Close Brothers

Close Brothers Group plc
10 Crown Place
London EC2A 4FT

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

Registered in England No. 520241

Half Year Results for the Six Months to 31 January 2020

10 March 2020

Highlights

- Our performance reflects the consistent application of our business model in a period of lower activity in the UK economy, with lower profits in Banking partially offset by higher profits in our market-facing businesses. The group delivered a strong return on opening equity of 13.6%
- On an adjusted basis, group operating profit reduced 9% year on year to £125.7 million. On a statutory basis, group operating profit before tax from continuing operations decreased 8% to £124.1 million
- Our capital position strengthened further, with the CET1 capital ratio increasing to 13.4%
- Banking adjusted operating profit reduced 12% year on year to £115.4 million, reflecting modest income growth combined with some normalisation of bad debts and ongoing investment
- The net interest margin was 7.8%, reflecting continued pricing discipline. The loan book remained broadly flat in the period, and the bad debt ratio increased to 0.9%, from historically low levels. Overall credit quality of the loan book remains strong. We have maintained our cost discipline while continuing with our multi-year investment programmes to protect, improve and extend the business model
- Asset Management achieved an adjusted operating profit of £12.6 million, up 17% year on year, supported by strong annualised net inflows at 12% and positive market movements, reflecting the strength of our client proposition and ongoing investment in the business
- Winterflood benefited from a recovery in investor trading activity following the UK general election and delivered operating profit of £10.6 million, up 14% year on year
- We have declared an interim dividend per share of 22.7p, up 3%, in line with our progressive dividend policy

Key Financials[1]

Continuing operations	**First half 2020**	First half 2019	Change %
Adjusted operating profit[2]	**£125.7m**	£138.8m	(9)
Operating profit before tax	**£124.1m**	£135.6m	(8)
Adjusted basic earnings per share	**63.8p**	69.8p	(9)
Basic earnings per share	**63.0p**	68.1p	(7)
Ordinary dividend per share	**22.7p**	22.0p	3
Return on opening equity	**13.6%**	16.1%	
Return on average tangible equity	**16.0%**	18.8%	
Net interest margin	**7.8%**	8.1%	
Bad debt ratio	**0.9%**	0.6%	

	31 January 2020	31 July 2019	Change %
Loan book	**£7.6bn**	£7.6bn	(0.4)
Total client assets	**£14.0bn**	£13.3bn	5
CET1 capital ratio	**13.4%**	13.0%	
Total capital ratio	**15.5%**	15.2%	

1 Please refer to definitions on pages 19 and 20.
2 Adjusted operating profit excludes £1.6 million (2019: £3.2 million) of amortisation of intangible assets on acquisition, and profit from discontinued operations of £nil (2019: profit of £1.2 million).

Preben Prebensen, Chief Executive, said:

"The performance of the group continued to demonstrate the consistent application of our business model in a period of lower activity in the UK economy. We delivered a strong return on opening equity of 13.6% and declared an interim dividend 3% higher than the prior year. We are confident that our resilient business model and the deep experience of our people leave us well placed to navigate the current uncertainty, and to continue serving our customers and clients in a range of market conditions."

"As a business that focuses on the long term, acting sustainably is integral to our strategy and culture and forms a fundamental part of our purpose – to help the people and businesses of Britain thrive over the long term. We are committed to making a lasting positive impact for people and communities, and recognise our responsibility towards the climate and natural environment."

Enquiries

Sophie Gillingham	Close Brothers Group plc	020 3857 6574
Camila Sugimura	Close Brothers Group plc	020 3857 6577
Matt Bullivant	Close Brothers Group plc	020 3857 6576
Andy Donald	Maitland	020 7379 5151

A presentation to analysts and investors will be held today at 9.30 am GMT at **J.P. Morgan's offices at 60 Victoria Embankment, London, EC4Y 0JP**. A dial-in facility will be available by registering at https://webcasts.closebrothers.com/results/HalfYearResults2020/vip_connect

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; any exceptional items, which are non-recurring and do not reflect trading performance; and discontinued operations.

Discontinued operations relate to the unsecured retail point of sale finance business, which was sold on 1 January 2019.

To maintain consistency with the income statement and reflect the group's continuing operations, the calculation of the bad debt ratio, net interest margin and return on net loan book for the Banking division in the first half of 2019 comparative period excludes the unsecured retail point of sale finance loan book from both the opening and closing loan book.

About Close Brothers

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

BUSINESS OVERVIEW

The group's performance for the six months ending 31 January 2020 reflects the disciplined application of our business model in a period of lower activity in the UK economy. We delivered a return on opening equity of 13.6% (2019: 16.1%) and are pleased to declare an interim dividend of 22.7p (2019: 22.0p), up 3%. This confirms our commitment to our proven, through the cycle approach, which enables us to support customers, invest in the business and deliver strong returns to shareholders in a wide range of market conditions.

Adjusted operating profit decreased 9% to £125.7 million (2019: £138.8 million), with lower profits in the Banking division partially offset by higher profit in our market-facing businesses; Close Brothers Asset Management and Winterflood. Statutory operating profit before tax from continuing operations decreased 8% to £124.1 million (2019: £135.6 million). Adjusted basic earnings per share ("EPS") reduced 9% to 63.8p (2019: 69.8p), and statutory basic earnings per share from continuing operations also reduced 7% to 63.0p (2019: 68.1p).

DIVISIONAL OVERVIEW

In the **Banking division**, we maintained our focus on prudent underwriting and pricing discipline in a period of lower activity. Adjusted operating profit decreased by 12% to £115.4 million (2019: £131.1 million), reflecting modest income growth, higher bad debts and our continued investment in the business.

Overall, the loan book remained broadly flat in the first half of the year at £7.6 billion (31 July 2019: £7.6 billion), reflecting a softer demand environment driven by the economic and political uncertainty in the UK. We achieved modest growth in the Commercial portfolio, offset by a higher level of repayments in Property and a slight overall contraction in Retail.

The net interest margin reduced on the first half of 2019 (2019: 8.1%) but remained broadly stable on the 2019 financial year at 7.8%, reflecting our pricing discipline, despite ongoing competition across our markets and continued lower fee income due to reduced levels of transactional activity.

The bad debt ratio increased to 0.9% (2019: 0.6%) as we have seen some normalisation of impairments from historically low levels and a small number of new individual provisions in Property and Commercial. The overall credit quality of our book remains strong with a low bad debt ratio, relative to historical levels, reflecting the disciplined application of our prudent lending criteria in a competitive market.

Investment in a number of multi-year projects to protect, improve and extend our business model remains a strategic priority for the group. This is reflected in our ongoing commitment to enhancing customer experience and improving operating and capital efficiency. As a result, total costs in the Banking division increased by 3% on the prior year and are expected to grow c. 6% in the 2020 financial year, with investment spend skewed towards the second half of the year.

In the first half of the year, we continued to expand our range of deposit products to further diversify the group's funding via our customer deposit platform and introduced a new online savings portal. We made good progress with our multi-year transformation programme in Motor Finance, with early benefits seen in the loan book growth in the UK. We have initiated our Asset Finance transformation programme, aiming at increased sales effectiveness and optimised operational efficiency through upgraded systems and processes. We also remain on track towards making our application to use the Internal Ratings Based ("IRB") approach for capital, which will enhance our risk management framework and help optimise our capital requirements and increase our long-term strategic flexibility.

Excluding depreciation and other costs related to investments, operating expenses remained broadly flat on the prior year, as a result of our continued focus on improving operational efficiency. We continue to look for tactical improvements, such as the review and consolidation of our London office footprint, to create capacity for further investments.

The **Asset Management** division maintained good momentum as we continue to invest in this business. We achieved strong annualised net inflows at 12% of opening managed assets, reflecting the strength of our client proposition and the hiring of additional portfolio managers. Managed assets increased 8% to £12.7 billion (31 July 2019: £11.7 billion) and total client assets increased 5% to £14.0 billion (31 July 2019: £13.3 billion). The division delivered an adjusted operating profit of £12.6 million (2019: £10.8 million), up 17% on the prior year, and an operating margin of 19% (2019: 18%).

Winterflood benefited from a recovery in investor trading activity following the UK general election and delivered operating profit of £10.6 million (2019: £9.3 million), up 14% on the prior year. Trading profitability remained strong with no loss days in the period (2019: one).

FUNDING, LIQUIDITY AND CAPITAL

The prudent management of our financial resources is a core part of our business model allowing us to grow, invest and pay a progressive and sustainable dividend, while meeting all regulatory requirements.

Our capital ratios strengthened further reflecting the group's profitability and the broadly stable loan book in the period. The common equity tier 1 ("CET1") capital ratio increased to 13.4% (31 July 2019: 13.0%) and we maintained a strong leverage ratio of 11.3% (31 July 2019: 11.0%).

We continue to diversify our sources of funding with a wider range of deposit products and access to a broad range of wholesale funding. The group maintained its strong liquidity position in the period, ensuring it is comfortably ahead of both internal risk appetite and regulatory requirements.

SUSTAINABILITY AND RESPONSIBILITY

Sustainability forms a core part of our thinking and we remain on track to achieve the series of public targets we set ourselves to help focus our efforts. Over 30% of our senior managers are female, and we continue to regularly receive strong customer satisfaction scores across our businesses. Our staff payroll giving remains comfortably ahead of the Payroll Giving Quality Mark Gold Award standard, and our environmental improvements are progressing well, with our head office now sending zero waste to landfill and our fleet vehicle emissions down 9% since 31 July 2019; well on the way to achieving our 20% target. We continually look for opportunities to make a difference for the long term and will be exploring further actions to make a positive impact over time.

BOARD APPOINTMENTS

On 1 January 2020 the Board was pleased to appoint Sally Williams as an independent non-executive director. Sally brings extensive experience of the financial services sector and her appointment will further strengthen the range of skills, experience and diversity represented on the Board. On appointment, she has become a member of the Board's Audit and Risk Committees, and consistent with the group's other independent non-executive directors, has also become a director of the group's Banking subsidiary, Close Brothers Limited.

CEO SUCCESSION UPDATE

In September 2019, the group announced that Preben Prebensen had decided to step down as chief executive after 10 years with the company. The Board has made good progress with the formal search for a successor, in line with our established succession process, and an announcement will be made in due course.

OUTLOOK

The near-term outlook for the UK economy remains uncertain, heightened by escalating concern about the Coronavirus and its potential impact on businesses and financial markets.

Against this backdrop, we remain focused on maintaining the discipline of our business model, and our readiness to respond to changes in market conditions.

While it is too early to assess the impact of the Coronavirus on the UK economy, the Banking division remains focused on maintaining pricing and underwriting discipline, progressing with strategic initiatives and improving operating efficiency.

The Asset Management division, while clearly sensitive to market levels, remains focused on increasing client assets, through organic new business, selective hiring, and in-fill acquisitions.

Winterflood has benefited from a significant increase in volumes since the period end and remains focused on maximising opportunities across all market conditions, while continuing to build its institutional sales trading capabilities and Winterflood Business Services.

We are confident that our prudent and resilient business model and the deep experience of our people leave us well placed to navigate the current uncertainty, and to continue serving our customers and clients in a range of market conditions.

OVERVIEW OF FINANCIAL PERFORMANCE

Group Income Statement

Continuing operations	**First half 2020 £ million**	First half 2019 £ million	Change %
Adjusted operating income	**420.0**	407.4	3
Adjusted operating expenses	**(257.6)**	(246.7)	4
Impairment losses on financial assets	**(36.7)**	(21.9)	68
Adjusted operating profit	**125.7**	138.8	(9)
Banking	**115.4**	131.1	(12)
Commercial	**38.5**	47.3	(19)
Retail	**34.1**	36.8	(7)
Property	**42.8**	47.0	(9)
Asset Management	**12.6**	10.8	17
Securities	**10.6**	9.3	14
Group	**(12.9)**	(12.4)	4
Amortisation of intangible assets on acquisition	**(1.6)**	(3.2)	(50)
Operating profit before tax	**124.1**	135.6	(8)
Tax	**(29.6)**	(33.4)	(11)
Profit after tax: continuing operations	**94.5**	102.2	(8)
Profit from discontinued operations, net of tax	**-**	1.2	
Loss attributable to non-controlling interests	**-**	(0.1)	
Profit attributable to shareholders: continuing and discontinued operations	**94.5**	103.5	(9)
Adjusted basic earnings per share (continuing operations)	**63.8p**	69.8p	(9)
Basic earnings per share (continuing operations)	**63.0p**	68.1p	(7)
Basic earnings per share (continuing and discontinued operations)	**63.0p**	68.9p	(9)
Dividend per share	**22.7p**	22.0p	3
Return on opening equity	**13.6%**	16.1%	
Return on average tangible equity	**16.0%**	18.8%	

Financial Overview

Adjusted operating profit decreased 9% to £125.7 million (2019: £138.8 million), with lower profits in the Banking division partially offset by higher profits in our market-facing businesses, Close Brothers Asset Management and Winterflood, and a reduced operating margin of 30% (2019: 34%). Statutory operating profit before tax from continuing operations decreased 8% to £124.1 million (2019: £135.6 million). Return on opening equity remained strong at 13.6% (2019: 16.1%) despite the reduction in adjusted operating profit and continued growth in the equity base.

