continue to focus on our digital, data and insight capabilities to enhance our offering, with our Foresight model helping to support brokers' decisioning by providing unique customer behaviour insights. We anticipate demand for the funding of insurance policies could increase given the uncertain macroeconomic conditions.

In Property, we have successfully piloted a specialist buy-to-let extension to our existing bridging finance customers, and continue to offer this product. We are also looking to expand further our partnership with Travis Perkins, which enables SME housebuilders to access discounted building supplies and materials directly via a credit facility. In addition, we continue to build out our bridging finance proposition by offering term funding against rental investment properties to existing high quality clients. Although the economic uncertainty is expected to continue to impact activity in the property market, our pipeline of undrawn commitments remains strong.

Loan Book Analysis

	31 January 2023 £ million	31 July 2022 £ million	Change %
Commercial	**4,550.3**	4,561.4	-
Commercial – Excluding Novitas	***4,488.4***	*4,402.0*	2
Asset Finance[1]	**3,310.0**	3,217.4	3
Invoice and Speciality Finance[1]	**1,240.3**	1,344.0	(8)
Invoice and Speciality Finance – Excluding Novitas[1]	***1,178.4***	*1,184.6*	(1)
Retail	**2,970.3**	3,064.0	(3)
Motor Finance[2]	**1,980.2**	2,051.2	(3)
Premium Finance	**990.1**	1,012.8	(2)
Property	**1,520.4**	1,473.5	3
Closing loan book and operating lease assets[3]	**9,041.0**	9,098.9	(1)
Closing loan book and operating lease assets – Excluding Novitas	**8,979.1**	8,939.5	-

1 The Asset Finance and Invoice and Speciality Finance loan books have been re-presented for 31 July 2022 to reflect the recategorisation of Close Brothers Vehicle Hire ("CBVH") from Invoice and Speciality Finance to Asset Finance.
2 The Motor Finance loan book includes £293 million (31 July 2022: £367 million) relating to the Republic of Ireland Motor Finance business, which is in run-off following the cessation of our previous partnership in the Republic of Ireland from 30 June 2022.
3 Operating lease assets of £199.6 million (31 July 2022: £185.4 million) relate to Asset Finance and £56.7 million (31 July 2022: £54.6 million) to Invoice and Speciality Finance.

Ongoing demand across our Banking businesses with continued loan book growth

The loan book declined 1% in the six months since 31 July 2022 to £9.0 billion (31 July 2022: £9.1 billion). This reflected continued demand in the Commercial businesses and growth in the Property loan book, offset by the typical seasonal declines seen in the Premium and Invoice Finance businesses, the reduction in the Novitas net loan book and the run-off of the Republic of Ireland Motor Finance loan book.

Excluding Novitas, the loan book increased marginally in the first half to £9.0 billion (31 January 2022: £8.7 billion, 31 July 2022: £8.9 billion).

The Commercial loan book was broadly stable at £4.6 billion (31 July 2022: £4.6 billion), despite the roll-off of government supported lending under schemes such as the Coronavirus Business Interruption Loan Scheme ("CBILS"). We saw steady new business volumes across the businesses, which were offset by seasonality in Invoice Finance and the reduction in the Novitas net loan book. Excluding Novitas, the Commercial book increased 2% to £4.5 billion (31 July 2022: £4.4 billion).

Asset Finance grew 3% as we continued to see good demand from customers. Invoice and Speciality Finance contracted by 8% as higher provisions against Novitas led to a reduction in the net loan book. Excluding Novitas, the Invoice and Speciality Finance loan book reduced by 1%, with a seasonal decline in the first half more than offsetting growth in the Irish business.

The Retail loan book contracted 3% to £3.0 billion (31 July 2022: £3.1 billion), driven in part by a 4% reduction in Motor Finance, with the decline in the Republic of Ireland loan book following the cessation of our previous partnership, offsetting a stable UK book. We also saw a 2% reduction in the Premium Finance book, in part reflecting first half seasonality. The Republic of Ireland Motor Finance business accounted for 15% of the Motor Finance loan book (31 July 2022: 18%) and 7% of the Banking loan book (31 July 2022: 7%). As previously announced, from 30 June 2022, we ceased writing new business in Motor Finance under our previous partnership in that country. We remain committed to the Irish market and are considering our long-term options.

The Property loan book grew 3% as we saw strong drawdowns from our healthy pipeline and repayment levels began to normalise, as the buoyant UK property market in the prior year period had resulted in heightened unit sales by developers and therefore higher repayments.

Banking: Commercial[1]

	First half 2023 £ million	First half 2022 £ million	Change %
Operating income	**182.3**	167.8	9
Adjusted operating expenses	**(92.9)**	(89.1)	4
Impairment losses on financial assets	**(122.5)**	(41.0)	n/a
Adjusted operating profit	**(33.1)**	37.7	(188)
Adjusted operating profit, pre provisions	**89.4**	78.7	14
Net interest margin	**8.0%**	7.9%	
Expense/income ratio	**51%**	53%	
Bad debt ratio	**5.4%**	1.9%	
Closing loan book and operating lease assets [2,3]	**4,550.3**	4,358.3	4

Commercial key metrics excluding Novitas[1]

	First half 2023 £ million	First half 2022 £ million	Change %
Operating income	**168.3**	149.9	12
Adjusted operating expenses	**(88.6)**	(79.7)	11
Impairment losses on financial assets	**(7.9)**	(1.8)	n/a
Adjusted operating profit	**71.8**	68.4	5
Adjusted operating profit, pre provisions	**79.7**	70.2	14
Net interest margin	**7.6%**	7.3%	
Expense/income ratio	**53%**	53%	
Bad debt ratio	**0.4%**	0.1%	
Closing loan book and operating lease assets [2,3]	**4,488.4**	4,196.2	7

1 Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between statutory and adjusted measures can be found in note 2.
2 Commercial, Asset Finance and Invoice and Speciality Finance loan books have been re-presented for 31 January 2022 to include £229.9 million of operating lease assets (£178.4 million in Asset Finance and £51.5 million in Invoice and Speciality Finance).
3 Operating lease assets of £199.6 million (31 January 2022: £178.4 million) relate to Asset Finance and £56.7 million (31 January 2022: £51.5 million) to Invoice and Speciality Finance.

Good demand in Commercial, as we continue to support our SME customers

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

debt factoring, invoice discounting and asset-based lending, as well as covering our specialist businesses such as Brewery Rentals and Novitas. As previously announced, Novitas ceased lending to new customers in July 2021.

Despite the economic uncertainty during the period, we have seen continued good customer demand, with increased new business volumes and utilisation levels in Invoice Finance remaining steady at c.55%. However, supply chain issues continue to impact certain sectors of the market. We have focused on asset pricing discipline, actively choosing to pass through higher rates on new lending where appropriate.

A significant increase in impairment charges related to Novitas was the main driver for an adjusted operating loss in Commercial of £(33.1) million (H1 2022: profit of £37.7 million), despite the business achieving positive operating leverage. The statutory operating loss was £(33.2) million (H1 2022: profit of £37.6 million).

On a pre-provision basis, adjusted operating profit increased 14% to £89.4 million (H1 2022: £78.7 million), reflecting continued customer demand and positive operating leverage.

Excluding Novitas, adjusted operating profit increased 5% to £71.8 million (H1 2022: £68.4 million) as strong income growth more than offset higher costs and impairment charges.

Operating income increased 9% to £182.3 million (H1 2022: £167.8 million), reflecting good loan book growth and increased activity-driven income in Asset Finance. The net interest margin increased to 8.0% (H1 2022: 7.9%) as we continued to focus on asset pricing discipline, generated higher fees in the Asset Finance business and benefited from central funding mix actions taken in light of the rising interest rate environment.

Excluding Novitas, the net interest margin increased to 7.6% (H1 2022: 7.3%).

Adjusted operating expenses grew 4% to £92.9 million (H1 2022: £89.1 million), reflecting higher staff costs to reflect the inflationary environment, as well as investment spend in relation to the Asset Finance transformation programme. This was partly offset by lower advisory costs in relation to Novitas. The expense/income ratio reduced to 51% (H1 2022: 53%) as the strong income growth more than offset higher costs.

Impairment charges rose significantly to £122.5 million (H1 2022: £41.0 million), with £114.6 million incurred in relation to Novitas, in line with the update provided in January 2023. As a result, there was an increase in provision coverage to 5.6% (31 July 2022: 4.0%).

Excluding Novitas, impairment charges rose to £7.9 million (H1 2022: £1.8 million), corresponding to a bad debt ratio of 0.4% annualised (H1 2022: 0.1%). This increase primarily reflected additional provisions to take into account weaker macroeconomic variables and outlook. The coverage ratio remained broadly stable at 1.7% (31 July 2022: 1.6%), excluding Novitas.

Banking: Retail

	First half 2023 £ million	First half 2022 £ million	Change %
Operating income	**123.2**	119.7	3
Operating expenses	**(79.1)**	(71.9)	10
Impairment losses on financial assets	**(29.4)**	(5.3)	n/a
Operating profit	**14.7**	42.5	(65)
Operating profit, pre provisions	**44.1**	47.8	(8)
Net interest margin	**8.2%**	8.0%	
Expense/income ratio	**64%**	60%	
Bad debt ratio	**1.9%**	0.4%	
Closing loan book[1]	**2,970.3**	3,026.5	(2)

1 The Motor Finance loan book includes £293 million (31 July 2022: £367 million) relating to the Republic of Ireland Motor Finance business, which is in run-off following the cessation of our previous partnership in the Republic of Ireland from 30 June 2022.

Remain focused on prioritising our margins and underwriting discipline

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

Although consumers have faced significant uncertainty in the period from rising inflation and interest rates, we have continued to see a solid market backdrop. In Motor Finance, we are adhering to our model of pricing discipline, passing through higher rates on new lending. As expected in the current environment and in line with comparable trends observed across the wider industry, we have seen an increase in arrears in our Motor Finance loan book reflecting cost of living pressures on our customers. Nonetheless, we remain comfortable with the quality of our portfolio, underpinned by our underwriting discipline and prudent level of provisions. Volumes and credit performance have remained solid in Premium Finance in the period, although we anticipate the demand from customers seeking funding for insurance policies may increase as the cost of living pressures continue.

Operating profit for Retail reduced to £14.7 million (H1 2022: £42.5 million), as income growth was more than offset by higher costs and increased impairment charges to reflect a deterioration in the macroeconomic outlook and a rise in arrears. Statutory operating profit also reduced to £14.7 million (H1 2022: £42.5 million).

Operating income increased 3% to £123.2 million (H1 2022: £119.7 million), reflecting growth in the UK Motor Finance loan book year-on-year and an increase in the net interest margin to 8.2% (H1 2022: 8.0%) despite higher funding costs, as we continued to focus on pricing discipline and benefited from central funding mix actions taken in light of the rising interest rate environment.

Operating expenses rose 10% to £79.1 million (H1 2022: £71.9 million), driven mainly by ongoing investment in the Retail businesses to create efficiencies whilst delivering customer and control benefits, including depreciation related to our investments, as well as higher staff costs, particularly in legal and compliance. In Premium Finance, we have continued to invest in further enhancing our processes in line with regulatory requirements. As a result, the expense/income ratio increased to 64% (H1 2022: 60%).

Impairment charges increased to £29.4 million (H1 2022: £5.3 million), resulting in an annualised bad debt ratio of 1.9% (H1 2022: 0.4%). This was driven by the weakening macroeconomic outlook and the rise in Motor Finance arrears, as well as an ongoing review of provisions and coverage and model refinements. As a result, the provision coverage ratio increased to 3.0% (31 July 2022: 2.2%).

We remain confident in the credit quality of the Retail loan book. The Motor Finance loan book is predominantly secured on second hand vehicles which are less exposed to depreciation or significant declines in value than new cars. Our core Motor Finance product remains hire-purchase contracts, with less exposure to residual value risk associated with Personal Contract Plans ("PCP"), which accounted for c.10% of the Motor Finance loan book at 31 January 2023. The Premium Finance loan book benefits from various forms of structural protection including premium refundability and, in most cases, broker recourse for the personal lines product.

Banking: Property

	First half 2023 £ million	First half 2022 £ million	Change %
Operating income	**58.4**	58.2	-
Operating expenses	**(14.7)**	(16.2)	(9)
Impairment losses on financial assets	**(10.3)**	(2.0)	n/a
Operating profit	**33.4**	40.0	(17)
Operating profit, pre provisions	**43.7**	42.0	4
Net interest margin	**7.8%**	7.9%	
Expense/income ratio	**25%**	28%	
Bad debt ratio	**1.4%**	0.3%	
Closing loan book	**1,520.4**	1,451.0	5

Strong drawdowns from our healthy pipeline driving loan book growth

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

This half has seen a slowdown across the UK property market following a period of heightened activity and strong unit sales. Housebuilding levels are falling, and house prices are starting to contract, with home buyers impacted by rising interest rates. Nevertheless, we have maintained our healthy pipeline at c.£1.0 billion and seen strong drawdowns from clients, whilst retaining our margin and pricing discipline.

