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

Press Release

Preliminary results for the year ended 31 July 2018

25 September 2018

Good Performance in the Year

- The group reported a good performance in the year, with a 4% increase in adjusted[1] operating profit to £278.6 million, an increase of 5% in adjusted basic earnings per share to 140.2p and an RoE of 17.0%[2]
- The proposed full year dividend per share of 63.0p represents growth of 5%, reflecting our progressive dividend policy
- Banking delivered an adjusted operating profit of £251.8 million, up 2% on the prior year, with continued low impairments and a strong net interest margin as we maintain our pricing and underwriting discipline
- The increase in Banking was driven by Commercial, with adjusted operating profit growth of 5% and Property, up 3%, while adjusted operating profit in Retail was down 2%
- The loan book grew 6.6% on an underlying[3] basis to £7.3 billion, reflecting our strong customer proposition and the diversification benefits of our loan portfolio
- Winterflood delivered another strong result, with operating profit of £28.1 million, in line with the prior year
- Asset Management delivered a 33% increase in adjusted operating profit to £23.1 million, with strong net inflows at 12% of opening managed assets

Financial Highlights[2]	**Full year 2018**	Full year 2017	Change %
Adjusted operating profit[1]	**£278.6m**	£268.7m	4
Operating profit before tax (continuing operations)	**£271.2m**	£262.5m	3
Adjusted basic earnings per share (continuing operations)	**140.2p**	133.6p	5
Basic earnings per share (continuing operations)	**136.2p**	130.2p	5
Basic earnings per share (continuing and discontinued operations)	**134.7p**	128.3p	5
Dividend per share	**63.0p**	60.0p	5
Return on opening equity	**17.0%**	18.1%	
Net interest margin	**8.0%**	8.1%	
Bad debt ratio	**0.6%**	0.6%	

	31 July 2018	31 July 2017	Change %
Loan book[3]	**£7.3bn**	£6.9bn	6.0
Total client assets	**£12.2bn**	£11.2bn	10
Common equity tier 1 capital ratio	**12.7%**	12.6%	
Total capital ratio	**15.0%**	15.2%	

1 Adjusted operating profit excludes amortisation of intangible assets on acquisition of £7.4 million (2017: £6.2 million), exceptional items of £nil (2017: £nil), and loss from discontinued operations of £2.9 million (2017: £3.9 million) and is stated before tax.
2 Please refer to basis of presentation on page 2 and additional definitions on page 19.
3 Loan book growth of 6.0% excludes the unsecured retail point of sale finance business, with a loan book of £66.2 million, which was held for sale at 31 July 2018. Excluding this from 2017 and 2018, underlying loan book growth was 6.6%.

Preben Prebensen, Chief Executive, said:

"I am pleased to report another good performance in the 2018 financial year, achieving both continued strong profitability and significant strategic progress.

All of our businesses have continued to successfully navigate and make the most of current trading conditions, while continuing to focus on maximising opportunities in future years.

Our strategic priorities are clear and unchanged, and we remain strongly committed to our proven business model, maintaining confidence in our ability to trade successfully in a range of economic conditions.

All of this ensures we can continue to support our customers and clients, and deliver value for our shareholders, through all stages of the financial cycle."

Enquiries

Sophie Gillingham	Close Brothers Group plc	020 7655 3844
Liya Dashkina	Close Brothers Group plc	020 7655 3468
Matt Bullivant	Close Brothers Group plc	020 7655 3698
Andy Donald	Maitland	020 7379 5151

A presentation to analysts and investors will be held today at 9.30 am GMT at our offices at 10 Crown Place, London EC2A 4FT. A listen-only dial-in facility will be available by dialling +44 20 3059 5868.

Basis of Presentation

The group presents its results on both a statutory and adjusted basis. Adjusted measures are presented on a basis consistent with prior periods and are used for internal management reporting purposes. Adjusted measures 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.