The Banking division delivered an adjusted operating profit of £115.4 million (2019: £131.1 million), down 12% on the prior year as modest income growth was offset by higher bad debts and ongoing investment. The Asset Management division delivered operating profit of £12.6 million (2019: £10.8 million), up 17% on the prior year reflecting higher income and continued investment to support the long-term growth of the business. The Securities division achieved operating profit of £10.6 million (2019: £9.3 million), up 14%, reflecting a recovery in trading volumes following the UK general election. Group net expenses, which include the central functions such as finance, legal and compliance, risk and human resources, were up 4% at £12.9 million (2019: £12.4 million).

Adjusted operating income increased 3% to £420.0 million (2019: £407.4 million), with all of the divisions achieving growth on the prior year. Income in the Banking division increased 1%, reflecting loan book growth on the prior year of 3.2% and a lower net interest margin of 7.8% (2019: 8.1%), driven by changes in mix and reduction in fee income due to lower transactional activity. Income in the Asset Management division was up 12% reflecting higher client assets driven by strong net inflows and positive market movements. Income in the Securities division increased by 5% as trading volumes recovered significantly towards the end of the period.

Adjusted operating expenses increased 4% to £257.6 million (2019: £246.7 million), with most of the increase in the Banking and Asset Management divisions. In the Banking division, costs increased by 3% primarily driven by our continued strategic investment and business initiatives, while other operating costs remained broadly flat on the prior year. As a result, the Banking expense/income ratio remained unchanged at 50% (2019: 50%). In the Asset Management division, costs increased by 11% driven by continued hiring of advisers and portfolio managers, as well as investment in technology to improve operational efficiency. Expenses in the Securities division increased by 2%, reflecting higher variable costs. Overall, the group's expense/income and compensation ratios remained unchanged at 61% (2019: 61%) and 36% (2019: 36%), respectively.

While overall credit quality remained strong, impairment losses increased by £14.8 million to £36.7 million (2019: £21.9 million). We have seen some normalisation of bad debts, from historically low levels, and a small number of new individual provisions in Commercial and Property. As a result, the bad debt ratio has increased to 0.9% (2019: 0.6%).

The tax charge in the period was £29.6 million (2019: £33.4 million), which corresponds to an effective tax rate of 24% (2019: 25%). The reduction primarily reflects a 0.7% reduction in the applicable blended UK corporation tax rate from 19.0% to 18.3%.

Adjusted basic earnings per share ("EPS") from continuing operations decreased 9% to 63.8p (2019: 69.8p) and basic EPS from continuing operations decreased 7% to 63.0p (2019: 68.1p).

Discontinued Operations

On 1 January 2019, the group completed the sale of its unsecured retail point of sale finance business, which has been treated as a discontinued operation in the income statement for first six months of 2019. The profit from discontinued operations in the first six months of 2019 was £1.2 million and included a £2.8 million profit on disposal net of tax. Basic EPS from continuing and discontinued operations was 63.0p (2019: 68.9p), down 9% on the prior year.

Dividend

The interim dividend of 22.7p (2019: 22.0p) represents an increase of 3% from the prior year and reflects our commitment to a progressive dividend policy, which aims to grow the dividend year on year while maintaining a prudent level of dividend cover. The interim dividend is due to be paid on 22 April 2020 to shareholders on the register at 20 March 2020.

Group Balance Sheet

	31 January 2020 £ million	31 July 2019 £ million
Loans and advances to customers	**7,619.1**	7,649.6
Treasury assets[1]	**1,261.6**	1,395.4
Market-making assets[2]	**767.0**	666.1
Other assets	**1,021.1**	850.2
Total assets	**10,668.8**	10,561.3
Deposits by customers	**5,564.4**	5,638.4
Borrowings	**2,548.0**	2,601.0
Market-making liabilities[2]	**702.9**	582.4
Other liabilities	**418.9**	333.1
Total liabilities	**9,234.2**	9,154.9
Equity	**1,434.6**	1,406.4
Total liabilities and equity	**10,668.8**	10,561.3

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

We maintain a prudent approach to managing our financial resources, which is reflected in our strong and transparent balance sheet. The structure of the balance sheet remains unchanged, with most of the assets and liabilities relating to our lending activities. Loans and advances make up the majority of assets. Our loan book is predominantly secured across a diverse range of asset classes and is generally short term in nature with low average loan size.

Other items on the balance sheet include treasury assets held for liquidity purposes, and settlement balances in our Securities division. 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 1% to £10.7 billion (31 July 2019: £10.6 billion) and total liabilities were up 1% to £9.2 billion (31 July 2019: £9.2 billion), both driven by an increase in market-making settlement balances reflecting higher trading activity in our Securities division, with a broadly stable loan book in the period. Other assets and other liabilities both increased as a result of IFRS 16 accounting adjustments and treasury deposit movements.

Shareholders' equity increased by 2% to £1.4 billion (31 July 2019: £1.4 billion), with profit in the period partially offset by dividend payments of £65.8 million (31 January 2019: £62.8 million). The group's return on assets remained broadly stable at 1.8% (31 July 2019: 1.9%).

Group Capital

	31 January 2020 £ million	31 July 2019 £ million
Common equity tier 1 capital	**1,205.4**	1,169.2
Total capital	**1,394.0**	1,364.6
Risk weighted assets	**9,011.7**	8,967.4
Common equity tier 1 capital ratio	**13.4%**	13.0%
Total capital ratio	**15.5%**	15.2%
Leverage ratio	**11.3%**	11.0%

The group's strong capital generation has allowed us to maintain capital ratios comfortably ahead of minimum regulatory requirements. Overall, the CET1 capital ratio increased to 13.4% (31 July 2019: 13.0%), reflecting continued profitability and broadly stable loan book. The total capital ratio increased to 15.5% (31 July 2019: 15.2%).

In the last six months, the group generated £36.2 million of CET1 capital, reflecting £94.5 million of profit in the year, partially offset by the regulatory deduction of dividends paid and foreseen of £44.4 million, an increase in intangibles of £9.4 million, and other movements in reserves. As a result, CET1 capital increased 3% to £1,205.4 million (31 July 2019: £1,169.2 million).

Risk weighted assets remained broadly flat at £9.0 billion (31 July 2019: £9.0 billion), primarily reflecting the broadly stable loan book.

The leverage ratio, which is a transparent measure of capital strength, not affected by risk weightings, increased in the period and remains strong at 11.3% (31 July 2019: 11.0%).

The group's capital ratios at 31 January 2020 are presented on a transitional basis after applying IFRS 9 arrangements that allow the capital impact of expected credit losses to be phased in over a five-year period, and the Capital Requirements Regulation transitional arrangements for grandfathered Tier 2 capital instruments. Before the transitional adjustments, the group's fully loaded CET1 and total capital ratios at 31 January 2020 were 13.0% (31 July 2019: 12.6%) and 14.9% (31 July 2019: 14.5%), respectively.

Our regulatory minimum CET1 capital ratio requirement is 9.0%, including all applicable buffers and a 1.1% pillar 2 add-on, with a total capital requirement of 13.4%. Accordingly, we continue to have good headroom of c.440 bps in our CET1 capital ratio, and c.210 bps in the total capital ratio. In December 2019 the Financial Policy Committee announced a 1% increase in the UK countercyclical capital buffer ("CCyB") requirements to 2%, effective from early December 2020. The Prudential Regulation Authority ("PRA") is currently consulting on a reduction of Pillar 2a requirements for certain banks to counterbalance the CCyB increase. If implemented in the current form, we do not expect a material impact on our capital position. We continue to monitor the PRA consultation process.

This leaves us well placed to support future growth in the loan book and absorb any foreseen regulatory changes, including the proposed capital adequacy reforms, commonly referred to as Basel 4.

We remain on track towards our IRB application, with increasing visibility and confidence as we move through our preparations.

Group Funding[1]

	31 January 2020 £ million	31 July 2019 £ million
Retail deposits	**2,458.1**	2,133.4
Non-retail deposits	**3,106.3**	3,505.0
Customer deposits	**5,564.4**	5,638.4
Secured funding	**1,355.6**	1,404.8
Unsecured funding[2]	**1,466.6**	1,462.2
Equity	**1,434.6**	1,406.4
Total available funding	**9,821.2**	9,911.8
Of which term funding (>1 year)	**4,846.3**	5,493.4
Total funding as % of loan book	**129%**	129%
Average maturity of funding allocated to loan book[3]	**18 months**	20 months

1 Numbers relate to core funding and exclude working capital facilities at the business level.
2 Unsecured funding includes £295.0 million (2019: £295.0 million) of undrawn facilities.
3 Average maturity of total funding excluding equity and funding held for liquidity purposes.

The primary purpose of our treasury function is to manage funding and liquidity to support the lending businesses and manage interest rate risk. We maintain a conservative approach, with diverse funding sources and a prudent maturity profile, which increases our resilience and flexibility and helps to optimise our cost of funding.

In the first half, total funding reduced slightly to £9.8 billion (31 July 2019: £9.9 billion) and accounted for 129% (31 July 2019: 129%) of the loan book at the balance sheet date. Our average cost of funding of 1.7% (2019: 1.7%) was flat on the prior year. We maintain a diverse range of funding sources across a series of maturities, including several public debt securities at both group and operating company level as well as a number of securitisation facilities.

Our range of secured funding facilities include securitisations of our Premium and Motor Finance loan books. We have made limited use of the Term Funding Scheme, which accounted for only 5% of our total funding at the balance sheet date, and are well positioned to replace this as part of our long-term funding plans. Since the balance sheet date we have issued a third £200 million public Motor Finance securitisation, demonstrating our continued access to wholesale funding sources.

Our new customer deposit platform has already allowed us to offer a wider range of deposit products to further diversify our funding and improve customer experience, with the launch of new notice accounts as an additional product for our retail, pension and small and medium-sized enterprise ("SME") customers. In the first half we introduced a new online portal, with a suite of new savings products to come during 2020, which will continue to grow and diversify our retail deposit base and further optimise our cost of funding and maturity profile. As a result, we increased our volumes of retail deposits by 15% in the first half.

Deposits remained flat at £5.6 billion (31 July 2019: £5.6 billion), with non-retail deposits decreasing to £3.1 billion (31 July 2019: £3.5 billion) as we manage our funding requirements in a period of flat loan book and retail deposits increasing to £2.5 billion (31 July 2019: £2.1 billion), benefiting from the launch of new savings products. Unsecured funding remained broadly unchanged at £1.5 billion (31 July 2019: £1.5 billion), while we continue to make use of smaller private placements.

We have maintained a prudent maturity profile and continue to borrow long and lend short. Term funding, with a residual maturity over one year, decreased to £4.8 billion (31 July 2019: £5.5 billion), reflecting the timing of maturity and renewal of long-term facilities. The average maturity of funding allocated to the loan book remained significantly ahead of the loan book at 18 months (31 July 2019: 20 months), while the average loan book maturity remained at 14 months (31 July 2019: 14 months).

Our strong credit ratings have been reaffirmed by both Moody's Investors Services ("Moody's") and Fitch Ratings ("Fitch") during the period. Moody's rates Close Brothers Group A3/P2 and Close Brothers Limited Aa3/P1 with a negative outlook, following a revised outlook across our UK peers in November 2019 to reflect their view on the operating environment for UK banks. Fitch affirmed ratings for both entities "A/F1" with a stable outlook in December 2019.

Group Liquidity

	31 January 2020 £ million	31 July 2019 £ million
Cash and balances at central banks	**916.3**	1,106.4
Sovereign and central bank debt	**44.3**	48.3
Certificates of deposit	**301.0**	240.7
Treasury assets	**1,261.6**	1,395.4

The group maintains a strong liquidity position, ensuring it is comfortably ahead of both internal risk appetite and regulatory requirements. The majority of our liquidity requirements and surplus funding are held with central banks. Lower liquidity requirements in the period resulted in a modest decline of treasury assets to £1.3 billion (31 July 2019: £1.4 billion). These were predominantly held on deposit with the Bank of England, and continued to give us good headroom to both internal and external liquidity requirements.

We regularly assess and stress test our liquidity requirements and continue to comfortably meet the liquidity coverage ratio requirements under the Capital Requirements Directive IV, with an average liquidity coverage ratio in the first half of 759% (12-month average to 31 July 2019: 823%).