Operating profit decreased 17% to £33.4 million (H1 2022: £40.0 million), as higher impairment charges more than offset a reduction in operating expenses. On a pre-provision basis, adjusted operating profit increased 4% to £43.7 million (H1 2022: £42.0 million), as we achieved positive operating leverage.

Operating income was stable at £58.4 million (H1 2022: £58.2 million) as we saw good fee income in the period, although the net interest margin decreased marginally to 7.8% (H1 2022: 7.9%), reflecting higher cost of funds and the benefit of interest rate floors in the prior year period.

Operating expenses reduced 9% to £14.7 million (H1 2022: £16.2 million) as we maintained our rigorous focus on cost discipline. As a result, the expense/income ratio reduced to 25% (H1 2022: 28%).

Impairment charges increased to £10.3 million (H1 2022: £2.0 million), resulting in an annualised bad debt ratio of 1.4% (H1 2022: 0.3%), as we recognised additional provisions to reflect weakening macroeconomic variables and outlook, in particular lower projected house prices, and an ongoing review of provisions and coverage. As a result, the provision coverage ratio increased to 3.0% (31 July 2022: 2.4%).

The Property loan book is conservatively underwritten, with typical LTVs below standard market levels. We work with experienced, professional developers, with a focus on mid-priced family housing, and have minimal exposure to the prime central London market, with our regional loan book making up over 50% of the Property Finance portfolio. Our long track record, expertise and quality of service ensure the business remains resilient to competition and continues to generate high levels of repeat business.

ASSET MANAGEMENT

Key Financials[1]

	First half 2023 £ million	First half 2022 £ million	Change %
Investment management	**54.2**	57.4	(6)
Advice and other services[2]	**15.7**	19.0	(17)
Other income[3]	**1.1**	0.2	n/a
Operating income	**71.0**	76.6	(7)
Adjusted operating expenses	**(62.4)**	(62.1)	-
Adjusted operating profit	**8.6**	14.5	(41)
Revenue margin (bps)	**83**	89	
Operating margin	**12%**	19%	
Return on opening equity	**13.1%**	38.3%	

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

Well placed to continue our long-term track record of growth

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

Adjusted operating profit in CBAM decreased 41% to £8.6 million (H1 2022: £14.5 million), as stable costs were more than offset by the reduction in income. The operating margin reduced to 12% (H1 2022: 19%). Statutory operating profit before tax was £7.8 million (H1 2022: £13.7 million).

Total operating income declined by 7% to £71.0 million (H1 2022: £76.6 million), reflecting a lower average AuM due to markets and lower client activity. The revenue margin reduced to 83bps (H1 2022: 89bps) primarily due to flows into lower margin investment management products.

Adjusted operating expenses were broadly flat at £62.4 million (H1 2022: £62.1 million), despite the current inflationary environment, as lower variable compensation offset higher fixed staff costs, new hires and technology spend. However, the expense/income ratio grew to 88% (H1 2022: 81%) with the compensation ratio also increasing to 58% versus the prior year (H1 2022: 56%), reflecting the reduction in income.

Our technology projects continue to focus on increasing efficiency and operational resilience, improving client experience by using best-of-breed applications, digital technology and selective in-

house development. We have also recently completed a major adviser re-platforming project to rationalise legacy systems and increase efficiency.

Healthy net inflows despite challenging market conditions

Equity markets have experienced a mixed performance during the first half of the year. Although ongoing uncertainty continued to impact investor sentiment, we saw net inflows of £474 million (H1 2022: £634 million) and delivered a net inflow rate of 6% (H1 2022: 8%) with a strong contribution from new hires. During the first half, we recruited five new client facing colleagues, as we continue to invest in new hires to support the long-term growth potential of CBAM.

Total managed assets increased 3% to £15.7 billion (31 July 2022: £15.3 billion), driven by positive net inflows, slightly offset by negative market performance. Total client assets, which includes advised and managed assets, increased by 2% overall to £16.9 billion (31 July 2022: £16.6 billion).

Movement in Client Assets

	Six months to 31 January 2023 £ million	12 months to 31 July 2022 £ million	Six months to 31 January 2022 £ million
Opening managed assets	**15,302**	15,588	15,588
Inflows	**1,155**	2,330	1,201
Outflows	**(681)**	(1,486)	(567)
Net inflows	**474**	844	634
Market movements	**(61)**	(1,130)	(412)
Total managed assets	**15,715**	15,302	15,810
Advised only assets	**1,196**	1,272	1,403
Total client assets[1]	**16,911**	16,574	17,213
Net flows as % of opening managed assets[2]	**6%**	5%	8%

1 Total client assets include £5.8 billion of assets (31 July 2022: £5.9 billion) that are both advised and managed.
2 Net flows as % of opening managed assets calculated on an annualised basis.

Fund performance

Our funds and segregated bespoke portfolios are designed to provide attractive risk-adjusted returns for our clients, consistent with their long-term goals and investment objectives. Fund performance over the six months period has been mixed, reflecting volatile markets across asset classes which has been the case throughout the holding period.

Our approach to ESG and sustainability

ESG integration in our investment research and stewardship remains a key area of focus. Our Sustainable Balanced fund, which launched in 2020, continues to attract inflows and in March 2023, we are merging our existing Select Fixed Income fund and Sustainable Bond fund to create the Sustainable Select Fixed Income fund.

This new fund utilises an updated Sustainable Investment methodology, which makes use of CBAM's experience and understanding of sustainable investment strategies gained over recent years to target an active reduction in CO_2 emissions. This is made explicit by a commitment to have the fund portfolio at less than 50% of the CO_2 emissions of its 2019 benchmark by 2030 and always under the benchmark in the period.

In line with our commitment to actively contribute towards the UK government's net zero climate goals, CBAM is now a signatory of the Net Zero Asset Managers initiative.

Well positioned for future growth

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

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

WINTERFLOOD

Key Financials

	First half 2023 £ million	First half 2022 £ million	% Change
Operating income	**39.0**	49.5	(21)
Operating expenses	**(36.6)**	(40.7)	(10)
Impairment losses on financial assets	**-**	-	-
Operating profit	**2.4**	8.8	(73)
Average bargains per day (‘000)	**61**	83	
Operating margin	**6%**	18%	
Return on opening equity	**3.9%**	14.0%	
Loss days	**1**	1	

Performance impacted by continued slowdown in trading activity

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

We experienced difficult market conditions as recession concerns, inflationary pressures, an elevated UK interest rate environment, economic policy instability and global geopolitical issues all had an adverse impact on market sentiment and investor appetite.

Operating income decreased to £39.0 million (H1 2022: £49.5 million), primarily driven by lower trading revenues, with all sectors reporting a decline against the prior year, with the exception of Fixed Income which benefitted from volatility in bond markets.

Low investor confidence, compounded by macroeconomic uncertainty, interest rates at a 14 year high and inflationary pressures, led to reduced retail trading volumes, with average daily bargains at 61k in the period, a decline from H1 2022 levels (83k) and marginally above pre-pandemic levels (2019: 56k). In particular, we saw a significant reduction in total bargains in our higher margin sectors, AIM and Small Cap. As a result, trading income declined to £31.7 million for the period (H1 2022: £42.7 million).

Nevertheless, we benefited from the expertise of our traders and our strong focus on risk management, which resulted in only one loss day in the period (H1 2022: one loss day). The diversification of our trading desk enabled us to take advantage of the increased retail investor interest in Fixed Income markets.

Our Investment Trusts Corporate team, who are corporate broker to over 50 Investment Trusts and generate additional fees through corporate finance activity, delivered revenue of £1.3 million (H1 2022: £1.2 million). This was largely driven by retainer fee income, as the risk-off market sentiment impacted capital markets activity, with no Investment Trust IPOs launched across the market in 2022. Nonetheless, we are well placed for when market activity returns.

WBS has had a positive start to the year, growing AuA to £12.4 billion (H1 2022: £6.8 billion) despite declining equity markets. Net inflows were £4.8 billion (H1 2022: £0.7 billion) including the successful planned migration of custody assets for Fidelity International in Q1. Against this backdrop WBS generated income of £6.3 million which represents an increase of 24% (H1 2022: £5.1 million). We see significant further growth potential with WBS supported by a solid pipeline of clients.

Operating expenses fell by 10% to £36.6 million (H1 2022: £40.7 million) primarily driven by lower variable staff costs accrued in the period to reflect the reduction in income.

Operating profit decreased by 73% to £2.4 million (H1 2022: £8.8 million). Against a backdrop of sustained market declines in the period, this represents a resilient performance in difficult market conditions.

Winterflood has a long track record of trading profitably in a range of conditions and remains well positioned to retain our market position, taking advantage when investor confidence recovers from the low levels seen in the past 12 months. We continue to diversify our revenue streams and explore growth opportunities, such as through WBS, balancing the cyclicality seen in the trading business.

DEFINITIONS

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

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

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

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

Business as usual ("BAU") costs: Operating expenses excluding depreciation and costs related to strategic initiatives or investment programmes

Capital Requirements Regulation ("CRR"): Capital Requirements Regulation as implemented in the PRA Rulebook CRR Instrument and the PRA Rulebook CRR Firms: Leverage Instrument (collectively known as "CRR")

CET1 capital ratio: Measure of the group's CET1 capital as a percentage of risk weighted assets, as required by CRR

Common equity tier 1 ("CET1") capital: Measure of capital as defined by the CRR. CET1 capital consists of the highest quality capital including ordinary shares, share premium account, retained earnings and other reserves, less goodwill and certain intangible assets and other regulatory adjustments

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

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

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

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

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

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

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

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

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

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

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

Gross carrying amount: Loan book before expected credit loss provision

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

Internal ratings based ("IRB") approach: A supervisor-approved method using internal models, rather than standardised risk weightings, to calculate regulatory capital requirements for credit risk

International Financial Reporting Standards ("IFRS"): Globally accepted accounting standards issued by the IFRS Foundation and the International Accounting Standards Board

Investment costs: Includes all depreciation and other costs related to investments (including multi-year projects), strategic initiatives, pilots and cyber resilience. Excludes IFRS 16 depreciation and long term BAU license depreciation

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

Liquidity coverage ratio ("LCR"): Measure of the group's HQLAs as a percentage of expected net cash outflows over the next 30 days in a stressed scenario

Loan to value ("LTV") ratio: For a secured or structurally protected loan, the loan balance as a percentage of the total value of the asset

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

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

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

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

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

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

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

Operating leverage: Operating income percentage growth less adjusted operating expenses percentage growth

Operating margin: Adjusted operating profit divided by operating income

Personal Contract Plan ("PCP"): PCP is a form of vehicle finance where the customer defers a significant portion of credit to the final repayment at the end of the agreement, thereby lowering the monthly repayments compared to a standard hire-purchase arrangement. At the final repayment date, the customer has the option to: (a) pay the final payment and take the ownership of the vehicle;

(b) return the vehicle and not pay the final repayment; or (c) part-exchange the vehicle with any equity being put towards the cost of a new vehicle

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

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

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

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

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

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

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

Risk weighted assets ("RWAs"): A measure of the amount of a bank's assets, adjusted for risk in line with the CRR. It is used in determining the capital requirement for a financial institution

Strategic initiatives: Acquisitions or ventures into existing/adjacent markets that are anticipated to support business growth, or initiatives where a strategic decision has been made to exit the business or market

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

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

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

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

The group faces a number of risks in the normal course of business. To manage these effectively, a consistent approach is adopted based on a set of overarching principles, namely:

- adhering to our established and proven business model;
- implementing an integrated risk management approach based on the concept of "three lines of defence"; and
- setting and operating within clearly defined risk appetites, monitored with defined metrics, and set limits.

Whilst we have not seen a marked deterioration in credit performance, we continue to monitor closely the evolving impacts of rising inflation and cost of living on our customers. We remain confident in the quality of our loan book, which is predominantly secured, prudently underwritten, diverse, and supported by the deep expertise of our people.

The group's principal risks remain unchanged since the last reporting period. A detailed description of each, including an overview of our risk management and mitigation approach, is disclosed on pages 74 to 92 of the 2022 Annual Report. The Annual Report can be accessed via the Investor Relations home page on the group's website at www.closebrothers.com.

A summary of the group's principal risks is detailed below:

Business risk – The group operates in an environment where it is exposed to an array of independent factors. Its profitability is impacted by the broader UK economic climate, changes in technology, regulation and customer behaviour, cost movements and competition from traditional and new participants, varying in both nature and extent across its divisions. Changes in these factors may affect the bank's ability to write loans within desired risk and return criteria, result in lower new business volumes in Asset Management, impact levels of trading activity at Winterflood or result in additional investment requirements/higher costs of operation.