In the 2018 financial year, adjusted operating profit excludes amortisation of intangible assets on acquisition of £7.4 million (2017: £6.2 million), exceptional items of £nil (2017: £nil), and loss from discontinued operations of £2.9 million (2017: £3.9 million). Discontinued operations relate to the unsecured retail point of sale finance business, which has been classified as a discontinued operation in the group's income statement for the 2017 and 2018 financial years. The related assets and liabilities are classified as held for sale on the group's balance sheet at 31 July 2018.

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 excludes the unsecured retail point of sale finance loan book from both the opening and closing loan book. This does not result in any change to the ratios previously published for the 2017 financial year. Underlying loan book growth of 6.6% excludes the unsecured retail point of sale finance loan book of £66.2 million (31 July 2017: £36.7 million).

About Close Brothers

Close Brothers is a leading UK merchant banking group providing lending, deposit taking, wealth management services and securities trading. We employ around 3,300 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 consistent application of our business model underpins our long track record of performance in a range of market conditions. We continue to prioritise margins and underwriting over growth, and we maintain our investment through the cycle and for the long term. We maintain strong funding and capital positions and a prudent level of dividend cover, which supports a long track record of holding or increasing our dividend.

Our strategic priorities are clear and unchanged: to protect, improve and extend our successful business model, providing exceptional service to our customers and clients across lending, savings, trading and wealth management.

Strong, sustainable profitability

The group achieved another year of strong profitability with adjusted operating profit up 4% to £278.6 million (2017: £268.7 million) and a return on opening equity of 17.0% (2017: 18.1%), reflecting good performance in all three of our divisions. On a statutory basis, operating profit before tax from continuing operations increased 3% to £271.2 million (2017: £262.5 million). The board proposes a full-year dividend of 63.0p (2017: 60.0p) per share, up 5% on last year, in line with our progressive dividend policy.

In Banking we achieved 2% growth in adjusted operating profit to £251.8 million (2017: £247.4 million). We have seen no significant change in the operating environment for our lending businesses, and the market overall remains competitive. We continue to focus on maintaining our prudent approach to lending, evidenced by our strong net interest margin at 8.0% (2017: 8.1%), and conservative loan to value ratios across our businesses. The credit environment remains benign, and bad debts have remained near historical lows with no significant change in credit performance across the portfolio.

Notwithstanding our disciplined approach, we have achieved underlying[1] loan book growth of 6.6%. This reflects our strong customer proposition and the diversification benefits of our loan portfolio, with our core Property, Premium and Invoice Finance businesses in particular continuing to achieve good growth. Our Asset Finance business also grew, despite significant competition in this market, while the Motor Finance loan book contracted slightly. We have also seen an increasing contribution from some of our smaller, specialist businesses.

Winterflood had another strong year, with operating profit in line with the prior year at £28.1 million (2017: £28.1 million), benefiting from consistently high trading activity across the UK market. Trading performance was strong throughout the year, with no loss days (2017: one loss day).

The Asset Management business has moved forward significantly in the last year, reporting 17% growth in managed assets, which now exceed £10 billion (31 July 2017: £8.9 billion), and a 33% increase in adjusted operating profit to £23.1 million (2017: £17.4 million). This reflects good new business levels from both our direct and intermediated distribution channels, and continued strong demand for both our advice and investment management propositions.

Managing our business for the long term

We take a long term approach to managing our business, ensuring that our lending criteria, funding, and capital position are sustainable as the market environment changes. This in turn allows us to deliver good returns to shareholders and support our customers in a wide range of market conditions.

During the year, we further strengthened and diversified our funding position, through the issuance of a senior unsecured bond and a second public motor securitisation. Our capital ratios remain strong and comfortably ahead of minimum requirements, with a common equity tier 1 (“CET1”) ratio of 12.7% (31 July 2017: 12.6%).

During the 2019 financial year we will roll out our new deposit platform, which will enable us to provide a wider range of retail deposit products and an online offering, while further improving the customer

1 Underlying loan book growth of 6.6% excludes the unsecured retail point of sale finance loan book of £66.2 million (31 July 2017: £36.7 million).

experience. We are also making good progress on developing the models, systems and processes required to use the Internal Ratings Based ("IRB") approach, which will optimise our capital position and better reflect the risk profile of our lending portfolio longer term.