BANKING
Key Financials

Continuing operations[1]	**First half 2020 £ million**	First half 2019 £ million	Change %
Adjusted operating income	**306.4**	303.1	1
Adjusted operating expenses	**(154.3)**	(150.1)	3
Impairment losses on financial assets	**(36.7)**	(21.9)	68
Adjusted operating profit	**115.4**	131.1	(12)
Net interest margin[2]	**7.8%**	8.1%	
Expense/income ratio	**50%**	50%	
Bad debt ratio[2]	**0.9%**	0.6%	
Return on net loan book[2]	**2.9%**	3.5%	
Return on opening equity	**14.7%**	18.2%	
Average loan book and operating lease assets[3]	**7,862.2**	7,518.5	5

1 Results from continuing operations exclude the unsecured retail point of sale finance business, which was classified as a discontinued operation in the group's income statement for the 2019 financial period.

2 The calculation of the bad debt ratio, net interest margin and return on net loan book excludes the unsecured retail point of sale finance loan book from both the opening and closing loan book.

3 Re-presented to exclude the unsecured retail point of sale finance loan book in the 2019 financial period and is used to calculate net interest margin, bad debt ratio and return on net loan book.

Maintaining Pricing, Prudent Underwriting and Investment for the Long-Term

Banking adjusted operating profit was down 12% to £115.4 million (2019: £131.1 million), reflecting modest income growth combined with some normalisation of bad debts and ongoing investment. The loan book was broadly flat at the balance sheet date, reflecting a period of lower activity levels during the first half. Statutory operating profit from continuing operations decreased 12% to £114.4 million (2019: £130.2 million). The return on net loan book remained good at 2.9% (2019: 3.5%), reflecting the current stage of the cycle.

Adjusted operating income was up 1% at £306.4 million (2019: £303.1 million), supported by year-on-year loan book growth across the lending businesses.

The net interest margin of 7.8% (2019: 8.1%) reduced on the first half of 2019 but remained broadly stable on the 2019 financial year as a whole (7.9%), reflecting our continued pricing discipline. The reduction compared to the prior year reflects a slight change in mix of lending and reduced fee income resulting from lower activity levels in the first half.

Adjusted operating expenses increased 3% year on year to £154.3 million (2019: £150.1 million), as we continue to invest in initiatives to protect, improve and extend our business. The increase is primarily driven by investment in strategic projects and new business initiatives, including enhancements to our cyber and data security, our multi-year investment programmes in Motor Finance and Asset Finance and investment to support our IRB application.

Investing through the cycle remains a long-term strategic priority for the group, while continuing with our initiatives to improve operational efficiency and carefully manage the costs of running the business. Operating expenses excluding depreciation and other costs related to investments remained broadly flat on the prior year, and the compensation ratio remained stable at 28% (2019: 28%), reflecting our disciplined cost focus. The expense/income ratio was stable at 50% (2019: 50%), although we expect costs to grow c.6% in the 2020 financial year, with investment spend skewed towards the second half of the year.

While overall credit quality remained strong, bad debts have increased from historically low levels, with some normalisation and a small number of new individual provisions in Commercial and Property. This resulted in a bad debt ratio of 0.9% (2019: 0.6%) for the first half.

Loan Book Analysis

	31 January 2020 £ million	31 July 2019 £ million	Change %
Commercial	**3,065.4**	2,991.3	2.5
Asset Finance	**2,047.7**	1,946.4	5.2
Invoice and Speciality Finance	**1,017.7**	1,044.9	(2.6)
Retail	**2,784.1**	2,810.7	(0.9)
Motor Finance	**1,738.8**	1,775.6	(2.1)
Premium Finance	**1,045.3**	1,035.1	1.0
Property	**1,769.6**	1,847.6	(4.2)
Closing loan book	**7,619.1**	7,649.6	(0.4)
Operating lease assets[1]	**235.3**	220.4	6.8
Closing loan book and operating lease assets	**7,854.4**	7,870.0	(0.2)

1 Operating lease assets of £3.5 million (31 July 2019: £4.2 million) relate to Asset Finance and £231.8 million (31 July 2019: £216.2 million) to Invoice and Speciality Finance.

Loan book growth has always been an output of our business model, and we continue to prioritise our margins and credit quality. Low levels of demand in the approach to the UK general election resulted in a broadly flat loan book at £7.6 billion (31 July 2019: £7.6 billion).

We achieved modest growth in our Commercial business lines, particularly in energy, contract hire and Novitas, offset by a slight decline in core Invoice Finance.

Premium Finance also delivered modest growth in the first half, and Motor Finance continued to achieve growth in the UK, benefiting from ongoing investment. A modest reduction in the Irish Motor business resulted in a slight decline in the Retail loan book overall.

Property contracted in the period, with a significant level of repayments in late 2019 and a mix change in new business with slightly lower average facility sizes in the growing regional market. We continue to see strong structural demand for new build family housing, and the new business pipeline remains solid.

Banking: Commercial

	First half 2020 £ million	First half 2019 £ million	Change %
Operating income	**129.6**	125.3	3
Adjusted operating expenses	**(72.7)**	(70.3)	3
Impairment losses on financial assets	**(18.4)**	(7.7)	139
Adjusted operating profit	**38.5**	47.3	(19)
Net interest margin	**8.0%**	8.3%	
Expense/income ratio	**56%**	56%	
Bad debt ratio	**1.1%**	0.5%	
Average loan book and operating lease assets	**3,256.2**	3,021.6	7.8

The Commercial businesses provide specialist, secured lending principally to the SME market. Asset Finance provides asset financing, hire-purchase and leasing solutions for a diverse range of assets and sectors, including commercial vehicles, machine tools, printing equipment, energy production and aviation and marine vessels. Invoice and Speciality Finance includes core Invoice Finance along with smaller specialist businesses such as Novitas, a specialist provider of finance to the legal sector, Brewery Rentals, which provides service and finance solutions for brewery equipment and containers, and Vehicle Hire, which provides heavy goods and light commercial vehicles on a predominantly long-term hire basis.

Adjusted operating profit of £38.5 million (2019: £47.3 million) was down 19% year-on-year, reflecting an increase in bad debts. Statutory operating profit decreased 19% to £37.6 million (2019: £46.5 million).

Operating income of £129.6 million (2019: £125.3 million) was 3% higher than the prior year, reflecting good growth in the loan book and operating lease assets year-on-year. We have maintained a strong net interest margin of 8.0% (2019: 8.3%), marginally down on the prior year as a result of lower fee income from subdued activity levels in the first half.

The Commercial loan book increased 2% overall to £3.1 billion (31 July 2019: £3.0 billion), supported by modest growth in more specialist business lines in an otherwise slow demand environment with continued competitive pressures. The Asset Finance loan book was up 5% in the period, benefiting from good growth in aviation, contract hire and energy. Invoice and Speciality Finance saw continued growth in Novitas, though this was more than offset by lower utilisation of facilities in core Invoice Finance, reflecting a softer demand environment resulting from economic and political uncertainty.

Costs grew by 3% to £72.7 million (2019: £70.3 million), reflecting investment in our recently initiated Asset Finance transformation programme. This new programme is aimed at increased sales effectiveness through enhanced data capabilities and technology, with the first phase expected to deliver additional new business volumes over time. The next phase will focus on optimising our operational efficiency, with upgraded systems and processes to support the long-term resilience of the business. Cost growth was in line with the subdued growth in operating income for the period and resulted in a stable expense/income ratio of 56% (2019: 56%).

Following a period of very low levels of bad debt we have seen a small number of new individual provisions in the period, and as a result bad debts increased by £10.7 million to £18.4 million (2019: £7.7 million). However, overall credit quality remains strong, reflecting the continued application of our prudent and disciplined underwriting.

Banking: Retail

Continuing operations[1]	**First half 2020 £ million**	First half 2019 £ million	Change %
Adjusted operating income	**113.4**	113.2	0
Adjusted operating expenses	**(63.9)**	(63.0)	1
Impairment losses on financial assets	**(15.4)**	(13.4)	15
Adjusted operating profit	**34.1**	36.8	(7)
Net interest margin[2]	**8.1%**	8.4%	
Expense/income ratio	**56%**	56%	
Bad debt ratio[2]	**1.1%**	1.0%	
Average loan book[3]	**2,797.4**	2,686.1	4.1

1 Results from continuing operations exclude the unsecured retail point of sale finance business, which was classified as a discontinued operation in the group's income statement for the 2019 financial year and sold on 1 January 2019.
2 The calculation of the bad debt ratio and net interest margin excludes the unsecured retail point of sale finance loan book from both the opening and closing loan book.
3 Re-presented to exclude the unsecured retail point of sale finance loan book in the 2019 financial year and is used to calculate net interest margin, bad debt ratio and return on net loan book.

The Retail businesses provide intermediated finance, principally to individuals and small businesses, through motor dealers and insurance brokers.
Overall, adjusted operating profit for Retail of £34.1 million (2019: £36.8 million) was down 7% on the prior year, and statutory operating profit from continuing operations also reduced 7% to £34.0 million (2019: £36.7 million).

Adjusted operating income was broadly flat on the prior year at £113.4 million (2019: £113.2 million) with a decline in net interest margin to 8.1% (2019: 8.4%), principally due to the business mix effect of larger broker relationships in Premium Finance.

The Retail loan book saw a slight decline to £2.8 billion (31 July 2019: £2.8 billion), reflecting modest loan book growth in Premium Finance and UK Motor Finance, offset by a small decline in Motor Finance in Ireland.

Premium Finance delivered modest growth of 1% to £1.0 billion (31 July 2019: £1.0 billion), with growth in personal lines partially offset by a slight reduction in commercial lines. The business continues to be well positioned competitively, following the multi-year investment programme in its infrastructure over recent years to improve both broker and end customer experience.

The Motor Finance loan book decreased 2% overall to £1.7 billion (31 July 2019: £1.8 billion), as growth in the UK was more than offset by a modest contraction in Ireland.

New business levels in the UK Motor Finance business continue to increase, benefiting from our recent investment in sales capability and tooling. We continue to see growth opportunities in the UK market, supported by solid demand for used cars and increasing finance penetration. Our ongoing Motor Finance transformation programme aims to further strengthen our service-oriented, people-based proposition, drawing on extensive market research and feedback from partners and end customers. The programme will also enhance our credit acceptance process and increase sales effectiveness, leading over time to higher new business volumes and improved cost efficiency, and we expect to realise further benefits as the investment programme progresses.

The Republic of Ireland loan book, where we operate through a third party who provide the distribution and dealer relationships, contracted slightly in the period, reflecting both the maturity of the Irish market opportunity and adverse foreign exchange movements. Ireland now accounts for 25% (2019: 27%) of the Motor Finance loan book. In both the UK and Ireland, our core product remains hire-purchase contracts for second-hand vehicles, with Personal Contract Plans (“PCP”) accounting for only 12% of the Motor Finance loan book at 31 January 2020.

Adjusted operating expenses increased 1% to £63.9 million (2019: £63.0 million), resulting in a flat expense/income ratio of 56% (2019: 56%), and demonstrating our strict management of costs alongside our investments in the Premium Finance and Motor Finance businesses.

The bad debt ratio increased slightly in the period to 1.1% (2019: 1.0%) as a result of an ongoing normalisation, from historically low levels, of bad debt in Motor Finance, but continues to reflect our ongoing commitment to our strict lending criteria.

Banking: Property

	First half 2020 £ million	First half 2019 £ million	Change %
Operating income	**63.4**	64.6	(2)
Operating expenses	**(17.7)**	(16.8)	5
Impairment losses on financial assets	**(2.9)**	(0.8)	263
Operating profit	**42.8**	47.0	(9)
Net interest margin	**7.0%**	7.1%	
Expense/income ratio	**28%**	26%	
Bad debt ratio	**0.3%**	0.1%	
Average loan book	**1,808.6**	1,810.7	(0.1)

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. We do not lend to the buy-to-let sector, or provide residential or commercial mortgages.

The business delivered an operating profit of £42.8 million (2019: £47.0 million), down 9% on the prior year as a result of higher bad debts and lower fee income.

The net interest margin remained broadly stable at 7.0% (2019: 7.1%), with a small impact from lower transactional fees in the period.

The Property loan book declined by 4% in the first half to £1.8 billion (31 July 2019: £1.8 billion), reflecting high level of repayments in late 2019 which more than offset new business, though our levels of undrawn commitments remain strong. We continued to see good regional growth, which represents an increasing proportion of new business volumes, albeit at lower average facility sizes than in London and the South East.

We continue to see good structural demand in our core market of property development finance for new build family housing. London and the South East represent c.65% of the portfolio, however there remains strong growth opportunity in regional locations around major commuting hubs, including our new bridging finance office in Manchester. Competition remains active, but our long track record, expertise and quality of service ensure that the business remains resilient and continues to generate high levels of repeat business.

Operating expenses of £17.7 million (2019: £16.8 million) were up 5%, reflecting the opening of the new Manchester office and continued technology investment across the Banking division. The expense/income ratio increased to 28% (2019: 26%), primarily reflecting the opening of our new Manchester bridging finance office and lower income.

The business reported a bad debt ratio of 0.3% (2019: 0.1%), with a small number of new individual provisions resulting in a slightly higher ratio than the exceptionally low point in the prior year.