Capital risk – The group is required to hold sufficient regulatory capital (including equity and other loss-absorbing debt instruments) to enable it to operate effectively. This includes meeting minimum regulatory requirements, operating within risk appetites set by the board and supporting its strategic goals.

Conduct risk – The group's behaviours, or those of its colleagues, whether intentional or unintentional, could result in poor outcomes for our customers or the markets in which we operate. Our relationship-focused model enables the group to put customers at the heart of our business to minimise this risk. This is achieved by acting in good faith towards customers, taking steps to proactively avoid causing foreseeable harm and supporting customers to pursue their financial objectives. This approach is founded in customers being central to our purpose and this ethos is embedded within our culture. Reporting on, and monitoring of, conduct risk continues to further evolve with the introduction of new regulatory requirements for the Financial Conduct Authority's ("FCA") Consumer Duty. Implementation activities for Consumer Duty are underway and will be incorporated into the Conduct Risk Framework.

Credit risk – As a lender to businesses and individuals, the bank is primarily exposed to credit losses if customers are unable to repay loans and outstanding interest and fees. The group also has exposure to counterparties including those with which it places deposits or trades, and a small number of derivative contracts to hedge interest rate and foreign exchange exposures.

Funding and liquidity – The Banking division's access to funding remains key to support our lending activities and the liquidity requirements of the group.

Market risk – Market volatility impacting equity and fixed income exposures, and / or changes in interest and exchange rates has the potential to impact the group's performance.

Operational risk – The group is exposed to various operational risks through its day-to-day operations, all of which have the potential to result in financial loss or adverse impact. Losses typically crystallise as a result of inadequate or failed internal processes, people, technology, data, models and systems, or as a result of external

factors, including but not limited to Cyber and Information Security. Impacts to the business, customers, third parties and the markets in which we operate are considered within a maturing framework for resilient delivery of important business services.

Legal and regulatory risks are also considered as part of operational risk. Failure to comply with existing legal or regulatory requirements, or to adapt to changes in these requirements in a timely fashion, may have negative consequences for the group. Similarly, changes to regulation can impact our financial performance, capital, liquidity, and the markets in which we operate.

Reputational risk – Protection and effective stewardship of the group's reputation are fundamental to its long-term success. Detrimental stakeholder perception could lead to impairment of the group's current business and future goals. This could arise in the course of the groups usual activities, such as through employee, supplier or intermediary conduct, the provision of products and services, crystallisation of another risk type, or as a result of changes outside of its influence.

In addition to day-to-day management of its principal risks, the group utilises an established framework to monitor its portfolio for emerging risks, consider broader market uncertainties, and support its organisational readiness to respond.

Current group level emerging risks include economic and geopolitical uncertainty, the risk of financial loss or disruption resulting from the impacts of climate change, legal and regulatory change, the risk of technological change and new business models, evolving working practices, supply chain risks and the ability to respond to future pandemics.

The group continues to mature the embedding of its climate risk management framework to ensure continued alignment with regulation and market expectations and its net zero commitments. Initial climate disclosures are disclosed on pages 42 to 57 of the 2022 Annual Report, in line with the recommendations of the Taskforce for Climate-related Financial Disclosures ("TCFD").

DIRECTORS' RESPONSIBILITY STATEMENT

Each of the Directors confirms that, to the best of their knowledge:

- the condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as contained in UK-adopted IFRS;
- the half year results include a fair review of the information required by Disclosure and Transparency Rule 4.2.7R (indication of important events during the first six months of the financial year and their impact on the interim financial statements, and a description of principal risks and uncertainties for the remaining six months of the financial year); and
- the half year results include a fair review of the information required by Disclosure and Transparency Rule 4.2.8R (disclosure of related parties transactions that have taken place during the first six months of the current financial year and that have materially affected the financial position or performance of the company, and any changes in the related parties transactions described in the last Annual Report that could do so).

The Directors of Close Brothers Group plc as at the date of this report are as listed on pages 95 to 97 of the company's Annual Report 2022, subject to the following changes: both Lesley Jones and Bridget Macaskill ceased to be a director on 17 November 2022. A list of current Directors is maintained on the company's website www.closebrothers.com.

On behalf of the board

Michael N. Biggs	**Adrian J. Sainsbury**
Chairman	Chief Executive

14 March 2023

INDEPENDENT REVIEW REPORT TO CLOSE BROTHERS GROUP PLC
Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Close Brothers Group plc's condensed consolidated interim financial statements (the "interim financial statements") in the Half Year Results of Close Brothers Group plc for the 6 month period ended 31 January 2023 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim financial statements comprise:

- the consolidated balance sheet as at 31 January 2023;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated cash flow statement for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Half Year Results of Close Brothers Group plc have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council for use in the United Kingdom ("ISRE (UK) 2410"). A review of interim financial information consists of making enquiries, 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, 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.

We have read the other information contained in the Half Year Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Half Year Results, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the Half Year Results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom’s Financial Conduct Authority. In preparing the Half Year Results, including the interim financial statements, the directors are responsible for assessing the group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Our responsibility is to express a conclusion on the interim financial statements in the Half Year Results based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom’s Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
London
14 March 2023

CONSOLIDATED INCOME STATEMENT
for the six months ended 31 January 2023

	Note	Six months ended 31 January 2023 Unaudited £ million	Six months ended 31 January 2022 Unaudited £ million	Year ended 31 July 2022 Audited £ million
Interest income		**414.4**	341.1	690.0
Interest expense		**(117.0)**	(49.3)	(112.0)
Net interest income		**297.4**	291.8	578.0
Fee and commission income		**130.1**	128.6	259.5
Fee and commission expense		**(8.7)**	(8.0)	(17.2)
Gains less losses arising from dealing in securities		**31.9**	43.3	81.6
Operating lease assets rental and other income		**61.8**	51.6	106.1
Depreciation of operating lease assets and other direct costs		**(38.2)**	(35.7)	(71.9)
Non-interest income		**176.9**	179.8	358.1
Operating income	2	**474.3**	471.6	936.1
Administrative expenses		**(299.5)**	(293.5)	(598.0)
Impairment losses on financial assets	6	**(162.2)**	(48.3)	(103.3)
Total operating expenses before amortisation of intangible assets on acquisition		**(461.7)**	(341.8)	(701.3)
Operating profit before amortisation of intangible assets on acquisition		**12.6**	129.8	234.8
Amortisation of intangible assets on acquisition		**(0.9)**	(0.9)	(2.0)
Operating profit before tax		**11.7**	128.9	232.8
Tax	3	**(3.3)**	(33.8)	(67.6)
Profit after tax		**8.4**	95.1	165.2
Profit attributable to shareholders		**8.4**	95.1	165.2
Basic earnings per share	4	**5.6p**	63.5p	110.4p
Diluted earnings per share	4	**5.6p**	63.0p	109.9p
Ordinary dividend per share	5	**22.5p**	22.0p	66.0p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 31 January 2023

	Six months ended 31 January		Year ended 31 July
	2023 Unaudited £ million	2022 Unaudited £ million	2022 Audited £ million
Profit after tax	**8.4**	95.1	165.2
Items that may be reclassified to income statement			
Currency translation gains/(losses)	**1.0**	(0.6)	(0.5)
Gains on cash flow hedging	**18.7**	16.4	30.6
Losses on financial instruments classified at fair value through other comprehensive income:			
Sovereign and central bank debt	**(4.7)**	(1.0)	(1.1)
Tax relating to items that may be reclassified	**(3.9)**	(5.1)	(7.9)
	11.1	9.7	21.1
Items that will not be reclassified to income statement			
Defined benefit pension scheme (losses)/gains (Note 14)	**(5.5)**	1.9	(0.1)
Tax relating to items that will not be reclassified	**1.5**	(0.5)	0.3
	(4.0)	1.4	0.2
Other comprehensive income for the period, net of tax	**7.1**	11.1	21.3
Total comprehensive income	**15.5**	106.2	186.5
Attributable to:			
Shareholders	**15.5**	106.2	186.5

CONSOLIDATED BALANCE SHEET
at 31 January 2023

	Note	**31 January 2023 Unaudited £ million**	31 July 2022 Audited £ million
Assets			
Cash and balances at central banks		**1,876.6**	1,254.7
Settlement balances		**655.8**	799.3
Loans and advances to banks		**271.5**	165.4
Loans and advances to customers	6	**8,784.7**	8,858.9
Debt securities	7	**262.7**	612.8
Equity shares	8	**27.3**	28.4
Loans to money brokers against stock advanced		**37.2**	48.4
Derivative financial instruments		**116.7**	71.2
Goodwill and other intangible assets	9	**260.2**	252.0
Property, plant and equipment	10	**336.0**	322.5
Current tax assets		**46.2**	47.0
Deferred tax assets		**25.2**	32.5
Prepayments, accrued income and other assets		**192.9**	185.2
Total assets		**12,893.0**	12,678.3
Liabilities			
Settlement balances and short positions	11	**619.0**	796.1
Deposits by banks	12	**159.6**	160.5
Deposits by customers	12	**7,253.7**	6,770.4
Loans and overdrafts from banks	12	**653.2**	622.7
Debt securities in issue	12	**1,994.9**	2,060.9
Loans from money brokers against stock advanced		**10.8**	-
Derivative financial instruments		**161.9**	89.2
Accruals, deferred income and other liabilities		**254.4**	334.5
Subordinated loan capital	12	**179.4**	186.5
Total liabilities		**11,286.9**	11,020.8
Equity			
Called up share capital		**38.0**	38.0
Retained earnings		**1,568.1**	1,628.4
Other reserves		**-**	(8.9)
Total shareholders' equity		**1,606.1**	1,657.5
Total equity		**1,606.1**	1,657.5
Total liabilities and equity		**12,893.0**	12,678.3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 31 January 2023

			Other reserves						
	Called up share capital £ million	Retained earnings £ million	FVOCI reserve £ million	Share-based payments reserve £ million	Exchange movements reserve £ million	Cash flow hedging reserve £ million	Total attributable to equity holders £ million	Non-controlling interests £ million	Total equity £ million
At 1 August 2021 (audited)	38.0	1,555.5	0.8	(22.4)	(1.3)	(0.3)	1,570.3	(1.0)	1,569.3
Profit for the period	-	95.1	-	-	-	-	95.1	-	95.1
Other comprehensive income/(expense) for the period	-	1.4	(0.7)	-	(0.6)	11.0	11.1	-	11.1
Total comprehensive income/(expense) for the period	-	96.5	(0.7)	-	(0.6)	11.0	106.2	-	106.2
Dividends paid	-	(62.7)	-	-	-	-	(62.7)	-	(62.7)
Shares purchased	-	-	-	(9.6)	-	-	(9.6)	-	(9.6)
Shares released	-	-	-	4.0	-	-	4.0	-	4.0
Other movements	-	(0.9)	-	1.4	-	-	0.5	1.0	1.5
Income tax	-	(0.5)	-	-	-	-	(0.5)	-	(0.5)
At 31 January 2022 (unaudited)	38.0	1,587.9	0.1	(26.6)	(1.9)	10.7	1,608.2	-	1,608.2
Profit for the period	-	70.1	-	-	-	-	70.1	-	70.1
Other comprehensive (expense)/income for the period	-	(1.2)	-	-	0.4	11.0	10.2	-	10.2
Total comprehensive income for the period	-	68.9	-	-	0.4	11.0	80.3	-	80.3
Dividends paid	-	(32.8)	-	-	-	-	(32.8)	-	(32.8)
Shares purchased	-	-	-	0.1	-	-	0.1	-	0.1
Shares released	-	-	-	0.9	-	-	0.9	-	0.9
Other movements	-	5.0	-	(3.6)	-	-	1.4	-	1.4
Income tax	-	(0.6)	-	-	-	-	(0.6)	-	(0.6)
At 31 July 2022 (audited)	38.0	1,628.4	0.1	(29.2)	(1.5)	21.7	1,657.5	-	1,657.5
Profit for the period	-	8.4	-	-	-	-	8.4	-	8.4
Other comprehensive (expense)/income for the period	-	(4.0)	(3.4)	-	1.0	13.5	7.1	-	7.1
Total comprehensive income/(expense) for the period	-	4.4	(3.4)	-	1.0	13.5	15.5	-	15.5
Dividends paid	-	(65.6)	-	-	-	-	(65.6)	-	(65.6)
Shares purchased	-	-	-	(5.1)	-	-	(5.1)	-	(5.1)
Shares released	-	-	-	3.8	-	-	3.8	-	3.8
Other movements	-	1.2	-	(0.9)	-	-	0.3	-	0.3
Income tax	-	(0.3)	-	-	-	-	(0.3)	-	(0.3)
At 31 January 2023 (unaudited)	**38.0**	**1,568.1**	**(3.3)**	**(31.4)**	**(0.5)**	**35.2**	**1,606.1**	**-**	**1,606.1**

CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 31 January 2023

	Note	Six months ended 31 January		Year ended 31 July
		2023	2022	2022
		Unaudited	Unaudited	Audited
		£ million	£ million	£ million
Net cash inflow from operating activities	17(a)	**833.1**	170.8	158.7
Net cash (outflow)/inflow from investing activities				
Purchase of:				
Property, plant and equipment		**(5.1)**	(3.4)	(7.1)
Intangible assets – software		**(27.0)**	(20.6)	(51.3)
Subsidiaries	17(b)	**(0.5)**	-	(0.1)
Sale of:				
Subsidiaries	17(c)	**0.5**	0.1	0.1
		(32.1)	(23.9)	(58.4)
Net cash inflow before financing activities		**801.0**	146.9	100.3
Financing activities				
Purchase of own shares for employee share award schemes		**(5.1)**	(9.6)	(9.5)
Equity dividends paid		**(65.6)**	(62.7)	(95.5)
Interest paid on subordinated loan capital and debt financing		**(5.4)**	(4.9)	(10.4)
Repayment of subordinated loan capital		**-**	(23.4)	(23.4)
Payment of lease liabilities		**(7.6)**	(6.9)	(15.1)
Net increase/(decrease) in cash		**717.3**	39.4	(53.6)
Cash and cash equivalents at beginning of period		**1,383.0**	1,436.6	1,436.6
Cash and cash equivalents at end of period	17(d)	**2,100.3**	1,476.0	1,383.0

THE NOTES

1. Basis of preparation and accounting policies

The half year results have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and the condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with the International Financial Reporting Standards ("IFRS") in conformity with the requirements of the Companies Act 2006. These include International Accounting Standard ("IAS") 34, Interim Financial Reporting, which specifically addresses the contents of interim financial statements. The interim financial statements incorporate the individual financial statements of Close Brothers Group plc and the entities it controls, using the acquisition method of accounting.

The half year results are unaudited and do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. However, the information has been reviewed by the group's auditor, PricewaterhouseCoopers LLP, and their report appears above.

The financial information for the year ended 31 July 2022 contained within this half year report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of those statutory accounts, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, has been delivered to the Registrar of Companies. PricewaterhouseCoopers LLP has reported on those accounts. 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.

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 year financial statements.

The accounting policies applied are consistent with those set out on pages 158 to 162 of the Annual Report 2022.

Critical accounting judgements and estimates

The reported results of the group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed on an ongoing basis. The group's critical accounting judgements and estimates, set out below, are unchanged from those identified in the Annual Report 2022, with the exception of the changes in critical estimates relating to Novitas as set out under the 'Model estimates' section below.

Critical accounting judgements

Expected credit losses

At 31 January 2023, the group's expected credit loss provision was £392.2 million (31 July 2022: £285.6 million). The calculation of the group's expected credit loss provision under IFRS 9 requires the group to make a number of judgements, assumptions and estimates, which have a material impact on the accounts. The assessment, which requires judgement, is unbiased, probability weighted and uses historical, current and forward-looking information. The most significant are set out below.

Significant increase in credit risk

Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk since initial recognition.

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

• Quantitative assessment: the lifetime PD has increased by more than an agreed threshold relative to the equivalent at origination. Thresholds are based on a fixed number of risk grade movements which are bespoke to the business to ensure that increased risk since origination is appropriately captured;

• Qualitative assessment: events or observed behaviour indicate credit deterioration. This includes a wide range of information that is reasonably available including individual credit assessments of the financial performance of borrowers as appropriate during routine reviews, plus forbearance and watch list information; or

• Backstop criteria: the 30 days past due backstop is met.

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

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

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

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

We continue to monitor and evaluate the impact of climate risk on our expected credit loss provision. As at 31 January 2023 we do not consider climate risk to have a material impact on our credit losses.

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

The two assumptions requiring the most significant judgement relate to expected recovery rates and time to recovery periods in Novitas. During 2021 and 2022, expected case failure rates were considered a significant judgement. Due to the migration of loans to Stage 3, as explained below, expected case failure rates are no longer considered to be a significant judgement while time to recovery periods have become a significant judgement.

Case failure rates represent a forward-looking probability assessment of successful case outcomes through court proceedings or out of court settlements. Recovery rates represent the level of interest and capital that is covered by an insurance policy and expected to be recoverable once a case fails. Time to recovery periods represent management's view on timing using weighted probabilities.

Novitas provides funding to individuals who wish to pursue legal cases. The majority of the Novitas portfolio, and therefore provision, relates to civil litigation cases. To protect customers in the event that their case fails, it was a condition of the Novitas Loan agreements that an individual purchased an After the Event ("ATE") insurance policy which covered the loan.

As previously announced, following a strategic review, in July 2021 the group decided to cease permanently the approval of lending to new customers across all of the products offered by Novitas and withdraw from the legal services financing market. Since that time, the Novitas loan book has been in run-off, and the business has

continued to work with solicitors and insurers, with a focus on supporting existing customers and managing the existing book to ensure good customer outcomes, where it is within Novitas' ability to do so.

Over the course of the first half of this financial year, management have reviewed and updated its assumptions for expected case failure rates, expected recovery rates and time to recovery periods to reflect experienced credit performance and ongoing dialogue with customers' insurers. This has included initiating formal legal action against one of the ATE insurers regarding the potential recoverability of funds in relation to failed cases and considering its position in respect of other insurers. As a result, a number of updates have been made to the expected credit loss provision calculation resulting in an increase of £69.9 million to £183.2 million (31 July 2022: £113.3 million). The increase to the expected credit loss provision is net of write offs previously provided for and does not include write offs and costs taken directly to the income statement.

Based on this latest position, the majority of loans in the portfolio have been assessed as credit impaired and migrated to Stage 3, with expected case failure rates increased accordingly. Expected credit losses for the portfolio have been calculated by comparing the gross loan balance to expected cash flows discounted at the original effective interest rate, over an appropriate time to recovery period. In line with IFRS 9, a proportion of the expected credit loss is expected to unwind, over the estimated time to recovery period, to interest income, which reflects the requirement to recognise interest income on Stage 3 loans on a net basis.

At 31 January 2023, a material increase in the expected case failure rate assumptions and decrease in the expected recovery rate assumptions have been recognised and the recoverability of interest on relevant loans has been reassessed. Further detail on the impairment provision is included in note 6.

Given the majority of the portfolio is in Stage 3, the key sources of estimation uncertainty for the portfolio's expected credit loss provision are recovery rates and time to recovery periods. On this basis management have assessed and completed sensitivity analysis when compared to the expected credit loss provision for Novitas of £183.2 million. At 31 January 2023, a 12 month improvement in recovery periods would decrease the expected credit loss provision by £12.5 million, while a 12 month extension in recovery periods would increase it by £10.2 million. Separately, a 10% absolute deterioration or improvement in recovery rates would increase or decrease the expected credit loss provision by £12.9 million.

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

In order to calculate a forward-looking provision, economic scenarios are sourced from Moody's Analytics, which are then used to project potential credit conditions for each portfolio. An overview of these scenarios using key macroeconomic indicators is provided on pages 42 to 44. Benchmarking against other economic providers is carried out to determine that Moody's Analytics scenarios are reasonable. Where this is not the case, management judgement is applied through an adjustment.

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

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

The Credit Risk Management Committee ("CRMC") including the group finance director and group chief risk officer meets monthly to review, and if appropriate, agree changes to the economic scenarios and probability weightings

assigned thereto. The decision is subsequently noted at the Group Risk and Compliance Committee ("GRCC"), which includes the aforementioned roles in addition to the group chief executive officer.

Scenario forecasts deployed in IFRS 9 macroeconomic models are updated on a monthly basis. As at 31 January 2023, the latest baseline scenario forecasts GDP decline by 0.7% in calendar year 2023 and an average Base Rate of 4.4% over the same period. CPI is forecast to be 5.1% in calendar year 2023 in the baseline scenario, with 0.2% forecast in the protracted downside scenario over the same period.

These metrics represent a deterioration across all scenarios compared to 31 July 2022. This reflects continued inflationary pressures, the higher interest rate environment and the cost of living crisis. This also considers the ongoing economic uncertainty associated with Russia's invasion of Ukraine, the resulting increase in energy and food commodity prices, and the exacerbation of global supply-chain disruptions after the pandemic.

Given that the updated forecasts capture the prevailing economic challenges and uncertainty, at 31 January 2023, the scenario weightings were unchanged from 31 July 2022, with 32.5% allocated to the baseline scenario, 30% to the upside scenario and 37.5% across the three downside scenarios.

The tables below show the economic assumptions within each scenario, and the weighting applied to each at 31 January 2023. The metrics below are key UK economic indicators, chosen to describe the economic scenarios. These are the main metrics used to set scenarios which then influence a wide range of additional metrics that are used in expected credit loss models. The first tables show the forecasts of the key metrics for the scenarios utilised for calendar years 2023 and 2024. The subsequent tables show averages and peak to trough ranges for the same key metrics for the scenarios utilised for the five-year period from 2023 to 2027.

These periods have been included as they demonstrate the short-, medium- and long-term outlook for the key macroeconomic indicators which form the fundamental basis of the scenario forecasts. On average, the loan book has a residual maturity of 16 months, with c.98% of loan value having a maturity of five years or less.

	Baseline		**Upside (strong)**		**Downside (mild)**		**Downside (moderate)**		**Downside (protracted)**	
	2023	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**
At 31 January 2023										
UK GDP Growth	(0.7%)	0.9%	1.3%	1.7%	(3.0%)	0.4%	(4.5%)	(1.9%)	(5.3%)	(3.7%)
UK Unemployment	4.1%	4.4%	3.8%	3.7%	4.5%	4.7%	5.3%	7.0%	5.9%	8.2%
HPI Growth	(4.8%)	2.0%	8.6%	5.1%	(11.7%)	1.2%	(15.3%)	(7.4%)	(21.1%)	(11.3%)
BoE Base Rate	4.4%	3.7%	4.2%	3.6%	4.8%	2.2%	5.1%	3.5%	5.4%	2.8%
Consumer Price Index	5.1%	2.7%	4.8%	2.7%	3.7%	2.0%	2.3%	1.4%	0.2%	0.5%
Weighting	**32.5%**		**30%**		**20%**		**10.5%**		**7%**	

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

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

	Five-year average (calendar year 2023-2027)				
	Baseline	**Upside (strong)**	**Downside (mild)**	**Downside (moderate)**	**Downside (protracted)**
At 31 January 2023					
UK GDP Growth	1.0%	1.5%	0.6%	(0.1%)	(0.3%)
UK Unemployment	4.4%	3.8%	4.6%	6.6%	7.5%
HPI Growth	1.1%	2.4%	(0.6%)	(2.1%)	(4.6%)
BoE Base Rate	3.0%	2.9%	2.5%	2.2%	1.8%
Consumer Price Index	2.9%	2.8%	2.5%	2.0%	1.2%
Weighting	**32.5%**	**30%**	**20%**	**10.5%**	**7%**

	Five-year average (calendar year 2022-2026)				
	Baseline	Upside (strong)	Downside (mild)	Downside (moderate)	Downside (protracted)
At 31 July 2022					
UK GDP Growth	1.2%	1.7%	0.8%	0.2%	(0.1%)
UK Unemployment	4.4%	3.8%	4.6%	6.4%	7.2%
HPI Growth[1]	3.0%	4.7%	1.4%	(0.3%)	(2.7%)
BoE Base Rate	2.0%	2.0%	1.5%	0.9%	0.6%
Consumer Price Index	3.8%	3.8%	3.7%	3.6%	3.4%
Weighting	32.5%	30%	20%	10.5%	7%

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

The tables below provide a summary for the five-year period (calendar year 2023 – 2027) of the peak to trough range of values of the key UK economic variables used within the economic scenarios at 31 January 2023 and 31 July 2022:

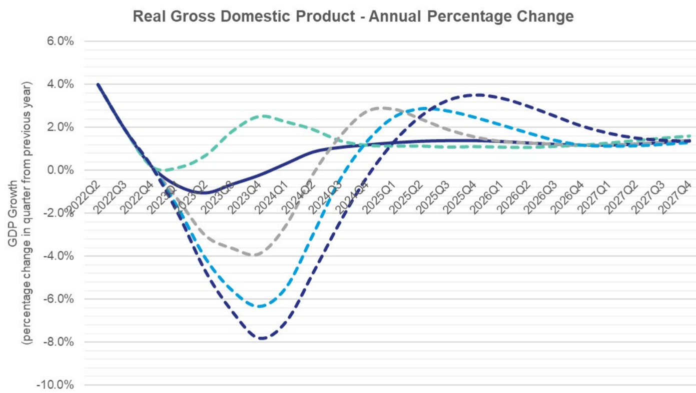
	Baseline		**Upside (strong)**		**Downside (mild)**		**Downside (moderate)**		**Downside (protracted)**	
	Peak	**Trough**	**Peak**	**Trough**	**Peak**	**Trough**	**Peak**	**Trough**	**Peak**	**Trough**
At 31 January 2023										
UK GDP Growth	5.0%	(0.5%)	7.8%	0.6%	2.8%	(3.9%)	(0.3%)	(6.7%)	(1.6%)	(8.8%)
UK Unemployment	4.6%	4.0%	4.2%	3.6%	4.8%	4.2%	7.2%	4.2%	8.4%	4.5%
HPI Growth	5.5%	(4.8%)	16.5%	(0.2%)	(2.9%)	(12.6%)	(3.6%)	(21.5%)	(4.4%)	(29.9%)
BoE Base Rate	4.5%	2.3%	4.3%	2.2%	5.0%	0.9%	5.3%	0.3%	5.5%	0.1%
Consumer Price Index	9.2%	2.1%	8.9%	2.1%	8.3%	2.0%	8.2%	1.4%	7.9%	(0.5%)
Weighting	**32.5%**		**30%**		**20%**		**10.5%**		**7%**	

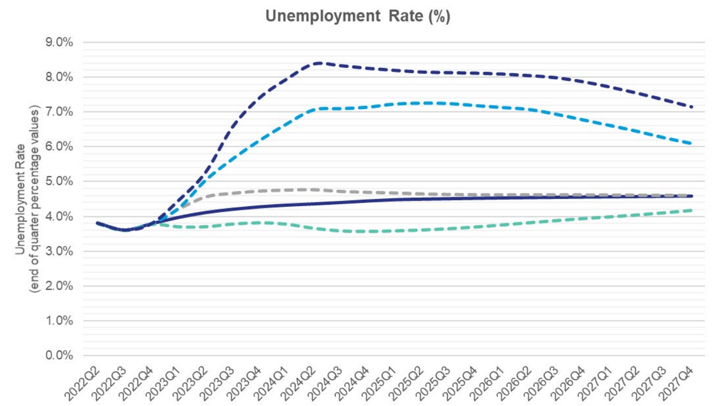
	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough
At 31 July 2022										
UK GDP Growth	6.3%	0.4%	9.0%	0.4%	4.1%	(2.6%)	1.0%	(5.1%)	0.8%	(6.9%)
UK Unemployment	4.8%	3.7%	4.2%	3.5%	4.8%	3.7%	7.4%	3.7%	8.4%	3.7%
HPI Growth[1]	16.2%	3.4%	31.1%	3.4%	7.0%	(3.0%)	4.1%	(10.1%)	4.1%	(19.2%)
BoE Base Rate	2.5%	0.5%	2.5%	0.5%	2.5%	0.1%	2.4%	0.1%	2.6%	0.1%
Consumer Price Index	10.7%	2.0%	10.3%	2.0%	12.3%	0.4%	14.2%	0.1%	17.1%	(2.2%)
Weighting	32.5%		30%		20%		10.5%		7%	

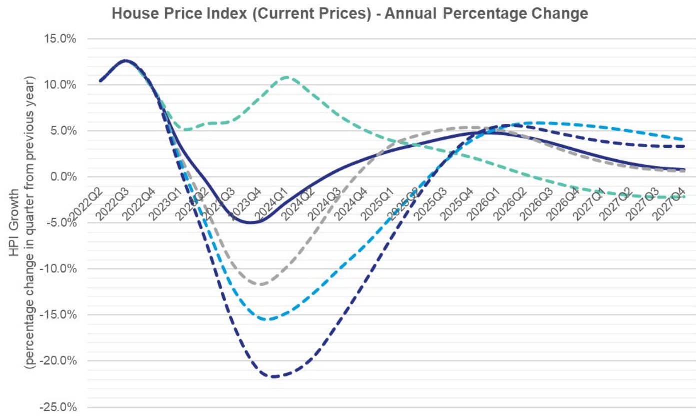
1 The five-year forecast and the peak to trough values for HPI have been re-presented on a nominal basis at 31 July 2022.

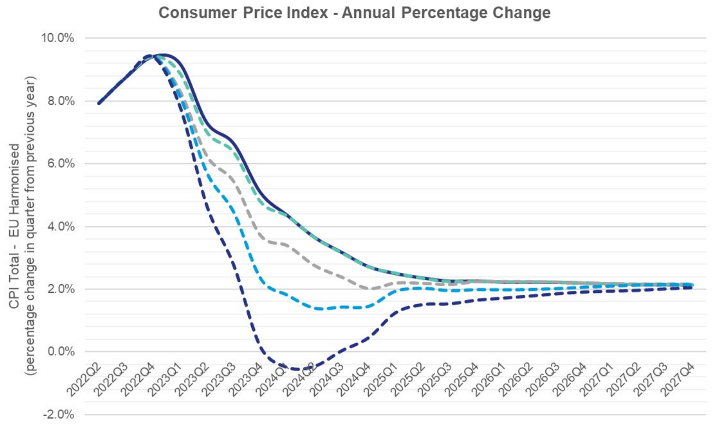
Notes:
UK GDP Growth: Maximum and minimum quarterly GDP as a percentage change from start of period (%)
UK Unemployment: Maximum and minimum unemployment rate (%)
UK HPI Growth: Maximum and minimum average nominal house price as a percentage change from start of period (%)
BoE Base Rate: Maximum and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

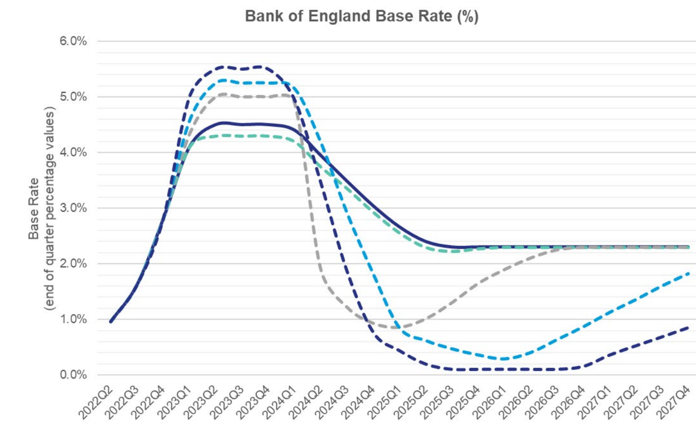
The below charts represent the quarterly forecast data included in the above tables incorporating actual metrics up to 31 January 2023. The solid line shows the baseline scenario, while the dashed lines represent the various upside and downside scenarios.











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

- For the majority of our portfolios, the modelled expected credit loss provision has been recalculated under the upside strong and downside protracted scenarios described above, applying a 100% weighting to each scenario in turn. The change in provision requirement is driven by the movement in risk metrics under each scenario and resulting impact on stage allocation.

- Expected credit losses based on a simplified approach, which do not utilise a macroeconomic model and require expert judgement, are excluded from the sensitivity analysis.

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

  – In Commercial, the sensitivity analysis excludes Novitas, which is subject to a separate approach, as it is deemed more sensitive to credit factors than macroeconomic factors.

- In Retail, the sensitivity analysis does not apply further stress to the expected credit loss provision on loans and advances to customers in Stage 3, because the measurement of expected credit losses is considered more sensitive to credit factors specific to the borrower than macroeconomic scenarios.

- In Property, the sensitivity analysis excludes individually assessed provisions and certain sub portfolios which are deemed more sensitive to credit factors than the macroeconomic scenarios.

- On application of the above considerations, 70% of the Bank's non-Novitas expected credit loss provisions are in scope of the sensitivity analysis.

Based on the above analysis, at 31 January 2023, application of 100% weighting to the upside strong scenario would decrease the expected credit loss by £16.4 million whilst application to the downside protracted scenario would increase the expected credit loss by £34.3 million driven by the aforementioned changes in risk metrics and stage allocation of the portfolios.

When performing sensitivity analysis there is a high degree of estimation uncertainty. On this basis, 100% weighted expected credit loss provision presented for the upside and downside scenarios should not be taken to represent the lower or upper range of possible and actual expected credit loss outcomes. The recalculated expected credit loss provision for each of the scenarios should be read in the context of the sensitivity analysis as a whole and in conjunction with the narrative disclosures provided in note 6. The modelled impact presented is based on gross loans and advances to customers at 31 January 2023; it does not incorporate future changes relating to performance, growth or credit risk. In addition, while sensitivity ranges across periods do provide an indication of general sensitivity levels, given the change in the macroeconomic conditions and underlying modelled provision, direct comparison between the sensitivity results at 31 January 2023 and 31 July 2022 is not appropriate.

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

2. Segmental analysis

The directors manage the group by class of business and we present the segmental analysis on that basis. The group's activities are presented in five (2022: five) operating segments: Commercial, Retail, Property, Asset Management and Securities (which comprises Winterflood only).

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

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

Summary Income Statement for the six months ended 31 January 2023

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Net interest income	**130.9**	**107.2**	**57.3**	**1.6**	**-**	**0.4**	**297.4**
Non-interest income	**51.4**	**16.0**	**1.1**	**69.4**	**39.0**	**-**	**176.9**
Operating income	**182.3**	**123.2**	**58.4**	**71.0**	**39.0**	**0.4**	**474.3**
Administrative expenses	**(81.8)**	**(68.4)**	**(12.6)**	**(59.8)**	**(34.6)**	**(12.7)**	**(269.9)**
Depreciation and amortisation	**(11.1)**	**(10.7)**	**(2.1)**	**(2.6)**	**(2.0)**	**(1.1)**	**(29.6)**
Impairment losses on financial assets	**(122.5)**	**(29.4)**	**(10.3)**	**-**	**-**	**-**	**(162.2)**
Total adjusted operating expenses[1]	**(215.4)**	**(108.5)**	**(25.0)**	**(62.4)**	**(36.6)**	**(13.8)**	**(461.7)**
Adjusted operating profit/(loss)[1]	**(33.1)**	**14.7**	**33.4**	**8.6**	**2.4**	**(13.4)**	**12.6**
Amortisation of intangible assets on acquisition	**(0.1)**	**-**	**-**	**(0.8)**	**-**	**-**	**(0.9)**
Operating profit/(loss) before tax	**(33.2)**	**14.7**	**33.4**	**7.8**	**2.4**	**(13.4)**	**11.7**
External operating income/(expense)	**221.4**	**146.7**	**77.0**	**70.7**	**39.0**	**(80.5)**	**474.3**
Inter segment operating (expense)/income	**(39.1)**	**(23.5)**	**(18.6)**	**0.3**	**-**	**80.9**	**-**
Segment operating income	**182.3**	**123.2**	**58.4**	**71.0**	**39.0**	**0.4**	**474.3**

1 Adjusted operating expenses and adjusted operating profit/(loss) are stated before amortisation of intangible assets on acquisition and tax.

The Commercial operating segment above includes Novitas, which ceased lending to new customers in July 2021 following a strategic review. In the period ended 31 January 2023, Novitas recorded an operating loss of £104.9 million (six months ended 31 January 2022: loss of £30.7 million; year ended 31 July 2022: loss of £39.3 million), driven by impairment losses of £114.6 million (six months ended 31 January 2022: £39.2 million; year ended 31 July 2022: £60.7 million). Novitas' income for the period was £14.0 million (six months ended 31 January 2022: £17.9 million; year ended 31 July 2022: £36.0 million), and expenses were £4.3 million (six months ended 31 January 2022: £9.4 million; year ended 31 July 2022: £14.6 million).

Balance Sheet Information at 31 January 2023

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
Total assets[1]	**4,550.3**	**2,970.3**	**1,520.4**	**167.3**	**801.1**	**2,883.6**	**12,893.0**
Total liabilities	**-**	**-**	**-**	**58.8**	**709.0**	**10,519.1**	**11,286.9**

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only. The Commercial operating segment includes the net loan book of Novitas, which was £61.9 million at 31 January 2023. See note 6 for more detail on the Novitas loan book and associated impairment provision.

2 Balance sheet includes £2,880.5 million assets and £10,585.1 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

Equity is allocated across the group as shown below. Banking division equity, which is managed as a whole rather than on a segmental basis, reflects loan book and operating lease assets of £9,041.0 million, in addition to assets and liabilities of £2,880.5 million and £10,585.1 million respectively primarily comprising treasury balances which are included within the Group column above.