ASSET MANAGEMENT

Key Financials

	First half 2020 £ million	First half 2019 £ million	Change %
Investment management	**46.2**	39.6	17
Advice and other services[1]	**18.7**	18.7	0
Other income[2]	**0.8**	0.2	300
Operating income	**65.7**	58.5	12
Adjusted operating expenses	**(53.1)**	(47.7)	11
Adjusted operating profit	**12.6**	10.8	17
Revenue margin (bps)	**95**	96	
Operating margin	**19%**	18%	
Return on opening equity	**35.6%**	32.1%	

1 Income from advice and self-directed services, excluding investment management income.
2 Other income includes net interest income and expense, income on principal investments and other income. Other income in the first half of 2020 includes a £0.5 million gain on disposal of non-core assets.

The Asset Management division provides financial advice and investment management services to private clients in the UK. We provide a range of investment management services, including full bespoke management, managed portfolios and funds, distributed both directly via our own advisers and investment managers, and through third party IFAs.

Strong momentum

The division delivered strong net inflows of £672 million in the first half, representing an annualised rate of 12% of opening managed assets. Adjusted operating profit increased 17% to £12.6 million (2019: £10.8 million), with an operating margin of 19% (2019: 18%). Statutory operating profit before tax was £12.0 million (2019: £8.5 million).

Total operating income increased 12% to £65.7 million (2019: £58.5 million), driven by higher investment management income from continued growth in managed assets. Income on advice and other services remained flat on the prior year, reflecting lower initial fees on new advice business and a reduction in revenue from the sale of legacy self-directed assets. Overall, the revenue margin remained broadly stable at 95 bps (2019: 96 bps).

Adjusted operating expenses increased 11% to £53.1 million (2019: £47.7 million), and the expense/income ratio decreased slightly to 81% (2019: 82%). Growth in expenses was driven by continued investment in new hires and technology to further enhance our operational efficiency, as well as higher variable staff costs reflecting improved profitability, with the compensation ratio increasing to 56% (2019: 55%).

Movement in Client Assets

	31 January 2020 £ million	31 July 2019 £ million
Opening managed assets	**11,673**	10,378
Inflows	**1,263**	2,107
Outflows	**(591)**	(1,213)
Net inflows	**672**	894
Market movements	**319**	401
Total managed assets	**12,664**	11,673
Advised only assets	**1,331**	1,651
Total client assets[1]	**13,995**	13,324
Net flows as % of opening managed assets	**12%**	9%

1 Total client assets include £5.2 billion of assets (31 July 2019: £5.0 billion) that are both advised and managed

We achieved strong net inflows of £672 million, an annualised net inflow rate of 12%. This reflects continued good demand for both our investment management and integrated wealth services, with growth from all of our distribution channels and particularly from recent portfolio manager hires. Positive market movements contributed a further £319 million to managed assets in the year. As a result, managed assets increased 8% overall to £12.7 billion (31 July 2019: £11.7 billion).

Advised assets under third party management decreased by 19% principally reflecting the sale of a small portfolio of self-directed clients, which was reported in September 2019, with £270 million out of the £360 million portfolio transferred to date. We continue to provide self-directed services to clients via our own platform. Total client assets increased 5% overall, to £14.0 billion (31 July 2019: £13.3 billion).

Our funds and segregated bespoke portfolios are designed to provide attractive long-term risk-adjusted returns for our clients, in line with their individual goals. Over the 12-month period to 31 January 2020 and the three-year period to 31 January 2020, seven out of our twelve multi-asset funds outperformed their relevant peer group average. Over the five-year period to 31 January 2020, ten out of our twelve multi-asset funds outperformed their relevant peer group average. All of our bespoke strategy composites outperformed their relevant peer group average over the year to 31 January 2020, and over a three and a five-year period. We also now offer a range of increasingly popular socially responsible investment portfolios and plan to launch further sustainable fund offerings for our clients during 2020.

We remain committed to driving further growth through net inflows, continued hiring of new advisers and investment managers, and selective acquisitions. Our vertically-integrated, multi-channel business model leaves us well positioned to benefit from continued demand for our integrated advice and investment management services and continued industry change.

SECURITIES

Key Financials

	First half 2020 £ million	First half 2019 £ million	Change %
Operating income	**47.9**	45.8	5
Operating expenses	**(37.3)**	(36.5)	2
Operating profit	**10.6**	9.3	14
Bargains per day (‘000)	**57**	54	6
Operating margin	**22%**	20%	
Return on opening equity	**22.2%**	19.2%	

Winterflood is a leading UK market maker with focus on delivering high-quality execution services to stockbrokers, wealth managers, platforms and institutional investors.

Improved Performance in Challenging Trading Conditions

While investor trading activity remained subdued at the beginning of the financial year, we have seen an increase in activity since the UK general election in December. As a result, Winterflood delivered a solid trading performance, with operating profit growing 14% to £10.6 million (2019: £9.3 million), and strong return on opening equity at 22.2% (2019: 19.2%), demonstrating its sensitivity to market conditions.

Operating income increased 5% to £47.9 million (2019: £45.8 million), reflecting higher trading income in the period. Average daily bargains increased 6% year-on-year to 56,753 (2019: 53,515), reflecting improvement in trading activity across all segments, and particularly across the FTSE 350.

Despite the continued difficult market environment at the start of the year, trading remained consistently profitable, with no loss days (2019: one loss day). This demonstrates the expertise of our traders and the strict risk management of our trading positions.

Operating expenses increased 2% reflecting the increase in variable cost associated with the higher volumes in the period. The expense/income ratio decreased to 78% (2019: 80%) due to higher income in the period and the compensation ratio remained stable at 48% (2019: 48%).

Winterflood is an established execution venue, providing continuous liquidity and high-quality execution to retail intermediaries and institutional clients. Following the establishment of an affiliate licensed broker dealer in the US, the business made good progress in developing relationships with institutional clients in the US, obtaining its registration to 14 states.

Winterflood Business Services, which provides outsourced dealing and custody services for asset managers and platforms in the UK, continued to focus on developing its client base and the assets under administration increased 11% to £4.1 billion (31 July 2019: £3.7 billion).

Winterflood has benefited from a significant increase in volumes since the period end and is well positioned to continue trading profitably in a range of conditions, but due to the nature of the business, it remains sensitive to changes in the market environment.

DEFINITIONS

Adjusted: Adjusted measures are used to increase comparability between periods and exclude amortisation of intangible assets on acquisition, any exceptional items and discontinued operations

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

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

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

Capital Requirements Regulation ("CRR"): European Union regulation implementing the Basel III requirements in Europe, alongside CRD IV

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 intangible assets and certain other regulatory adjustments

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

Dividend per share: 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: Tax on operating profit/(loss) as a percentage of operating profit/(loss) on ordinary activities before tax

Expected credit loss: 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 adjusted operating income

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

Funding % loan book: Total funding divided by net loans and advances to customers

Gross carrying amount: Loan book before expected credit loss provision

High quality liquid assets ("HQLAs"): Assets which qualify for regulatory liquidity purposes, including Bank of England deposits and sovereign and central bank debt, including funds drawn under the Funding for Lending Scheme

Independent financial adviser: 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

Investment costs: Include depreciation and other costs related to investment in multi-year projects, new business initiatives and pilots and cyber resilience. Excludes IFRS16 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: 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 ratio: For a secured loan, the loan balance as a percentage of the total value of the asset

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 interest margin: Adjusted 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 loans and advances to customers (net of impaired loans) and operating lease assets

Operating margin: Adjusted operating profit divided by adjusted 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

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

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

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

Return on opening equity: Adjusted profit attributable to shareholders from continuing operations 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: A measure of the amount of a bank's assets, adjusted for risk. It is used in determining the capital requirement for a financial institution

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

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. The key elements to the way we manage risk are as follows:

- 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.

While there have been no significant changes to our risk management approach in the period, we continue to closely monitor the economic environment in the context of the UK's departure from the EU as well as the emergence and spread of the coronavirus (COVID-19).

The principal risks and uncertainties faced by the group remain unchanged since the year end. A detailed description of each, including an overview of our risk management and mitigation approach, is disclosed on pages 18 to 22 of the Annual Report 2019 which 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 and uncertainties is included below:

Credit risk – the group provides loans to a range of businesses and individuals. There is a risk that customers are unable to repay their loans and any outstanding interest and fees resulting in credit losses. The group also has exposure to counterparties with which it places deposits or trades, and also has a small number of derivative contracts to hedge interest rate and foreign exchange exposures.

Economic environment – any downturn in economic conditions may impact the group's performance through lower demand for the group's products and services, lower investor risk appetite, higher credit losses and increased volatility in funding markets.

Legal and regulatory – Failure to comply with existing legal, regulatory and tax requirements, or to react to changes to these requirements, could adversely impact the group's performance, as well as capital, liquidity and the markets in which we operate. For example, we are currently preparing for change in the Motor Finance market following publication of FCA Consultation Paper 19/28 on 15 October 2019. Failing to treat customers fairly, safeguard client assets or to provide advice and products which are in our clients' best interests also has the potential to damage the group's reputation and may lead to legal or regulatory sanctions including litigation and customer redress.

Operational risk – the group is exposed to various operational risks through its day-to-day operations. Losses typically crystallise as a result of inadequate or failed internal processes, people and systems, or as a result of external factors. Adverse impacts to the business, customers, third parties and the markets in which we operate are considered within a developing focus on resilient end-to-end delivery of critical business services.

Competition – the group operates in competitive markets. Elevated levels of competition may impact the group's ability to write loans at its desired risk and return criteria, resulting in lower new business volumes and loss of market share.

Employees – the quality and expertise of our employees is critical to our success. The loss of key individuals or teams may have an adverse impact on the group's operations and ability to deliver its strategy.

Funding and liquidity – access to funding remains key to support our lending activities and the group's liquidity requirements. Any material change to funding or liquidity capacity has the potential to impact the group's ongoing performance.

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

In addition to the principal risks and uncertainties outlined above, the group continues to monitor its portfolio for emerging risks, supporting organisational readiness for external volatility.

Current group-level emerging risks include the risk of economic and political uncertainty as a result of the UK's exit from the EU, and the risk of financial loss resulting from the physical or transitional impacts of climate change. Since the year end, senior management responsibility for climate risk has been assigned to the group chief risk officer while the Risk Committee has assumed responsibility for overseeing and challenging the firm's evolving climate risk framework.

In recent weeks, the group has also employed preventative measures to minimise potential risk to colleagues, as well as business disruption, in the event that COVID-19 becomes more widespread across the UK. Existing business continuity plans have been updated, with oversight from the Group Crisis Management Team, which continues to monitor developments on a day-to-day basis.

DIRECTORS' RESPONSIBILITY STATEMENT

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

- the interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting";
- the half year report includes 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 description of principal risks and uncertainties for the remaining six months of the financial year); and
- the half year report includes 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 52 and 53 of the company's Annual Report 2019 together with Sally Williams, who became a Director on 1 January 2020. A list of current Directors is maintained on the company's website www.closebrothers.com.

On behalf of the board

Michael N. Biggs	**P. Prebensen**
Chairman	Chief Executive

10 March 2020

INDEPENDENT REVIEW REPORT TO CLOSE BROTHERS GROUP PLC

Report on the interim financial statements

Our conclusion

We have reviewed Close Brothers Group plc's financial statements (the "interim financial statements") in the Half Year Results for the six month period ended 31 January 2020. 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 International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the consolidated balance sheet at 31 January 2020;
- the conslidated 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 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

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.

Our responsibility is to express a conclusion on the interim financial statements in the Half Year Results based on our review. 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.