	Banking £ million	**Asset Management £ million**	**Securities £ million**	**Group £ million**	**Total £ million**
Equity	**1,336.4**	**108.5**	**92.1**	**69.1**	**1,606.1**

Summary Income Statement for the six months ended 31 January 2022

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Net interest income/(expense)	127.9	106.9	58.0	(0.1)	(0.7)	(0.2)	291.8
Non-interest income	39.9	12.8	0.2	76.7	50.2	-	179.8
Operating income/(expense)	167.8	119.7	58.2	76.6	49.5	(0.2)	471.6
Administrative expenses	(78.0)	(61.3)	(14.1)	(59.8)	(38.7)	(12.2)	(264.1)
Depreciation and amortisation	(11.1)	(10.6)	(2.1)	(2.3)	(2.0)	(1.3)	(29.4)
Impairment losses on financial assets	(41.0)	(5.3)	(2.0)	-	-	-	(48.3)
Total adjusted operating expenses[1]	(130.1)	(77.2)	(18.2)	(62.1)	(40.7)	(13.5)	(341.8)
Adjusted operating profit/(loss)[1]	**37.7**	**42.5**	**40.0**	**14.5**	**8.8**	**(13.7)**	**129.8**
Amortisation of intangible assets on acquisition	(0.1)	-	-	(0.8)	-	-	(0.9)
Operating profit/(loss) before tax	**37.6**	**42.5**	**40.0**	**13.7**	**8.8**	**(13.7)**	**128.9**
External operating income/(expense)	190.5	134.5	65.0	76.6	49.5	(44.5)	471.6
Inter segment operating (expense)/income	(22.7)	(14.8)	(6.8)	-	-	44.3	-
Segment operating income/(expense)	167.8	119.7	58.2	76.6	49.5	(0.2)	471.6

1 Adjusted operating expenses and adjusted operating profit/(loss) are stated before amortisation of intangible assets on acquisition and tax.

Summary Income Statement for the year ended 31 July 2022

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

1 Adjusted operating expenses and adjusted operating profit/(loss) are stated before amortisation of intangible assets on acquisition and tax.

Balance Sheet Information at 31 July 2022

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

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only. The Commercial operating segment includes the net loan book of Novitas, which was £159.4 million at 31 July 2022. See note 6 for more detail on the Novitas loan book and associated impairment provision.

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

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

1 Equity of the Banking division reflects loan book and operating lease assets of £9,098.9 million, in addition to assets and liabilities of £2,425.0 million and £10,181.9 million respectively primarily comprising treasury balances which are included within the Group column above.

3. Taxation

	Six months ended 31 January		Year ended 31 July
	2023	2022	2022
	£ million	£ million	£ million
Tax (credited)/charged to the income statement			
Current tax:			
UK corporation tax	**(2.1)**	32.1	53.7
Foreign tax	**0.8**	0.8	1.9
Adjustments in respect of previous periods	**-**	0.1	(2.8)
	(1.3)	33.0	52.8
Deferred tax:			
Deferred tax charge for the current period	**4.6**	0.9	11.8
Adjustments in respect of previous periods	**-**	(0.1)	3.0
	3.3	33.8	67.6
Tax on items not (credited)/charged to the income statement			
Current tax relating to:			
Share-based payments	**-**	(0.1)	-
Deferred tax relating to:			
Cash flow hedging	**5.2**	5.4	8.6
Defined benefit pension scheme	**(1.5)**	0.5	(0.3)
Financial instruments classified at fair value through other comprehensive income	**(1.3)**	(0.3)	(0.4)
Share-based payments	**0.3**	0.6	1.1
Currency translation losses	**-**	-	(0.3)
	2.7	6.1	8.7
Reconciliation to tax expense			
UK corporation tax for the period at 21.0% (six months ended 31 January 2022: 19.0%; year ended 31 July 2022: 19.0%) on operating profit	**2.5**	24.5	44.2
Effect of different tax rates in other jurisdictions	**-**	(0.2)	(0.3)
Disallowable items and other permanent differences	**0.2**	0.6	0.9
Banking surcharge	**0.6**	8.8	14.9
Deferred tax impact of decreased tax rates	**-**	0.1	7.7
Prior year tax provision	**-**	-	0.2
	3.3	33.8	67.6

The effective tax rate for the period is 28.2% (six months ended 31 January 2022: 26.2%; year ended 31 July 2022: 29.0%), 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 21.0% (six months ended 31 January 2022: 19.0%; year ended 31 July 2022: 19.0%). However, an additional 6.3% surcharge applies to the profits of banking companies as defined in legislation (and only above a threshold amount). The effective tax rate is above the UK corporation tax rate primarily due to the surcharge applying to the majority of the group's profits.

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
	2023	2022	2022
Basic	**5.6p**	63.5p	110.4p
Diluted	**5.6p**	63.0p	109.9p
Adjusted basic[1]	**6.1p**	64.0p	111.5p
Adjusted diluted[1]	**6.1p**	63.5p	111.0p

1 Excludes amortisation of intangible assets on acquisition and its tax effects.

	Six months ended 31 January		Year ended 31 July
	2023	2022	2022
	£ million	£ million	£ million
Profit attributable to shareholders	**8.4**	95.1	165.2
Adjustments:			
Amortisation of intangible assets on acquisition	**0.9**	0.9	2.0
Tax effect of adjustment	**(0.2)**	(0.2)	(0.4)
Adjusted profit attributable to shareholders	**9.1**	95.8	166.8

	Six months ended 31 January		Year ended 31 July
	2023	2022	2022
	million	million	million
Average number of shares			
Basic weighted	**149.4**	149.7	149.6
Effect of dilutive share options and awards	**0.7**	1.2	0.7
Diluted weighted	**150.1**	150.9	150.3

5. Dividends

	Six months ended 31 January		Year ended 31 July
	2023	2022	2022
	£ million	£ million	£ million
For each ordinary share			
Interim dividend for previous financial year paid in April 2022: 22.0p (April 2021: 18.0p)	**-**	-	32.8
Final dividend for previous financial year paid in November 2022: 44.0p (November 2021: 42.0p)	**65.6**	62.7	62.7

An interim dividend relating to the six months ended 31 January 2023 of 22.5p, amounting to an estimated £33.5 million, is declared. This interim dividend, which is due to be paid on 26 April 2023 to shareholders on the register at 24 March 2023, is not reflected in these condensed consolidated half year financial statements.

6. Loans and advances to customers

(a) Maturity analysis of loans and advances to customers

The following table sets out the maturity analysis of gross loans and advances to customers. At 31 January 2023 loans and advances to customers with a maturity of two years or less was £6,548.6 million (31 July 2022: £6,733.0 million) representing 71.4% (31 July 2022: 73.6%) of total loans and advances to customers:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total gross loans and advances to customers £ million	Impairment provisions £ million	Total net loans and advances to customers £ million
At 31 January 2023	**69.5**	**2,372.9**	**2,389.8**	**1,716.4**	**2,447.2**	**181.1**	**9,176.9**	**(392.2)**	**8,784.7**
At 31 July 2022	141.3	2,354.2	2,369.0	1,868.5	2,235.0	176.5	9,144.5	(285.6)	8,858.9

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

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

		Stage 2				
At 31 January 2023	**Stage 1 £ million**	**Less than 30 days past due £ million**	**Greater than or equal to 30 days past due £ million**	**Total £ million**	**Stage 3 £ million**	**Total £ million**
Gross loans and advances to customers						
Commercial	**3,398.0**	**788.2**	**31.0**	**819.2**	**331.2**	**4,548.4**
Of which: Novitas	2.0	1.0	-	1.0	242.1	245.1
Retail	**2,790.2**	**183.4**	**9.9**	**193.3**	**78.0**	**3,061.5**
Property	**1,291.7**	**70.0**	**52.2**	**122.2**	**153.1**	**1,567.0**
Total	**7,479.9**	**1,041.6**	**93.1**	**1,134.7**	**562.3**	**9,176.9**
Impairment provisions						
Commercial	**21.6**	**15.9**	**3.3**	**19.2**	**213.6**	**254.4**
Of which: Novitas	0.2	0.2	-	0.2	182.8	183.2
Retail	**27.3**	**11.4**	**2.8**	**14.2**	**49.7**	**91.2**
Property	**5.9**	**5.4**	**0.2**	**5.6**	**35.1**	**46.6**
Total	**54.8**	**32.7**	**6.3**	**39.0**	**298.4**	**392.2**
Provision coverage ratio						
Commercial	**0.6%**	**2.0%**	**10.6%**	**2.3%**	**64.5%**	**5.6%**
Within which: Novitas	10.0%	20.0%	-	20.0%	75.5%	74.7%
Retail	**1.0%**	**6.2%**	**28.3%**	**7.3%**	**63.7%**	**3.0%**
Property	**0.5%**	**7.7%**	**0.4%**	**4.6%**	**22.9%**	**3.0%**
Total	**0.7%**	**3.1%**	**6.8%**	**3.4%**	**53.1%**	**4.3%**

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

Stage allocations of loans and advances to customers were applied in line with the definitions set out on page 159 of the Annual Report 2022.

Over the course of the first half of this financial year, the staging profile of loans and advances to customers has shown modest deterioration, with some migration from Stage 1 to Stages 2 and 3. At 31 January 2023, 81.5% (31 July 2022: 83.4%) of loans and advances to customers were Stage 1, with the decrease primarily as a result of weaker macroeconomic metrics prompting an increased volume of accounts to migrate to Stage 2. Stage 2 loans and advances to customers decreased to 12.4% (31 July 2022: 12.7%), where migrations to Stage 3 in Novitas offset other Bank-wide movements out of Stage 1. The remaining 6.1% (31 July 2022: 3.9%) of loans and advances to customers was deemed to be credit impaired and classified as Stage 3, with updated Novitas assumptions being the main driver.

Overall impairment provision increased to £392.2 million (31 July 2022: £285.6 million), following regular model runs and reviews of staging and provision coverage for individual loans and portfolios. The movement in impairment provision primarily reflected updates in Novitas, including a material increase in the expected case failure rate assumptions, a decrease in the expected recovery rate assumptions and the reassessment of the recoverability of interest on relevant loans. Excluding Novitas, the increase in impairment provision was primarily driven by weaker macroeconomic variables and outlook across the Banking division, and a rise in arrears in Motor Finance.

As a result, there has been an increase in provision coverage to 4.3% (31 July 2022: 3.1%).

Provision Coverage Analysis by Business

In Commercial, the impairment coverage ratio increased to 5.6% (31 July 2022: 4.0%), primarily driven by increased provision levels in Novitas. Excluding Novitas, the Commercial impairment coverage ratio increased to 1.7% (31 July 2022: 1.6%) reflecting additional provisions to take into account weakening macroeconomic variables and outlook.

In Retail, the impairment coverage ratio increased to 3.0% (31 July 2022: 2.2%) driven by a rise in arrears in the Motor portfolio reflecting increased pressure from the current economic conditions on our customers and in line with comparable trends observed across the industry, alongside the weakening of macroeconomic variables and outlook.

In Property the impairment coverage ratio increased to 3.0% (31 July 2022: 2.4%) as we recognised additional provisions to reflect weakening macroeconomic variables and outlook, in particular lower projected house prices, in addition to increased individually assessed provisions on Stage 3 loans.

(c) Adjustments

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

At 31 January 2023, £11.0 million of the expected credit loss provision was attributable to adjustments (31 July 2022: £(2.8) million).

The level of adjustments has increased during the first half of the financial year, primarily as a result of applying additional adjustments to account for macroeconomic risks not fully captured in forward-looking modelled expected credit losses. Adjustments have therefore been applied to reflect the current level of macroeconomic uncertainty more adequately in our expected credit loss provision.

This approach has incorporated our experience, knowledge of our customers, the sectors in which they operate, and the assets which we finance. We will continue to monitor the use of, or need for, adjustments as new information emerges.

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

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

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

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

Repayments relating to loans which transferred between stages during the period are presented within the transfers between stages lines. All other repayments are presented in a separate line.