What a review of interim financial statements involves

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

PricewaterhouseCoopers LLP
Chartered Accountants
London
10 March 2020

CONSOLIDATED INCOME STATEMENT
for the six months ended 31 January 2020

	Note	Six months ended 31 January 2020 Unaudited £ million	Six months ended 31 January 2019 Unaudited £ million	Year ended 31 July 2019 Audited £ million
Interest income		**323.5**	314.5	635.6
Interest expense		**(69.4)**	(64.7)	(129.9)
Net interest income		**254.1**	249.8	505.7
Fee and commission income		**117.7**	113.5	224.9
Fee and commission expense		**(9.2)**	(6.1)	(19.2)
Gains less losses arising from dealing in securities		**43.8**	39.7	81.3
Other income		**44.2**	36.9	77.4
Depreciation of operating lease assets and other direct costs		**(30.6)**	(26.4)	(53.7)
Non-interest income		**165.9**	157.6	310.7
Operating income	2	**420.0**	407.4	816.4
Administrative expenses		**(257.6)**	(246.7)	(497.4)
Impairment losses on financial assets	7	**(36.7)**	(21.9)	(48.5)
Total operating expenses before amortisation of intangible assets on acquisition		**(294.3)**	(268.6)	(545.9)
Operating profit before amortisation of intangible assets on acquisition		**125.7**	138.8	270.5
Amortisation of intangible assets on acquisition		**(1.6)**	(3.2)	(5.8)
Operating profit before tax		**124.1**	135.6	264.7
Tax	3	**(29.6)**	(33.4)	(64.4)
Profit after tax from continuing operations		**94.5**	102.2	200.3
Profit from discontinued operations, net of tax	4	**-**	1.2	1.1
Profit after tax		**94.5**	103.4	201.4
Loss attributable to non-controlling interests from continuing operations		**-**	(0.1)	(0.2)
Profit attributable to shareholders		**94.5**	103.5	201.6
From continuing operations				
Basic earnings per share	5	**63.0p**	68.1p	133.5p
Diluted earnings per share	5	**62.7p**	67.5p	132.5p
From continuing and discontinued operations				
Basic earnings per share	5	**63.0p**	68.9p	134.2p
Diluted earnings per share	5	**62.7p**	68.3p	133.2p
Ordinary dividend per share	6	**22.7p**	22.0p	66.0p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 31 January 2020

	Six months ended 31 January		Year ended 31 July
	2020	2019	2019
	Unaudited	Unaudited	Audited
	£ million	£ million	£ million
Profit after tax	**94.5**	103.4	201.4
Other comprehensive expense that may be reclassified to income statement from continuing operations			
Currency translation (losses)/gains	**(1.5)**	(0.4)	0.4
Gains/(losses) on cash flow hedging	**1.3**	(1.8)	(6.0)
Losses on financial instruments classified at fair value through other comprehensive income:			
Sovereign and central bank debt	**(0.4)**	(0.6)	(0.1)
Tax relating to items that may be reclassified	**(0.2)**	0.6	1.1
	(0.8)	(2.2)	(4.6)
Other comprehensive (expense)/income that will not be reclassified to income statement from continuing operations			
Defined benefit pension scheme (losses)/gains	**(0.1)**	0.2	1.9
Tax relating to items that will not be reclassified	**-**	-	(0.4)
	(0.1)	0.2	1.5
Other comprehensive expense for the period, net of tax from continuing operations	**(0.9)**	(2.0)	(3.1)
Total comprehensive income	**93.6**	101.4	198.3
Attributable to:			
Non-controlling interests	**-**	(0.1)	(0.2)
Shareholders	**93.6**	101.5	198.5
	93.6	101.4	198.3

CONSOLIDATED BALANCE SHEET
at 31 January 2020

	Note	**31 January 2020 Unaudited £ million**	31 July 2019 Audited £ million
Assets			
Cash and balances at central banks		**916.3**	1,106.4
Settlement balances		**671.7**	562.9
Loans and advances to banks		**166.4**	108.9
Loans and advances to customers	7	**7,619.1**	7,649.6
Debt securities	8	**367.4**	314.4
Equity shares	9	**35.1**	36.3
Loans to money brokers against stock advanced		**38.9**	42.5
Derivative financial instruments		**29.0**	30.1
Intangible assets	10	**228.5**	219.4
Property, plant and equipment	11	**310.9**	248.2
Current tax assets		**16.1**	-
Deferred tax assets		**49.9**	52.2
Prepayments, accrued income and other assets		**219.5**	190.4
Total assets		**10,668.8**	10,561.3
Liabilities			
Settlement balances and short positions	12	**664.9**	568.1
Deposits by banks	13	**135.5**	58.0
Deposits by customers	13	**5,564.4**	5,638.4
Loans and overdrafts from banks	13	**510.3**	519.3
Debt securities in issue	13	**1,816.1**	1,860.1
Loans from money brokers against stock advanced		**38.0**	14.3
Derivative financial instruments		**12.8**	20.6
Current tax liabilities		**-**	21.2
Accruals, deferred income and other liabilities		**270.6**	233.3
Subordinated loan capital	13	**221.6**	221.6
Total liabilities		**9,234.2**	9,154.9
Equity			
Called up share capital		**38.0**	38.0
Retained earnings		**1,417.7**	1,392.5
Other reserves		**(20.1)**	(23.1)
Total shareholders' equity		**1,435.6**	1,407.4
Non-controlling interests		**(1.0)**	(1.0)
Total equity		**1,434.6**	1,406.4
Total liabilities and equity		**10,668.8**	10,561.3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 January 2020

	Called up share capital £ million	Retained earnings £ million	Other reserves: Available for sale reserve £ million	Other reserves: FVOCI reserve £ million	Other reserves: Share-based payments reserve £ million	Other reserves: Exchange movements reserve £ million	Other reserves: Cash flow hedging reserve £ million	Total attributable to equity holders £ million	Non-controlling interests £ million	Total equity £ million
At 31 July 2018 (audited)	38.0	1,327.7	0.8	-	(15.9)	(1.2)	0.1	1,349.5	(0.8)	1,348.7
IFRS 9 transition	-	(44.9)	(0.8)	0.8	-	-	-	(44.9)	-	(44.9)
At 1 August 2018 (audited)	38.0	1,282.8	-	0.8	(15.9)	(1.2)	0.1	1,304.6	(0.8)	1,303.8
Profit/(loss) for the period	-	103.5	-	-	-	-	-	103.5	(0.1)	103.4
Other comprehensive income/(expense) for the period	-	0.2	-	(0.4)	-	(0.4)	(1.4)	(2.0)	-	(2.0)
Total comprehensive income/(expense) for the period	-	103.7	-	(0.4)	-	(0.4)	(1.4)	101.5	(0.1)	101.4
Dividends paid	-	(62.8)	-	-	-	-	-	(62.8)	-	(62.8)
Shares purchased	-	-	-	-	(11.0)	-	-	(11.0)	-	(11.0)
Shares released	-	-	-	-	9.3	-	-	9.3	-	9.3
Other movements	-	0.9	-	-	(0.2)	-	-	0.7	-	0.7
Income tax	-	(0.4)	-	-	-	-	-	(0.4)	-	(0.4)
At 31 January 2019 (unaudited)	38.0	1,324.2	-	0.4	(17.8)	(1.6)	(1.3)	1,341.9	(0.9)	1,341.0
Profit/(loss) for the period	-	98.1	-	-	-	-	-	98.1	(0.1)	98.0
Other comprehensive income/(expense) for the period	-	1.3	-	0.3	-	0.4	(3.1)	(1.1)	-	(1.1)
Total comprehensive income/(expense) for the period	-	99.4	-	0.3	-	0.4	(3.1)	97.0	(0.1)	96.9
Dividends paid	-	(32.7)	-	-	-	-	-	(32.7)	-	(32.7)
Shares purchased	-	-	-	-	-	-	-	-	-	-
Shares released	-	-	-	-	1.6	-	-	1.6	-	1.6
Other movements	-	1.9	-	-	(2.0)	-	-	(0.1)	-	(0.1)
Income tax	-	(0.3)	-	-	-	-	-	(0.3)	-	(0.3)
At 31 July 2019 (audited)	38.0	1,392.5	-	0.7	(18.2)	(1.2)	(4.4)	1,407.4	(1.0)	1,406.4
Profit for the period	-	94.5	-	-	-	-	-	94.5	-	94.5
Other comprehensive (expense)/income for the period	-	(0.1)	-	(0.3)	-	(1.5)	1.0	(0.9)	-	(0.9)
Total comprehensive income/(expense) for the period	-	94.4	-	(0.3)	-	(1.5)	1.0	93.6	-	93.6
Dividends paid	-	(65.8)	-	-	-	-	-	(65.8)	-	(65.8)
Shares purchased	-	-	-	-	(8.0)	-	-	(8.0)	-	(8.0)
Shares released	-	-	-	-	11.0	-	-	11.0	-	11.0
Other movements	-	(3.7)	-	-	0.8	-	-	(2.9)	-	(2.9)
Income tax	-	0.3	-	-	-	-	-	0.3	-	0.3
At 31 January 2020 (unaudited)	**38.0**	**1,417.7**	**-**	**0.4**	**(14.4)**	**(2.7)**	**(3.4)**	**1,435.6**	**(1.0)**	**1,434.6**

CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 31 January 2020

	Note	Six months ended 31 January 2020 Unaudited £ million	Six months ended 31 January 2019 Unaudited £ million	Year ended 31 July 2019 Audited £ million
Net cash (outflow)/inflow from operating activities	17(a)	**(15.8)**	(387.9)	20.4
Net cash (outflow)/inflow from investing activities				
Purchase of:				
Property, plant and equipment		**(2.8)**	(1.6)	(4.9)
Intangible assets – software		**(23.2)**	(18.0)	(42.2)
Subsidiaries	17(b)	**(3.3)**	-	(3.6)
Sale of:				
Subsidiaries and discontinued operations	17(c)	**0.5**	86.1	87.6
		(28.8)	66.5	36.9
Net cash (outflow)/inflow before financing activities		**(44.6)**	(321.4)	57.3
Financing activities				
Purchase of own shares for employee share award schemes		**(8.0)**	(11.0)	(11.0)
Equity dividends paid		**(65.8)**	(62.8)	(95.5)
Interest paid on subordinated loan capital and debt financing		**(7.1)**	(7.1)	(14.2)
Payment of IFRS 16 lease liabilities (note 1)		**(7.4)**	-	-
Net decrease in cash		**(132.9)**	(402.3)	(63.4)
Cash and cash equivalents at beginning of period		**1,188.3**	1,251.7	1,251.7
Cash and cash equivalents at end of period	17(d)	**1,055.4**	849.4	1,188.3

THE NOTES

1. Basis of preparation and accounting policies

The half year financial information has been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and in accordance with the International Financial Reporting Standards ("IFRS") endorsed by the European Union. These include International Accounting Standard ("IAS") 34, Interim Financial Reporting, which specifically addresses the contents of interim financial statements. The consolidated financial statements incorporate the individual financial statements of Close Brothers Group plc and the entities it controls, using the acquisition method of accounting.

The half year report is unaudited and does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. However, the information has been reviewed by the group's auditor, PricewaterhouseCoopers LLP, and their report appears on pages 23 and 24.

The financial information for the year ended 31 July 2019 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 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 111 to 116 of the Annual Report 2019 except in relation to the adoption of IFRS 16 Leases effective from 1 August 2019.

IFRS 16 replaces IAS 17 Leases and introduces a new recognition model that recognises all leases on a lessee's balance sheet, subject to certain exemptions. As a result, there is no longer a distinction between finance and operating leases for lessees. However, lessor accounting is substantially unchanged.

IFRS 16 has been applied on a modified retrospective basis and comparative information has not been restated. The impact of the initial application of IFRS 16 is set out in note 19.

Changes in accounting policy

The accounting policies set out in section (M) in note 1 of the Annual Report 2019 have been replaced by those below from 1 August 2019 following the adoption of IFRS 16.

<u>Leases</u>

Lessor

A finance lease is a lease or hire purchase contract that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Finance leases are recognised as loans at an amount equal to the gross investment in the lease discounted at its implicit interest rate. Finance charges on finance leases are taken to income in proportion to the net funds invested.

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee. Rental income from operating leases is recognised in equal instalments over the period of the leases and included in other income in the consolidated income statement.

Lessee

A lease liability and right of use asset are recognised on the balance sheet at the lease commencement date. The lease liability is measured at the present value of future lease payments. The right of use asset is measured at cost, comprising the initial lease liability, payments made at or before the commencement date less lease incentives received, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease.

The finance cost relating to the lease liability is charged to the consolidated income statement over the lease term. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

Critical accounting estimates and judgements

The preparation of the half year report requires management to make estimates and assumptions that affect the reported income and expense, assets and liabilities and disclosure of contingencies at the date of the half year report. Although these estimates and assumptions are based on management's best judgement at that date, actual results may differ from these estimates. There have been no significant changes in the basis upon which estimates have been determined compared to that applied at 31 July 2019.

Forward-looking information

As described in note 1 of the Annual Report 2019, IFRS 9 requires the incorporation of forward-looking macroeconomic information that is reasonable and supportable. To capture the effect of changes to the economic environment, the calculation of expected credit losses incorporates forward-looking information and assumptions linked to economic variables that impact losses in each portfolio. Externally sourced forecast economic data and scenarios are used to project potential credit conditions for each portfolio.

Economic scenarios are assigned a probability weighting using a combination of quantitative analysis and expert judgement. Six different projected economic scenarios are currently considered to cover a range of possible outcomes, reflecting upside and downside relative to the baseline and forecast economic conditions. The economic scenarios are generated to capture a range of possible economic outcomes to facilitate the calculation of unbiased and probability-weighted expected credit losses.

Weighted assumptions are aligned to the forward-looking outlook. The table below shows the key UK economic assumptions within each of the scenarios, and the weighting applied to each at 31 January 2020. The numbers shown are an average over the five-year period from 2019 to 2023 and are not necessarily representative of peak to trough movements.

There has been no significant change to the group's baseline economic assumptions included in the IFRS 9 models over the course of the year. The range of scenarios and weightings selected and applied continues to cover a broad range of potential outcomes, reflecting the current political and macroeconomic uncertainty in the UK.

The expected credit loss provision is sensitive to judgement and estimations made with regard to the selection and weighting of multiple macroeconomic scenarios. The sensitivity analysis on the expected credit loss provision outlined on page 117 of the Annual Report 2019 has been reperformed by management and there are no significant changes to the sensitivity outcomes.

	Baseline	**Upside (exceptionally strong)**	**Upside (strong)**	**Downside (mild)**	**Downside (moderate)**	**Downside (protracted)**
At 31 January 2020						
UK GDP growth	**1.1%**	**2.2%**	**1.7%**	**0.8%**	**0.3%**	**(0.5%)**
UK unemployment rate	**4.5%**	**3.2%**	**3.6%**	**5.1%**	**6.0%**	**6.7%**
House price index growth	**1.0%**	**4.0%**	**3.0%**	**(0.2%)**	**(2.2%)**	**(4.1%)**
Bank of England base rate	**0.9%**	**1.3%**	**1.1%**	**0.5%**	**0.2%**	**0.2%**
Weighting	**40%**	**0%**	**5%**	**40%**	**10%**	**5%**

	Baseline	Upside (exceptionally strong)	Upside (strong)	Downside (mild)	Downside (moderate)	Downside (protracted)
At 31 July 2019						
UK GDP growth	1.5%	2.4%	2.1%	1.2%	0.8%	0.3%
UK unemployment rate	4.7%	3.3%	3.7%	5.3%	6.4%	7.2%
House price index growth	1.8%	4.7%	3.7%	0.8%	(1.1%)	(3.0%)
Bank of England base rate	1.1%	1.7%	1.5%	0.6%	0.2%	0.1%
Weighting	**40%**	**0%**	**5%**	**40%**	**10%**	**5%**

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 (2019: five) operating segments: Commercial, Retail, Property, Asset Management and Securities.

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

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

Summary Income Statement for the six months ended 31 January 2020

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Net interest income/(expense)	90.8	100.3	63.4	-	(0.4)	-	254.1
Non-interest income	38.8	13.1	-	65.7	48.3	-	165.9
Operating income	129.6	113.4	63.4	65.7	47.9	-	420.0
Administrative expenses	(64.2)	(56.3)	(14.9)	(50.6)	(35.7)	(12.9)	(234.6)
Depreciation and amortisation	(8.5)	(7.6)	(2.8)	(2.5)	(1.6)	-	(23.0)
Impairment losses on financial assets	(18.4)	(15.4)	(2.9)	-	-	-	(36.7)
Total operating expenses	(91.1)	(79.3)	(20.6)	(53.1)	(37.3)	(12.9)	(294.3)
Adjusted operating profit/(loss)[1]	38.5	34.1	42.8	12.6	10.6	(12.9)	125.7
Amortisation of intangible assets on acquisition	(0.9)	(0.1)	-	(0.6)	-	-	(1.6)
Operating profit/(loss) before tax from continuing operations	37.6	34.0	42.8	12.0	10.6	(12.9)	124.1
Profit before tax from discontinued operations	-	-	-	-	-	-	-
Profit/(loss) before tax	37.6	34.0	42.8	12.0	10.6	(12.9)	124.1
External operating income/(expense)	156.7	134.9	77.5	65.7	47.9	(62.7)	420.0
Inter segment operating (expense)/income	(27.1)	(21.5)	(14.1)	-	-	62.7	-
Segment operating income	129.6	113.4	63.4	65.7	47.9	-	420.0

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

Balance Sheet Information at 31 January 2020

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
Total assets[1]	3,300.7	2,784.1	1,769.6	114.3	834.7	1,865.4	10,668.8
Total liabilities	-	-	-	59.2	762.8	8,412.2	9,234.2

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Balance sheet includes £9,710.0 million assets and £8,483.7 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 £7,854.4 million, in addition to assets and liabilities of £9,710.0 million and £8,483.7 million respectively primarily comprising treasury balances which are included within the Group column above.

	Banking total £ million	**Asset Management £ million**	**Securities £ million**	**Group £ million**	**Total £ million**
Equity	**1,226.3**	**55.1**	**71.9**	**81.3**	**1,434.6**

Summary Income Statement for the six months ended 31 January 2019

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Net interest income/(expense)	87.3	98.0	64.8	0.1	(0.4)	-	249.8
Non-interest income	38.0	15.2	(0.2)	58.4	46.2	-	157.6
Operating income	125.3	113.2	64.6	58.5	45.8	-	407.4
Administrative expenses	(65.8)	(57.2)	(14.5)	(46.8)	(35.7)	(12.4)	(232.4)
Depreciation and amortisation	(4.5)	(5.8)	(2.3)	(0.9)	(0.8)	-	(14.3)
Impairment losses on financial assets	(7.7)	(13.4)	(0.8)	-	-	-	(21.9)
Total operating expenses	(78.0)	(76.4)	(17.6)	(47.7)	(36.5)	(12.4)	(268.6)
Adjusted operating profit/(loss)[1]	47.3	36.8	47.0	10.8	9.3	(12.4)	138.8
Amortisation of intangible assets on acquisition	(0.8)	(0.1)	-	(2.3)	-	-	(3.2)
Operating profit/(loss) before tax from continuing operations	46.5	36.7	47.0	8.5	9.3	(12.4)	135.6
Profit before tax from discontinued operations	-	0.9	-	-	-	-	0.9
Profit/(loss) before tax	46.5	37.6	47.0	8.5	9.3	(12.4)	136.5
External operating income/(expense)	150.4	133.9	79.0	58.5	45.8	(60.2)	407.4
Inter segment operating (expense)/income	(25.1)	(20.7)	(14.4)	-	-	60.2	-
Segment operating income	125.3	113.2	64.6	58.5	45.8	-	407.4

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

Summary Income Statement for the year ended 31 July 2019

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Net interest income/(expense)	176.7	199.8	129.8	0.1	(0.7)	-	505.7
Non-interest income	73.2	23.4	(0.3)	120.3	94.1	-	310.7
Operating income	249.9	223.2	129.5	120.4	93.4	-	816.4
Administrative expenses	(128.6)	(113.9)	(30.2)	(96.6)	(71.7)	(24.9)	(465.9)
Depreciation and amortisation	(11.5)	(11.6)	(4.7)	(1.9)	(1.7)	(0.1)	(31.5)
Impairment losses on financial assets	(23.3)	(25.2)	0.1	(0.1)	-	-	(48.5)
Total operating expenses	(163.4)	(150.7)	(34.8)	(98.6)	(73.4)	(25.0)	(545.9)
Adjusted operating profit/(loss)[1]	86.5	72.5	94.7	21.8	20.0	(25.0)	270.5
Amortisation of intangible assets on acquisition	(1.6)	(0.3)	-	(3.9)	-	-	(5.8)
Operating profit/(loss) before tax from continuing operations	84.9	72.2	94.7	17.9	20.0	(25.0)	264.7
Operating profit before tax from discontinued operations	-	0.8	-	-	-	-	0.8
Operating profit/(loss) before tax	84.9	73.0	94.7	17.9	20.0	(25.0)	265.5
External operating income/(expense)	300.8	264.6	158.1	120.5	93.4	(121.0)	816.4
Inter segment operating (expense)/income	(50.9)	(41.4)	(28.6)	(0.1)	-	121.0	-
Segment operating income	249.9	223.2	129.5	120.4	93.4	-	816.4

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

Balance Sheet Information at 31 July 2019

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
Total assets[1]	3,211.7	2,810.7	1,847.6	115.9	723.8	1,851.6	10,561.3
Total liabilities	-	-	-	59.1	652.6	8,443.2	9,154.9

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Balance sheet includes £1,856.2 million assets and £8,533.6 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]	1,192.6	56.8	71.2	85.8	1,406.4

1 Equity of the Banking division reflects loan book and operating lease assets of £7,870.0 million, in addition to assets and liabilities of £1,856.2 million and £8,533.6 million respectively primarily comprising treasury balances which are included within the Group column above.

3. Taxation

	Six months ended 31 January 2020 £ million	Six months ended 31 January 2019 £ million	Year ended 31 July 2019 £ million
Tax charged/(credited) to the income statement			
Current tax:			
UK corporation tax	**26.7**	30.4	59.4
Foreign tax	**0.6**	0.9	1.3
Adjustments in respect of previous periods	**-**	-	(0.9)
	27.3	31.3	59.8
Deferred tax:			
Deferred tax charge for the current period	**2.3**	2.1	3.7
Adjustments in respect of previous periods	**-**	-	0.9
	29.6	33.4	64.4
Tax on items not (credited)/charged to the income statement			
Current tax relating to:			
Share-based payments	**(0.1)**	(0.1)	(0.1)
Deferred tax relating to:			
Cash flow hedging	**0.3**	(0.4)	(1.5)
Defined benefit pension scheme	**-**	-	0.4
Financial instruments classified at fair value through other comprehensive income	**(0.1)**	(0.2)	-
Share-based payments	**(0.2)**	0.5	0.8
Currency translation gains	**-**	-	0.4
Acquisitions	**-**	-	0.2
	(0.1)	(0.2)	0.2
Reconciliation to tax expense			
UK corporation tax for the period at 18.3% (2019: 19.0%) on operating profit	**22.7**	25.8	50.3
Effect of different tax rates in other jurisdictions	**(0.1)**	(0.1)	(0.2)
Disallowable items and other permanent differences	**0.9**	0.6	0.3
Banking surcharge	**6.2**	7.1	14.0
Deferred tax impact of increased tax rates	**(0.1)**	-	-
	29.6	33.4	64.4

The effective tax rate for the period is 23.9% (six months ended 31 January 2019: 24.6%; year ended 31 July 2019: 24.3%), 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 18.3% (six months ended 31 January 2019: 19.0%; year ended 31 July 2019: 19.0%). However, an additional 8% surcharge applies to banking company profits as defined in legislation. The effective tax rate is above the UK corporation tax rate primarily due to the surcharge applying to the majority of the group's profits.

4. Discontinued operations

On 1 January 2019, the group completed the sale of Close Brothers Retail Finance, which provides unsecured retail point of sale finance to consumers, to Klarna Bank AB. The transaction fulfilled the requirements of IFRS 5 to be classified as “discontinued operations” in the consolidated income statement.

The net assets of Close Brothers Retail Finance on 1 January 2019, the date of disposal, was £80.9 million, comprising largely of loans and advances to customers.

Results of discontinued operations

	Six months ended 31 January		Year ended 31 July
	2020	2019	2019
	£ million	£ million	£ million
Operating income	**-**	3.7	3.7
Operating expenses	**-**	(4.2)	(4.2)
Impairment losses on loans and advances	**-**	(1.6)	(1.6)
Operating loss before tax	**-**	(2.1)	(2.1)
Tax	**-**	0.5	0.5
Loss after tax	**-**	(1.6)	(1.6)
Profit on disposal of discontinued operations, net of tax	**-**	2.8	2.7
Profit from discontinued operations	**-**	1.2	1.1

Cash flow from discontinued operations

	Six months ended 31 January		Year ended 31 July
	2020	2019	2019
	£ million	£ million	£ million
Net cash outflow from operating activities	**-**	(16.1)	(16.1)
Net cash outflow from investing activities	**-**	(0.3)	(0.3)

5. Earnings per share

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

	Six months ended 31 January		Year ended 31 July
	2020	2019	2019
Continuing operations			
Basic	**63.0p**	68.1p	133.5p
Diluted	**62.7p**	67.5p	132.5p
Adjusted basic[1]	**63.8p**	69.8p	136.7p
Adjusted diluted[1]	**63.5p**	69.2p	135.7p
Continuing and discontinued operations			
Basic	**63.0p**	68.9p	134.2p
Diluted	**62.7p**	68.3p	133.2p

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

	Six months ended 31 January		Year ended 31 July
	2020	2019	2019
	£ million	£ million	£ million
Profit attributable to shareholders	**94.5**	103.5	201.6
Less profit from discontinued operations, net of tax	**-**	1.2	1.1
Profit attributable to shareholders on continuing operations	**94.5**	102.3	200.5
Adjustments:			
Amortisation of intangible assets on acquisition	**1.6**	3.2	5.8
Tax effect of adjustment	**(0.3)**	(0.6)	(1.0)
Adjusted profit attributable to shareholders on continuing operations	**95.8**	104.9	205.3

	Six months ended 31 January		Year ended 31 July
	2020	2019	2019
	million	million	million
Average number of shares			
Basic weighted	**150.1**	150.2	150.2
Effect of dilutive share options and awards	**0.7**	1.4	1.1
Diluted weighted	**150.8**	151.6	151.3

6. Dividends

	Six months ended 31 January **2020** **£ million**	2019 £ million	Year ended 31 July 2019 £ million
For each ordinary share			
Interim dividend for previous financial year paid in April 2019: 22.0p	**-**	-	32.8
Final dividend for previous financial year paid in November 2019: 44.0p (November 2018: 42.0p)	**65.8**	62.8	62.7
	65.8	62.8	95.5

An interim dividend relating to the six months ended 31 January 2020 of 22.7p, amounting to an estimated £33.9 million, is declared. This interim dividend, which is due to be paid on 22 April 2020 to shareholders on the register at 20 March 2020, is not reflected in these condensed half year financial statements.