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

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

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers				
At 1 August 2022	**7,627.0**	**1,158.9**	**358.6**	**9,144.5**
New financial assets originated	**3,147.3**	**-**	**-**	**3,147.3**
Transfers to Stage 1	**133.7**	**(163.7)**	**(2.8)**	**(32.8)**
Transfers to Stage 2	**(661.4)**	**569.7**	**(7.4)**	**(99.1)**
Transfers to Stage 3	**(174.7)**	**(169.0)**	**315.0**	**(28.7)**
Net transfers between stages and repayments[1]	**(702.4)**	**237.0**	**304.8**	**(160.6)**
Repayments while stage remained unchanged and final repayments	**(2,567.3)**	**(275.9)**	**(58.1)**	**(2,901.3)**
Changes to model methodologies	**(24.6)**	**14.9**	**9.7**	**-**
Write offs	**(0.1)**	**(0.2)**	**(52.7)**	**(53.0)**
At 31 January 2023	**7,479.9**	**1,134.7**	**562.3**	**9,176.9**

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

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

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 1 August 2022	**50.3**	**78.3**	**157.0**	**285.6**
New financial assets originated	**21.1**	**-**	**-**	**21.1**
Transfers to Stage 1	**0.9**	**(2.9)**	**(0.5)**	**(2.5)**
Transfers to Stage 2	**(4.6)**	**21.6**	**(4.4)**	**12.6**
Transfers to Stage 3	**(10.1)**	**(55.4)**	**184.9**	**119.4**
Net remeasurement of expected credit losses arising from transfers between stages and repayments[1]	**(13.8)**	**(36.7)**	**180.0**	**129.5**
Repayments and ECL movements while stage remained unchanged and final repayments	**(1.7)**	**(3.0)**	**(14.4)**	**(19.1)**
Changes to model methodologies	**(1.1)**	**0.5**	**0.1**	**(0.5)**
Charge to the income statement	**4.5**	**(39.2)**	**165.7**	**131.0**
Write offs	**-**	**(0.1)**	**(24.3)**	**(24.4)**
At 31 January 2023	**54.8**	**39.0**	**298.4**	**392.2**

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

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

	Six months ended 31 January		Year ended 31 July
	2023	2022	2022
	£ million	£ million	£ million
Impairment losses relating to loans and advances to customers:			
Charge to income statement arising from movement in impairment provisions	**131.0**	36.4	93.4
Amounts written off directly to income statement, net of recoveries and other costs	**31.4**	10.7	8.5
	162.4	47.1	101.9
Impairment (credit)/losses relating to other financial assets	**(0.2)**	1.2	1.4
Impairment losses on financial assets recognised in income statement	**162.2**	48.3	103.3

Impairment losses on financial assets of £162.2 million include £114.6 million in relation to Novitas (six months ended 31 January 2022: £39.2 million; year ended 31 July 2022: £60.7 million).

7. Debt securities

	Fair value through profit or loss £ million	**Fair value through other comprehensive income £ million**	**Amortised cost £ million**	**Total £ million**
Long trading positions in debt securities	**11.0**	**-**	**-**	**11.0**
Certificates of deposit	**-**	**-**	**50.6**	**50.6**
Sovereign and central bank debt	**-**	**201.1**	**-**	**201.1**
At 31 January 2023	**11.0**	**201.1**	**50.6**	**262.7**

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

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

	Six months ended 31 January 2023 £ million	Year ended 31 July 2022 £ million
Sovereign and central bank debt at beginning of period	**415.4**	192.5
Additions	**269.7**	335.3
Disposals	**(169.7)**	-
Redemptions	**(305.0)**	(80.0)
Currency translation difference	**2.3**	(1.2)
Changes in fair value	**(11.6)**	(31.2)
Sovereign and central bank debt at end of period	**201.1**	415.4

8. Equity shares

	31 January 2023 £ million	31 July 2022 £ million
Long trading positions	**26.0**	27.1
Other equity shares	**1.3**	1.3
	27.3	28.4

9. Goodwill and other intangible assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Total £ million
Cost				
At 1 August 2021	142.9	272.8	51.0	466.7
Additions	-	24.2	-	24.2
Disposals and write offs	(0.1)	(4.2)	-	(4.3)
At 31 January 2022	142.8	292.8	51.0	486.6
Additions	-	31.8	-	31.8
Disposals and write offs	(0.2)	(25.1)	-	(25.3)
At 31 July 2022	142.6	299.5	51.0	493.1
Additions	-	27.1	-	27.1
Disposals and write offs	(0.1)	(1.7)	(0.6)	(2.4)
At 31 January 2023	**142.5**	**324.9**	**50.4**	**517.8**
Amortisation and impairment				
At 1 August 2021	47.9	142.4	43.8	234.1
Amortisation and impairment charge for the period	-	18.3	0.9	19.2
Disposals and write offs	-	(4.2)	-	(4.2)
At 31 January 2022	47.9	156.5	44.7	249.1
Amortisation and impairment charge for the period	-	16.3	1.1	17.4
Disposals and write offs	-	(25.4)	-	(25.4)
At 31 July 2022	47.9	147.4	45.8	241.1
Amortisation and impairment charge for the period	-	17.3	0.9	18.2
Disposals and write offs	-	(1.1)	(0.6)	(1.7)
At 31 January 2023	**47.9**	**163.6**	**46.1**	**257.6**
Net book value at 31 January 2023	**94.6**	**161.3**	**4.3**	**260.2**
Net book value at 31 July 2022	94.7	152.1	5.2	252.0
Net book value at 31 January 2022	94.9	136.3	6.3	237.5
Net book value at 1 August 2021	95.0	130.4	7.2	232.6

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

In the six months ended 31 January 2023, £0.9 million (six months ended 31 January 2022: £0.9 million; year ended 31 July 2022: £2.0 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £17.3 million (six months ended 31 January 2022: £18.3 million; year ended 31 July 2022: £34.6 million) of the amortisation charge is included in administrative expenses shown in the consolidated income statement.

10. Property, plant and equipment

	Leasehold property £ million	Fixtures, fittings and equipment £ million	Assets held under operating leases £ million	Motor vehicles £ million	Right of use assets £ million	Total £ million
Cost						
At 1 August 2021	25.2	74.8	360.7	0.2	71.7	532.6
Additions	0.7	2.9	33.7	-	6.4	43.7
Disposals and write offs	(3.9)	(4.3)	(12.2)	-	(5.2)	(25.6)
At 31 January 2022	22.0	73.4	382.2	0.2	72.9	550.7
Additions	(0.1)	1.4	34.1	-	7.2	42.6
Disposals and write offs	(1.0)	(12.2)	(18.1)	-	(1.6)	(32.9)
At 31 July 2022	20.9	62.6	398.2	0.2	78.5	560.4
Additions	-	5.1	41.7	-	5.7	52.5
Disposals and write offs	(0.1)	(1.2)	(11.7)	-	(3.3)	(16.3)
At 31 January 2023	**20.8**	**66.5**	**428.2**	**0.2**	**80.9**	**596.6**
Depreciation and impairment						
At 1 August 2021	15.7	47.5	137.8	0.1	21.6	222.7
Depreciation and impairment charge for the period	1.1	3.6	20.6	0.1	6.3	31.7
Disposals and write offs	(3.8)	(4.1)	(6.1)	-	(4.0)	(18.0)
At 31 January 2022	13.0	47.0	152.3	0.2	23.9	236.4
Depreciation and impairment charge for the period	1.1	4.0	20.0	-	6.9	32.0
Disposals and write offs	(1.1)	(14.1)	(14.1)	-	(1.2)	(30.5)
At 31 July 2022	13.0	36.9	158.2	0.2	29.6	237.9
Depreciation and impairment charge for the period	1.0	4.2	21.2	-	7.1	33.5
Disposals and write offs	(0.1)	(1.4)	(7.5)	-	(1.8)	(10.8)
At 31 January 2023	**13.9**	**39.7**	**171.9**	**0.2**	**34.9**	**260.6**
Net book value at 31 January 2023	**6.9**	**26.8**	**256.3**	**-**	**46.0**	**336.0**
Net book value at 31 July 2022	7.9	25.7	240.0	-	48.9	322.5
Net book value at 31 January 2022	9.0	26.4	229.9	-	49.0	314.3
Net book value at 1 August 2021	9.5	27.3	222.9	0.1	50.1	309.9

11. Settlement balances and short positions

	31 January 2023 £ million	31 July 2022 £ million
Settlement balances	**608.3**	780.7
Short positions held for trading:		
Debt securities	**4.2**	7.5
Equity shares	**6.5**	7.9
	10.7	15.4
	619.0	796.1

12. Financial liabilities

The contractual maturity of financial liabilities, which largely relate to treasury funding balances, 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	**9.5**	**55.3**	**94.8**	**-**	**-**	**-**	**159.6**
Deposits by customers	**134.6**	**1,678.2**	**3,771.5**	**1,168.9**	**500.5**	**-**	**7,253.7**
Loans and overdrafts from banks	**8.5**	**44.7**	**-**	**490.0**	**110.0**	**-**	**653.2**
Debt securities in issue	**-**	**269.0**	**717.8**	**225.0**	**472.4**	**310.7**	**1,994.9**
Subordinated loan capital[1]	**-**	**1.6**	**-**	**-**	**-**	**177.8**	**179.4**
At 31 January 2023	**152.6**	**2,048.8**	**4,584.1**	**1,883.9**	**1,082.9**	**488.5**	**10,240.8**

1 Comprises issuances of £200.0 million with a contractual maturity date of 2031 and optional prepayment date of 2026.

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
Deposits by banks	6.1	52.0	102.4	-	-	-	160.5
Deposits by customers	120.9	1,645.2	3,615.6	1,058.8	329.9	-	6,770.4
Loans and overdrafts from banks	12.1	10.7	-	228.0	371.9	-	622.7
Debt securities in issue	-	26.7	855.3	249.4	567.0	362.5	2,060.9
Subordinated loan capital[1]	-	1.6	-	-	-	184.9	186.5
At 31 July 2022	139.1	1,736.2	4,573.3	1,536.2	1,268.8	547.4	9,801.0

1 Comprises issuances of £200.0 million with a contractual maturity date of 2031 and optional prepayment date of 2026.

Assets pledged and received as collateral
The group pledges assets for repurchase agreements and securities borrowing agreements which are generally conducted under terms that are customary to standard borrowing contracts.

At 31 January 2023, the group was a participant of the Bank of England's Term Funding Scheme with Additional Incentives for SMEs ("TFSME"). Under this scheme, asset finance loan receivables of £930.7 million and retained notes relating to Motor Finance loan receivables of £107.8 million were positioned as collateral with the Bank of England, against which £600.0 million of cash was drawn.

At 31 July 2022, under the same scheme, in addition to asset finance loan receivables of £626.1 million and retained notes relating to Motor Finance loan receivables of £24.3 million, UK gilts with a market value of £72.6 million and UK T-Bills with a market value of £144.3 million were positioned as collateral with the Bank of England, against which £600.0 million of cash was drawn.

The term of these transactions is four years from the date of each drawdown but the group may choose to repay earlier at its discretion. The risks and rewards of the loan receivables remain with the group and continue to be recognised in loans and advances to customers on the consolidated balance sheet.

The group has securitised without recourse and restrictions £1,521.1 million (31 July 2022: £1,626.8 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £1,112.0 million (31 July 2022: £1,156.0 million restated). This includes the £107.8 million (31 July 2022: £24.3 million) retained notes positioned as collateral with the Bank of England. As the group has retained exposure to substantially all the credit risk and rewards of the residual benefit of the underlying assets it continues to recognise these assets in loans and advances to customers in its consolidated balance sheet.

13. Capital

The table below summarises the composition of regulatory capital and Pillar 1 risk weighted assets at those financial period ends. The information presented in this note is outside the scope of the independent review performed by PricewaterhouseCoopers LLP.

	31 January 2023 £ million	31 July 2022 £ million
Common equity tier 1 ("CET1") capital		
Called up share capital	**38.0**	38.0
Retained earnings[1]	**1,568.1**	1,628.4
Other reserves recognised for CET1 capital	**6.6**	10.0
Regulatory adjustments to CET1 capital		
Intangible assets, net of associated deferred tax liabilities	**(259.1)**	(250.7)
Foreseeable dividend[2]	**(33.5)**	(65.6)
Investment in own shares	**(41.8)**	(40.6)
Pension asset, net of associated deferred tax liabilities	**(1.1)**	(5.3)
Prudent valuation adjustment	**(0.3)**	(0.5)
Insufficient coverage for non-performing exposures	**(0.2)**	-
IFRS 9 transitional arrangements[3]	**34.0**	83.0
CET1 capital	**1,310.7**	1,396.7
Tier 2 capital – subordinated debt	**200.0**	200.0
Total regulatory capital[4]	**1,510.7**	1,596.7
Risk weighted assets (notional)[4]		
Credit and counterparty risk	**8,191.8**	8,389.0
Operational risk[5]	**1,085.8**	1,085.8
Market risk[5]	**105.7**	116.5
	9,383.3	9,591.3
CET1 capital ratio[4]	**14.0%**	14.6%
Total capital ratio[4]	**16.1%**	16.6%

1 Retained earnings for the period ended 31 January 2023 include all profits (both verified and unverified) for the six month period.

2 For 31 January 2023 the foreseeable dividend was determined as the proposed interim dividend. For 31 July 2022 a foreseeable dividend was determined as the proposed final dividend.

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

4 Shown after applying IFRS 9 transitional arrangements and the CRR transitional and qualifying own funds arrangements. At 31 January 2023 the fully loaded CET1 capital ratio is 13.7% (31 July 2022: 13.8%) and total capital ratio is 15.8% (31 July 2022: 15.9%).