7. Loans and advances to customers

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

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Impairment provisions £ million	Total £ million
At 31 January 2020	**79.0**	**2,289.2**	**2,239.1**	**1,464.2**	**1,555.3**	**108.9**	**(116.6)**	**7,619.1**
At 31 July 2019	80.7	2,288.8	2,381.0	1,332.0	1,556.3	115.1	(104.3)	7,649.6

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 1 August 2019	24.9	27.1	52.3	104.3
New financial assets originated	12.0	-	-	12.0
Transfers to Stage 1	1.0	(4.9)	(0.1)	(4.0)
Transfers to Stage 2	(3.3)	12.8	(0.3)	9.2
Transfers to Stage 3	(0.8)	(6.3)	32.0	24.9
Net remeasurement of expected credit losses arising from transfers between stages and repayments	(3.1)	1.6	31.6	30.1
Repayments and ECL movements while stage remained unchanged and final repayments	(5.9)	(2.3)	1.1	(7.1)
Changes to model methodologies	-	-	-	-
Charge to the income statement	3.0	(0.7)	32.7	35.0
Write offs	-	(0.4)	(22.3)	(22.7)
At 31 January 2020	**27.9**	**26.0**	**62.7**	**116.6**

	Six months ended 31 January 2020 £ million
Impairment losses relating to loans and advances to customers:	
Charge to income statement arising from movement in impairment provisions	35.0
Amounts written off directly to income statement, net of recoveries and other costs	1.2
	36.2
Impairment losses relating to other financial assets	0.5
Impairment losses on financial assets recognised in income statement	**36.7**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers				
At 1 August 2019	6,864.0	703.7	186.2	7,753.9
New financial assets originated	2,804.1	-	-	2,804.1
Transfers to Stage 1	217.5	(235.0)	(6.6)	(24.1)
Transfers to Stage 2	(585.0)	511.6	(7.2)	(80.6)
Transfers to Stage 3	(100.4)	(123.9)	188.4	(35.9)
Net transfers between stages and repayments	(467.9)	152.7	174.6	(140.6)
Repayments while stage remained unchanged and final repayments	(2,403.8)	(183.0)	(36.9)	(2,623.7)
Changes to model methodologies	1.2	0.8	(2.0)	-
Write offs	(1.2)	(1.0)	(55.8)	(58.0)
At 31 January 2020	**6,796.4**	**673.2**	**266.1**	**7,735.7**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 31 July 2018				39.1
IFRS 9 transition				58.2
At 1 August 2018	23.7	24.8	48.8	97.3
New financial assets originated	26.5	-	-	26.5
Transfers to Stage 1	1.0	(4.4)	(0.4)	(3.8)
Transfers to Stage 2	(6.4)	20.8	(0.2)	14.2
Transfers to Stage 3	(2.1)	(4.7)	48.2	41.4
Net remeasurement of expected credit losses arising from transfers between stages and repayments	(7.5)	11.7	47.6	51.8
Repayments and ECL movements while stage remained unchanged and final repayments	(17.5)	(7.5)	(11.4)	(36.4)
Changes to model methodologies	-	-	(0.3)	(0.3)
Charge to the income statement	1.5	4.2	35.9	41.6
Write offs	(0.3)	(1.9)	(32.4)	(34.6)
At 31 July 2019	24.9	27.1	52.3	104.3

	Year ended 31 July 2019 £ million
Impairment losses relating to loans and advances to customers:	
Charge to income statement arising from movement in impairment provisions	41.6
Amounts written off directly to income statement, net of recoveries and other costs	5.8
	47.4
Impairment losses relating to other financial assets	1.1
Impairment losses on financial assets recognised in income statement	48.5

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers				
At 1 August 2018	6,479.2	597.3	260.1	7,336.6
New financial assets originated	5,856.4	-	-	5,856.4
Transfers to Stage 1	204.6	(195.3)	(65.1)	(55.8)
Transfers to Stage 2	(918.4)	791.5	(11.3)	(138.2)
Transfers to Stage 3	(249.9)	(126.7)	315.4	(61.2)
Net transfers between stages and repayments	(963.7)	469.5	239.0	(255.2)
Repayments while stage remained unchanged and final repayments	(4,573.0)	(369.3)	(134.8)	(5,077.1)
Changes to model methodologies	86.5	23.0	(109.5)	-
Write offs	(21.4)	(16.8)	(68.6)	(106.8)
At 31 July 2019	6,864.0	703.7	186.2	7,753.9

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 2020	**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	2,728.3	279.1	22.1	301.2	96.3	**3,125.8**
Retail	2,534.0	255.1	7.6	262.7	28.0	**2,824.7**
Property	1,534.1	31.1	78.2	109.3	141.8	**1,785.2**
Total	**6,796.4**	**565.3**	**107.9**	**673.2**	**266.1**	**7,735.7**
Impairment provisions						
Commercial	16.0	8.7	2.5	11.2	33.2	**60.4**
Retail	10.3	11.8	1.2	13.0	17.3	**40.6**
Property	1.6	1.4	0.4	1.8	12.2	**15.6**
Total	**27.9**	**21.9**	**4.1**	**26.0**	**62.7**	**116.6**
Provision coverage ratio						
Commercial	0.6%	3.1%	11.3%	3.7%	34.5%	**1.9%**
Retail	0.4%	4.6%	15.8%	4.9%	61.8%	**1.4%**
Property	0.1%	4.5%	0.5%	1.6%	8.6%	**0.9%**
Total	**0.4%**	**3.9%**	**3.8%**	**3.9%**	**23.6%**	**1.5%**

At 31 July 2019	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	2,647.7	293.1	17.6	310.7	84.7	3,043.1
Retail	2,577.1	239.3	4.9	244.2	26.5	2,847.8
Property	1,639.2	43.2	105.6	148.8	75.0	1,863.0
Total	6,864.0	575.6	128.1	703.7	186.2	7,753.9
Impairment provisions						
Commercial	12.5	10.8	1.1	11.9	27.4	51.8
Retail	10.4	11.2	0.5	11.7	15.0	37.1
Property	2.0	1.9	1.6	3.5	9.9	15.4
Total	24.9	23.9	3.2	27.1	52.3	104.3
Provision coverage ratio						
Commercial	0.5%	3.7%	6.3%	3.8%	32.3%	1.7%
Retail	0.4%	4.7%	10.2%	4.8%	56.6%	1.3%
Property	0.1%	4.4%	1.5%	2.4%	13.2%	0.8%
Total	0.4%	4.2%	2.5%	3.9%	28.1%	1.3%

Stage 1 and Stage 2 loans and advances to customers and expected credit loss provisions have remained broadly flat with stable provision coverage ratios of 0.4% (31 July 2019: 0.4%) and 3.9% (31 July 2019: 3.9%) respectively.

Stage 3 loans and advances to customers have increased £79.9 million to £266.1 million (31 July 2019: £186.2 million). This movement is primarily due to the Property segment, where a number of specific loans and advances to customers met Stage 3 default triggers in the period. This increase resulted in a change to the overall Stage 3 provision coverage ratio to 23.6% (31 July 2019: 28.1%) reflecting the secured nature of our portfolios and the detailed assessments in place to calculate expected credit loss provisions.

8. Debt securities

	Fair value through profit or loss £ million	**Fair value through other comprehensive income £ million**	**Amortised cost £ million**	**Total £ million**
Long trading positions in debt securities	**22.1**	**-**	**-**	**22.1**
Certificates of deposit	**-**	**-**	**301.0**	**301.0**
Sovereign and central bank debt	**-**	**44.3**	**-**	**44.3**
At 31 January 2020	**22.1**	**44.3**	**301.0**	**367.4**

	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	25.4	-	-	25.4
Certificates of deposit	-	-	240.7	240.7
Sovereign and central bank debt	-	48.3	-	48.3
At 31 July 2019	25.4	48.3	240.7	314.4

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

	Six months ended 31 January 2020 £ million	Year ended 31 July 2019 £ million
Sovereign and central bank debt at beginning of period	**48.3**	44.5
Currency translation difference	**(3.5)**	1.0
Changes in fair value	**(0.5)**	2.8
Sovereign and central bank debt at end of period	**44.3**	48.3

9. Equity shares

	31 January 2020 £ million	31 July 2019 £ million
Long trading positions	**34.3**	35.3
Other equity shares	**0.8**	1.0
	35.1	36.3

10. Intangible assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Total £ million
Cost				
At 1 August 2018	150.7	160.8	67.0	378.5
Additions	-	23.1	-	23.1
Disposals	-	(2.6)	(0.1)	(2.7)
At 31 January 2019	150.7	181.3	66.9	398.9
Additions	0.2	25.0	0.6	25.8
Disposals	(0.1)	(5.1)	-	(5.2)
At 31 July 2019	150.8	201.2	67.5	419.5
Additions	-	22.3	-	22.3
Disposals	(0.1)	(0.3)	(0.1)	(0.5)
At 31 January 2020	**150.7**	**223.2**	**67.4**	**441.3**
Amortisation and impairment				
At 1 August 2018	47.9	87.9	41.4	177.2
Amortisation charge for the period	-	9.8	3.2	13.0
Disposals	-	-	-	-
At 31 January 2019	47.9	97.7	44.6	190.2
Amortisation charge for the period	-	10.7	2.6	13.3
Disposals	-	(3.4)	-	(3.4)
At 31 July 2019	47.9	105.0	47.2	200.1
Amortisation charge for the period	-	11.5	1.6	13.1
Disposals	-	(0.3)	(0.1)	(0.4)
At 31 January 2020	**47.9**	**116.2**	**48.7**	**212.8**
Net book value at 31 January 2020	**102.8**	**107.0**	**18.7**	**228.5**
Net book value at 31 July 2019	102.9	96.2	20.3	219.4
Net book value at 31 January 2019	102.8	83.6	22.3	208.7
Net book value at 1 August 2018	102.8	72.9	25.6	201.3

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 2020, £1.6 million (six months ended 31 January 2019: £3.2 million; year ended 31 July 2019: £5.8 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £11.5 million (six months ended 31 January 2019: £9.8 million; year ended 31 July 2019: £20.5 million) of the amortisation charge is included in administrative expenses shown in the consolidated income statement.

11. Property, plant and equipment

	Leasehold property £ million	Fixtures, fittings and equipment £ million	Assets held under operating leases £ million	Motor vehicles £ million	Right of use assets £ million	Total £ million
Cost						
At 1 August 2018	22.4	55.8	268.9	0.1	-	347.2
Additions	5.0	1.3	40.6	-	-	46.9
Disposals	-	(5.4)	(15.1)	-	-	(20.5)
At 31 January 2019	27.4	51.7	294.4	0.1	-	373.6
Additions	0.9	4.9	32.3	-	-	38.1
Disposals	(1.2)	(1.1)	(12.6)	-	-	(14.9)
At 31 July 2019	27.1	55.5	314.1	0.1	-	396.8
IFRS 16 transition (note 1)	-	-	-	-	44.8	44.8
At 1 August 2019	27.1	55.5	314.1	0.1	44.8	441.6
Additions	0.1	2.0	38.9	-	12.7	53.7
Disposals	(2.9)	(3.1)	(13.3)	-	(0.1)	(19.4)
At 31 January 2020	**24.3**	**54.4**	**339.7**	**0.1**	**57.4**	**475.9**
Depreciation						
At 1 August 2018	12.9	38.0	70.1	0.1	-	121.1
Depreciation charge for the period	1.5	3.3	18.0	-	-	22.8
Disposals	-	(0.6)	(7.6)	-	-	(8.2)
At 31 January 2019	14.4	40.7	80.5	0.1	-	135.7
Depreciation charge for the period	1.2	5.0	18.1	-	-	24.3
Disposals	(1.0)	(5.5)	(4.9)	-	-	(11.4)
At 31 July 2019	14.6	40.2	93.7	0.1	-	148.6
Depreciation charge for the period	1.2	4.0	19.8	-	6.3	31.3
Disposals	(2.9)	(2.9)	(9.1)	-	-	(14.9)
At 31 January 2020	**12.9**	**41.3**	**104.4**	**0.1**	**6.3**	**165.0**
Net book value at 31 January 2020	**11.4**	**13.1**	**235.3**	**-**	**51.1**	**310.9**
Net book value at 31 July 2019	12.5	15.3	220.4	-	-	248.2
Net book value at 31 January 2019	13.0	11.0	213.9	-	-	237.9
Net book value at 1 August 2018	9.5	17.8	198.8	-	-	226.1

12. Settlement balances and short positions

	31 January 2020 £ million	31 July 2019 £ million
Settlement balances	**649.5**	547.6
Short positions held for trading:		
Debt securities	**5.1**	9.6
Equity shares	**10.3**	10.9
	15.4	20.5
	664.9	568.1

13. 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	**16.2**	**84.2**	**35.1**	**-**	**-**	**-**	**135.5**
Deposits by customers	**69.8**	**1,152.7**	**2,812.0**	**1,216.4**	**313.5**	**-**	**5,564.4**
Loans and overdrafts from banks	**10.0**	**10.3**	**198.2**	**141.8**	**150.0**	**-**	**510.3**
Debt securities in issue	**18.3**	**48.1**	**378.9**	**685.6**	**415.7**	**269.5**	**1,816.1**
Subordinated loan capital[1]	**0.7**	**1.4**	**0.2**	**-**	**-**	**219.3**	**221.6**
At 31 January 2020	**115.0**	**1,296.7**	**3,424.4**	**2,043.8**	**879.2**	**488.8**	**8,247.9**

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

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
Deposits by banks	12.5	15.7	29.8	-	-	-	58.0
Deposits by customers	78.3	1,232.7	2,817.9	1,157.2	352.3	-	5,638.4
Loans and overdrafts from banks	19.0	10.3	-	213.2	276.8	-	519.3
Debt securities in issue	20.7	27.4	143.6	937.8	459.5	271.1	1,860.1
Subordinated loan capital[1]	0.9	1.4	0.2	-	-	219.1	221.6
At 31 July 2019	131.4	1,287.5	2,991.5	2,308.2	1,088.6	490.2	8,297.4

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

At 31 January 2020, the group was a participant of the Bank of England's Term Funding Scheme. Under this scheme, asset finance loan receivables of £796.0 million (31 July 2019: £790.6 million) were positioned as collateral with the Bank of England, against which £490.0 million of cash (31 July 2019: £490.0 million) 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 £1,385.4 million (31 July 2019: £1,299.0 million) of its Premium and Motor Finance loan receivables in return for cash and asset-backed securities in issue of £944.0 million (31 July 2019: £949.8 million). This includes £20.2 million (31 July 2019: £35.4 million) asset-backed securities in issue retained for liquidity purposes. As the group has retained exposure to substantially all the credit risks and rewards of the residual benefit of the underlying assets, it continues to recognise these assets in loans and advances to customers on the consolidated balance sheet.

Since the balance sheet date of 31 January 2020, the group issued a third £200 million public Motor Finance securitisation, which has not been recognised on the consolidated balance sheet.

14. Capital

The group's individual regulated entities and the group as a whole complied with all of the externally imposed capital requirements to which they were subject for the period to 31 January 2020 and the year ended 31 July 2019. 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 2020 £ million	31 July 2019 £ million
Common equity tier 1 ("CET1") capital		
Called up share capital	**38.0**	38.0
Retained earnings[1]	**1,417.7**	1,392.5
Other reserves recognised for CET1 capital	**18.0**	19.0
Regulatory adjustments to CET1 capital		
Intangible assets, net of associated deferred tax liabilities	**(225.5)**	(216.1)
Foreseeable dividend[2]	**(44.3)**	(65.7)
Investment in own shares	**(34.7)**	(37.7)
Pension asset, net of associated deferred tax liabilities	**(5.1)**	(5.3)
Prudent valuation adjustment	**(0.1)**	(0.1)
IFRS 9 transitional arrangements[3]	**41.4**	44.6
CET1 capital	**1,205.4**	1,169.2
Tier 2 capital – subordinated debt	**188.6**	195.4
Total regulatory capital[4]	**1,394.0**	1,364.6
Risk weighted assets (notional)[4]		
Credit and counterparty risk	**7,986.2**	7,930.5
Operational risk[5]	**884.4**	884.4
Market risk[5]	**141.1**	152.5
	9,011.7	8,967.4
CET1 capital ratio[4]	**13.4%**	13.0%
Total capital ratio[4]	**15.5%**	15.2%

1 Retained earnings for the period ended 31 January 2020 include all profits (both verified and unverified) for the six month period.
2 Under the Regulatory Technical Standard on own funds, a deduction has been recognised for a foreseeable dividend. In accordance with this standard, for 31 January 2020 a foreseeable dividend has been determined based on the average payout ratio over the previous three years applied to the retained earnings for the period. For 31 July 2019 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 a five-year period.
4 Shown after applying IFRS 9 transitional arrangements and the Capital Requirement Regulations transitional and qualifying own funds arrangements. At 31 January 2020 the fully loaded CET1 capital ratio is 13.0% (31 July 2019: 12.6%) and total capital ratio is 14.9% (31 July 2019: 14.5%).
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 2020 £ million	31 July 2019 £ million
Equity	**1,434.6**	1,406.4
Regulatory adjustments to CET1 capital:		
Intangible assets, net of associated deferred tax liabilities	**(225.5)**	(216.1)
Foreseeable dividend[1]	**(44.3)**	(65.7)
IFRS 9 transitional arrangements	**41.4**	44.6
Pension asset, net of associated deferred tax liabilities	**(5.1)**	(5.3)
Prudent valuation adjustment	**(0.1)**	(0.1)
Other reserves not recognised for CET1 capital:		
Cash flow hedging reserve	**3.4**	4.4
Non-controlling interests	**1.0**	1.0
CET1 capital	**1,205.4**	1,169.2

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised for a foreseeable dividend. In accordance with this standard, for 31 January 2020 a foreseeable dividend has been determined based on the average payout ratio over the previous three years applied to the retained earnings for the period. For 31 July 2019 a foreseeable dividend was determined as the proposed final dividend.

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

	£ million
CET1 capital at 31 July 2019	1,169.2
Profit in the period attributable to shareholders	94.5
Dividends paid and foreseen	(44.4)
Other movements in reserves recognised for CET1 capital	(4.5)
Increase in intangible assets, net of associated deferred tax liabilities	(9.4)
Other movements in deductions from CET1 capital	-
CET1 capital at 31 January 2020	**1,205.4**

15. Contingent liabilities

Financial Services Compensation Scheme ("FSCS")

As disclosed in note 23 of the Annual Report 2019, the group is exposed to the FSCS which provides compensation to customers of financial institutions in the event that an institution is unable, or is likely to be unable, to pay claims against it.

Compensation has previously been paid out by the FSCS funded by loan facilities provided by HM Treasury to FSCS in support of the FSCS's obligations to the depositors of banks declared in default. The facilities are expected to be repaid wholly from recoveries from the failed deposit-takers. In the event of a shortfall, the FSCS will recover the shortfall by raising levies on the industry. The amount of future levies payable by the group depends on a number of factors including the potential recoveries of assets by the FSCS, the group's participation in the deposit-taking market at 31 December, the level of protected deposits and the population of FSCS members.

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 2019 that could have a material effect on the financial position and performance of the group in the six months to 31 January 2020.

17. Consolidated cash flow statement reconciliation

	31 January 2020 £ million	31 January 2019 £ million	31 July 2019 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities			
Operating profit before tax from continuing operations	**124.1**	135.6	264.7
Profit before tax from discontinued operations	**-**	0.9	0.8
Tax paid	**(64.6)**	(28.1)	(55.6)
Depreciation and amortisation	**44.4**	35.7	73.5
(Increase)/decrease in:			
Interest receivable and prepaid expenses	**(15.5)**	8.1	(4.8)
Net settlement balances and trading positions	**(7.7)**	(21.3)	(29.2)
Net loans to/from money broker against stock advanced	**27.3**	9.5	15.8
(Decrease) in interest payable and accrued expenses	**(40.5)**	(45.5)	(3.5)
Net cash inflow from trading activities	**67.5**	94.9	261.7
(Increase)/decrease in:			
Loans and advances to banks not repayable on demand	**(0.3)**	(2.1)	1.9
Loans and advances to customers	**18.6**	(175.9)	(416.6)
Assets held under operating leases	**(34.8)**	(33.2)	(62.7)
Certificates of deposit	**(60.3)**	(150.9)	9.8
Sovereign and central bank debt	**-**	-	-
Other assets less other liabilities	**33.5**	3.1	9.1
Increase/(decrease) in:			
Deposits by banks	**77.5**	(1.0)	2.8
Deposits by customers	**(75.9)**	(147.7)	141.2
Loans and overdrafts from banks	**(9.0)**	8.5	9.5
(Redemption)/issuance of debt securities	**(32.6)**	16.4	63.7
Net cash (outflow)/inflow from operating activities	**(15.8)**	(387.9)	20.4
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries			
Cash consideration paid	**(3.3)**	-	(3.6)
(c) Analysis of net cash inflow in respect of the sale of subsidiaries and discontinued operations			
Cash consideration received	**0.5**	86.1	87.6

	31 January 2020 £ million	31 January 2019 £ million	31 July 2019 £ million
(d) Analysis of cash and cash equivalents[1]			
Cash and balances at central banks	**903.9**	764.2	1,094.9
Loans and advances to banks repayable on demand	**151.5**	85.2	93.4
	1,055.4	849.4	1,188.3

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

During the period ended 31 January 2020, the non-cash changes on debt financing amounted to £7.0 million (31 January 2019: £5.0 million; 31 July 2019: £18.6 million) arising largely from interest accretions and fair value hedging movements.

18. Fair value of financial assets and liabilities

The main differences between the fair values and the carrying values of the group's financial assets and financial liabilities are as follows:

	31 January 2020		31 July 2019	
	Fair value £ million	**Carrying value £ million**	Fair value £ million	Carrying value £ million
Subordinated loan capital	**232.0**	**221.6**	234.1	221.6
Debt securities in issue	**1,846.9**	**1,816.1**	1,891.2	1,860.1

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 2019. 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 2020				
Assets				
Debt securities:				
Long trading positions in debt securities	**20.6**	**1.5**	**-**	**22.1**
Sovereign and central bank debt	**44.3**	**-**	**-**	**44.3**
Equity shares	**6.4**	**28.4**	**0.3**	**35.1**
Derivative financial instruments	**-**	**29.0**	**-**	**29.0**
Contingent consideration	**-**	**-**	**2.2**	**2.2**
	71.3	**58.9**	**2.5**	**132.7**
Liabilities				
Short positions:				
Debt securities	**3.5**	**1.6**	**-**	**5.1**
Equity shares	**3.3**	**7.0**	**-**	**10.3**
Derivative financial instruments	**-**	**12.8**	**-**	**12.8**
Contingent consideration	**-**	**-**	**3.1**	**3.1**
	6.8	**21.4**	**3.1**	**31.3**

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2019				
Assets				
Debt securities:				
Long trading positions in debt securities	24.0	1.4	-	25.4
Sovereign and central bank debt	48.3	-	-	48.3
Equity shares	5.6	30.4	0.3	36.3
Derivative financial instruments	-	30.1	-	30.1
Contingent consideration	-	-	2.1	2.1
	77.9	61.9	2.4	142.2
Liabilities				
Short positions:				
Debt securities	7.9	1.7	-	9.6
Equity shares	2.7	8.2	-	10.9
Derivative financial instruments	-	20.6	-	20.6
Contingent consideration	-	-	6.0	6.0
	10.6	30.5	6.0	47.1

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 2019.

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 2020 (six months ended 31 January 2019: none).

There were no significant movements in financial instruments categorised as Level 3 during the six months ended 31 January 2020 (six months ended 31 January 2019: none).

The gains recognised in the consolidated income statement relating to financial instruments held at 31 January 2020 amounted to £0.3 million (31 January 2019: £0.7 million loss; 31 July 2019: £nil).

19. Implementation of IFRS 16 Leases

The group adopted IFRS 16 from 1 August 2019. The standard has been applied on a modified retrospective basis and comparative information has not been restated. More information on changes to the group’s accounting policies can be found in note 1.

At transition date, the group applied the option to measure right of use assets at an amount equal to the lease liability, adjusted for prepaid or accrued payments. This resulted in the recognition on the balance sheet of right of use assets of £44.8 million and lease liabilities of £47.4 million, with no impact on shareholders’ equity. The right of use assets and lease liabilities, which largely relate to properties previously accounted for as operating leases, are included within Property, plant and equipment and Other liabilities respectively.

The weighted average incremental borrowing rate applied to lease liabilities at transition date was 2%. At 31 July 2019, IAS 17 operating lease commitments as disclosed on page 138 of the Annual Report 2019 amounted to £55.2 million. The difference between this and total lease liabilities recognised at 1 August 2019 on transition largely relate to the impact of discounting.

The group did not reassess whether a contract is, or contains, a lease on transition as permitted by IFRS 16. In addition, the following practical expedients were applied on transition:

- Reliance on previous assessment of whether a lease is onerous;
- Recognition exemption for leases with a remaining term of less than 12 months at transition date;
- Exclusion of initial direct costs from the measurement of right of use assets;
- Use of hindsight in determining lease term if the contract contains options to extend or terminate; and
- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics.

Cautionary Statement