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

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

	31 January 2023 £ million	31 July 2022 £ million
Equity	**1,606.1**	1,657.5
Regulatory adjustments to CET1 capital:		
Intangible assets, net of associated deferred tax liabilities	**(259.1)**	(250.7)
Foreseeable dividend[1]	**(33.5)**	(65.6)
IFRS 9 transitional arrangements	**34.0**	83.0
Pension asset, net of associated deferred tax liabilities	**(1.1)**	(5.3)
Prudent valuation adjustment	**(0.3)**	(0.5)
Insufficient coverage for non-performing exposures	**(0.2)**	-
Other reserves not recognised for CET1 capital:		
Cash flow hedging reserve	**(35.2)**	(21.7)
CET1 capital	**1,310.7**	1,396.7

1 For 31 January 2023 the foreseeable dividend was determined as the proposed interim dividend. For 31 July 2022 a foreseeable dividend was determined as the proposed final dividend.

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

	Six months ended 31 January		Year ended 31 July
	2023 £ million	2022 £ million	2022 £ million
CET1 capital at beginning of period	**1,396.7**	1,439.3	1,439.3
Profit in the period attributable to shareholders	**8.4**	95.1	165.2
Dividends paid and foreseen	**(33.5)**	(46.2)	(98.4)
Change in software assets treatment[1]	**-**	(50.2)	(50.2)
IFRS 9 transitional arrangements	**(49.0)**	(20.5)	(34.8)
Increase in intangible assets, net of associated deferred tax liabilities	**(8.4)**	(5.0)	(19.7)
Other movements in reserves recognised for CET1 capital	**(6.5)**	-	0.1
Other movements in adjustments to CET1 capital	**3.0**	(6.8)	(4.8)
CET1 capital at end of period	**1,310.7**	1,405.7	1,396.7

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

14. Defined benefit pension scheme

During the period ended 31 January 2023, the group's defined benefit pension scheme ("the scheme") entered into a buy-in transaction with an insurance company covering all members of the scheme. A buy-in is a bulk annuity policy that matches the scheme's assets and liabilities, and represents a significant de-risking of the investment portfolio. As a result of this transaction, the pension surplus on the group's balance sheet has fallen to £1.5 million (31 July 2022: £7.2 million) with the loss recognised within other comprehensive income.

15. Contingent liabilities

Motor Finance commission arrangements

The Group has received a number of complaints, some of which are with the Financial Ombudsman Service, and is subject to a number of claims through the courts regarding historic commission arrangements with intermediaries on its Motor Finance products. This follows the FCA's Motor Market Review in 2019. Depending on the outcome of the court's rulings and/or regulatory findings on the matter, these complaints and claims may give rise to a potential future obligation to compensate customers. It is not currently possible to estimate the financial impact, if any, or scope of these or any future related claims.

16. 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 2022 that could have a material effect on the financial position and performance of the group in the six months to 31 January 2023.

17. Consolidated cash flow statement reconciliation

	Six months ended 31 January		Year ended 31 July
	2023	2022[1]	2022
	£ million	£ million	£ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities			
Operating profit before tax	**11.7**	128.9	232.8
Tax refunded/(paid)	**1.9**	(38.2)	(63.4)
Depreciation and amortisation	**51.7**	50.9	100.3
Impairment losses on financial assets	**162.2**	48.3	103.3
(Increase)/decrease in:			
Interest receivable and prepaid expenses	**(14.7)**	1.5	19.8
Net settlement balances and trading positions	**(31.1)**	(18.3)	17.2
Net loans to/from money broker against stock advanced	**22.0**	27.0	2.7
Decrease in interest payable and accrued expenses	**(45.2)**	(62.5)	(32.2)
Net cash inflow from trading activities	**158.5**	137.6	380.5
(Increase)/decrease in:			
Loans and advances to banks not repayable on demand	**(9.8)**	(1.8)	(5.3)
Loans and advances to customers	**(54.1)**	(220.1)	(515.0)
Assets held under operating leases	**(36.8)**	(26.0)	(54.5)
Certificates of deposit	**134.4**	(34.9)	79.7
Sovereign and central bank debt	**205.0**	(52.5)	(255.3)
Other assets less other liabilities	**(10.0)**	(2.6)	(6.4)
(Decrease)/increase in:			
Deposits by banks	**(8.3)**	8.2	11.8
Deposits by customers	**462.4**	132.1	142.7
Loans and overdrafts from banks	**30.5**	159.5	110.0
(Redemption)/issuance of debt securities	**(38.7)**	71.3	270.5
Net cash inflow from operating activities	**833.1**	170.8	158.7
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and equity shares held for investment			
Cash consideration paid	**(0.5)**	-	(0.1)
(c) Analysis of net cash inflow in respect of the sale of subsidiaries and discontinued operations			
Cash consideration received	**0.5**	0.1	0.1

	31 January		31 July
	2023	2022	2022
	£ million	£ million	£ million
(d) Analysis of cash and cash equivalents[2]			
Cash and balances at central banks	**1,858.4**	1,160.2	1,236.0
Loans and advances to banks repayable on demand	**241.9**	315.8	147.0
	2,100.3	1,476.0	1,383.0

1 Comparatives have been updated to present impairment losses on financial assets in a separate line with no impact on the net cash inflow from operating activities figure.

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

During the period ended 31 January 2023, the non-cash changes on debt financing amounted to £5.9 million (31 January 2022: £3.8 million; 31 July 2022: £9.6 million) arising from interest accretion and fair value hedging movements.

18. 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 differences include the following:

	31 January 2023		31 July 2022	
	Fair value £ million	**Carrying value £ million**	Fair value £ million	Carrying value £ million
Subordinated loan capital	**172.6**	**179.4**	180.0	186.5
Debt securities in issue	**1,999.1**	**1,994.9**	2,071.4	2,060.9

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 2022. 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 2023				
Assets				
Debt securities:				
Long trading positions in debt securities	**10.0**	**1.0**	**-**	**11.0**
Sovereign and central bank debt	**201.1**	**-**	**-**	**201.1**
Equity shares	**2.8**	**24.2**	**0.3**	**27.3**
Derivative financial instruments	**-**	**107.5**	**9.2**	**116.7**
Contingent consideration	**-**	**-**	**1.9**	**1.9**
	213.9	**132.7**	**11.4**	**358.0**
Liabilities				
Short positions:				
Debt securities	**3.1**	**1.1**	**-**	**4.2**
Equity shares	**1.5**	**4.9**	**0.1**	**6.5**
Derivative financial instruments	**-**	**152.7**	**9.2**	**161.9**
Contingent consideration	**-**	**-**	**2.5**	**2.5**
	4.6	**158.7**	**11.8**	**175.1**

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

There is no significant change to the valuation methodologies relating to Level 2 and 3 financial instruments disclosed in note 28 “Financial risk management” of the Annual Report 2022.

Financial instruments classified as Level 3 predominantly comprise contingent consideration payable and receivable in relation to the acquisitions and disposal of subsidiaries. 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 technique or inputs used in the valuation of these positions which would have a material effect on the group's consolidated income statement.

There were no significant transfers between Level 1, 2 and 3 during the six months ended 31 January 2023 (six months ended 31 January 2022: none; year ended 31 July 2022: none).

There were no significant movements in financial instruments categorised as Level 3 during the six months ended 31 January 2023 (six months ended 31 January 2022: none).

The gain recognised in the consolidated income statement relating to financial instruments held at 31 January 2023 amounted to £0.2 million (31 January 2022: £nil; 31 July 2022: £0.2 million loss).

19. Additional support for customers

Forbearance

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

The Banking division has historically offered a range of concessions to support customers which vary depending on the product and the customer's status. Such concessions include an extension outside terms (for example a higher loan to value or overpayments) and refinancing, which may incorporate an extension of the loan tenor and capitalisation of arrears. Furthermore, other forms of forbearance such as a moratorium, covenant waivers, and rate concessions are also offered.

Loans are classified as forborne at the time a customer in financial difficulty is granted a concession and the loan will remain treated and recorded as forborne until the following exit conditions are met:

1. The loan is considered as performing and there is no past-due amount according to the amended contractual terms;
2. A minimum two-year probation period has passed from the date the forborne exposure was considered as performing, during which time regular and timely payments have been made, and;
3. None of the customer's exposures with Close Brothers are more than 30 days past due at the end of the probation period.

The forbearance approach, including cure periods and exit conditions remain consistent with those set out on pages 196 and 197 of the Annual Report 2022.

Forbearance analysis

At 31 January 2023, the gross carrying amount of loans with forbearance measures increased £4.8 million to £213.7 million (31 July 2022: £208.9 million).

As the number of customers supported via Covid-19 related concessions has continued to reduce (noting no new Covid-19 forbearance arrangements have been offered in the period), the low outstanding volumes have been consolidated into the single forbearance total in the following analyses.

An analysis of forborne loans as at 31 January 2023 is shown in the table below:

	Gross loans and advances to customers £ million	Forborne loans £ million	Forborne loans as a percentage of gross loans and advances to customers %	Provision on forborne loans £ million	Number of customers supported
31 January 2023	**9,176.9**	**213.7**	**2.3%**	**58.5**	**7,586**
31 July 2022	9,144.5	208.9	2.3%	44.3	11,043

The following is a breakdown of forborne loans by segment:

	31 January 2023 £ million	31 July 2022 £ million
Commercial	**44.7**	62.3
Retail	**27.9**	23.0
Property	**141.1**	123.6
	213.7	208.9

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

	31 January 2023	31 July 2022
Commercial	**393**	518
Retail	**7,132**	10,467
Property	**61**	58
	7,586	11,043

The following is a breakdown of forborne loans by concession type:

	31 January 2023 £ million	31 July 2022 £ million
Extension outside terms	**115.6**	113.0
Refinancing	**9.4**	3.0
Moratorium	**56.9**	69.9
Other modifications	**31.8**	23.0
	213.7	208.9

Government lending schemes
In addition to the Covid-19 specific forbearance measures covered in this note, following accreditation, customers facilities were offered under the UK government-introduced Coronavirus Business Interruption Loan Scheme (“CBILS”), the Coronavirus Large Business Interruption Loan Scheme (“CLBILS”) and the Bounce Back Loan Scheme (“BBLS”), thereby enabling us to maximise our support to small businesses. As at 31 January 2023, there are 4,938 remaining facilities, with balances of £587.8 million following commencement of repayments across our Property, Asset Finance & Leasing and Invoice Finance businesses.

We also received accreditation to offer products under the Recovery Loan Scheme (“RLS”), and schemes in the Republic of Ireland. Applications for facilities under phase 2 of the RLS closed in June 2022. As at 31 January 2023, there are 618 remaining facilities, with balances totalling £186.6 million.

We maintain a regular reporting cycle of these facilities to monitor performance. To date, a number of claims have been made and payments received under the government guarantee.

20. Interest rate risk

The group’s exposure to interest rate risk predominantly arises in the Banking division. Interest rate risk in the other business divisions is considered immaterial. The group has a simple and transparent balance sheet and a low appetite for interest rate risk which is limited to that required to operate efficiently.

The group’s governance policy and approach in relation to interest rate risk remains unchanged, from that described on page 202 of the Annual Report 2022, except in relation to the disclosure of basis risk. In line with PRA guidance, we monitor and assess a stressed add-on for basis risk. To provide a clearer assessment of interest rate risk this stressed add-on has been excluded from the Earnings at Risk (“EaR”) numbers disclosed for both the current year and prior year comparatives.

The table below sets out the assessed impact on our base case EaR due to a parallel shift in interest rates:

	31 January 2023 £ million	31 July 2022[1] £ million
0.5% increase	**2.6**	3.7
0.5% decrease	**(2.6)**	(0.3)

The group's EaR at 31 January 2023 reflects its policy to ensure exposure to interest rate shocks is minimised. The EaR measure is a combination of the group's repricing profile which is positively correlated to rising rates and optionality risk which is negligible in the current higher rate environment.

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

	31 January 2023 £ million	31 July 2022[1] £ million
0.5% increase	**2.3**	1.1
0.5% decrease	**(2.2)**	(0.8)

1 Prior year comparatives for EaR and EV relate to the Banking division only. Interest rate risk in the other divisions was immaterial. Current year EaR and EV are shown for the group.

The group's EV at 31 January 2023 reflects its policy to ensure exposure to interest rate shocks is minimised. The EV measure is a combination of our repricing profile, which is positively correlated to rising rates, offset by embedded optionality to cover interest rate floors within the Bank's lending and borrowing activities.

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. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. 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. There are also a number of factors that could cause actual future operations, performance, financial conditions, results or developments to differ materially from the plans, goals and expectations expressed or implied by these forward-looking statements and forecasts. These factors include, but are not limited to, those contained in the Group's annual report (available at: https://www.closebrothers.com/investor-relations). Accordingly, no assurance can be given that any particular expectation will be met and reliance should not be placed on any forward-looking statement. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future.

Except as may be required by law or regulation, no responsibility or obligation is accepted to update or revise any forward-looking statement resulting from new information, future events or otherwise. Nothing in this announcement should be construed as a profit forecast. Past performance cannot be relied upon as a guide to future performance and persons needing advice should consult an independent financial adviser.

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