We also work continuously to respond to evolving regulatory requirements. The last year has seen the successful implementation of a number of regulatory initiatives, including GDPR and MiFID II, as well as the transition to IFRS 9. We are also investing in cyber security to ensure we protect our business and our clients' data.

Maximising potential through long term investment

We are continuously looking for ways to improve our client offering and extend our business in both existing and new markets. Providing exceptional service to our customers and clients is at the heart of our strategy, and manifests itself in long-term customer relationships, high levels of repeat business and strong net promoter scores across our businesses.

During the last year we have undertaken a significant review to understand better the evolving needs of our customer base, making it easier for them to do business with us, and make better use of technology. This has included a detailed mapping of the customer journey across our Retail businesses, resulting in a number of process enhancements.

Our ongoing investment in the Premium Finance proposition and associated technology has supported strong new business levels in recent years. We have also commenced a multi-year investment programme in our Motor Finance business, to enhance our service to dealers and end customers, and respond to evolving customer behaviour in this market.

We recognise that the disciplined management of costs is critical to our ability to maintain profitability and invest through the cycle. We remain focused on controlling our expenditure alongside continued investment, while maintaining the high service levels and personal touch which are at the heart of our client proposition.

We are constantly looking to maximise market opportunities for our businesses, both in existing and new markets. In the last year this has included the continued expansion of our Property business into UK regional markets. The last year has also seen the successful expansion of our Invoice Finance business, and growth in the Brewery Rentals business which provides financing and servicing of beer kegs and casks to the brewery industry, as well as Novitas Loans, acquired in 2017, a specialist provider of loans to the clients of the legal profession. We are also continuing to explore the market opportunity for asset finance and other services in the German market, albeit this remains at an early stage.

Winterflood is diversifying its income by expanding its presence in the institutional market, and we continue to develop Winterflood Business Services which provides outsourced dealing and execution services to fund managers in the UK.

We have seen strong growth in our Asset Management business with positive net inflows exceeding £1 billion in the last year. We continue to see good long-term growth potential in this business, and have further expanded its growth capacity by optimising our adviser force and recruiting additional portfolio managers.

On 14 September we announced the sale of our unsecured retail point of sale finance business which had a loan book at 31 July 2018 of £66.2 million (31 July 2017: £36.7 million). After gradually and incrementally developing this business and assessing the market opportunity over the last several years, we have concluded that it does not provide a long-term fit with our predominantly secured business model. The sale is expected to complete in the current calendar year, subject to regulatory approval and other customary conditions.

Outlook

In the Banking division, we will maintain our disciplined approach and expect continued growth at good returns benefiting from the diversity of our portfolio. Bad debts remain low, with no significant change in credit performance to date, and our strong margins and service led customer relationships position us well to respond to any change in market conditions.

Winterflood has performed well since the financial year end, but remains sensitive to any change in trading conditions.

In Asset Management, we are focused on building further scale in the business, by growing client assets both organically and through selective hires and opportunistic acquisitions.

Overall, we remain well positioned to continue performing well in a range of market conditions.

OVERVIEW OF FINANCIAL PERFORMANCE

Key Financials

Continuing operations	2018 £ million	2017 £ million	Change %
Adjusted operating income	**805.8**	761.4	6
Adjusted operating expenses	**(480.5)**	(453.7)	6
Impairment losses on loans and advances	**(46.7)**	(39.0)	20
Adjusted operating profit	**278.6**	268.7	4
Banking	**251.8**	247.4	2
Retail	**81.1**	82.8	(2)
Commercial	**76.1**	72.6	5
Property	**94.6**	92.0	3
Securities	**28.1**	28.1	-
Asset Management	**23.1**	17.4	33
Group	**(24.4)**	(24.2)	1
Amortisation of intangible assets on acquisition	**(7.4)**	(6.2)	19
Operating profit before tax	**271.2**	262.5	3
Tax	**(67.0)**	(68.8)	(3)
Profit attributable to shareholders: continuing operations	**204.2**	193.7	5
Loss from discontinued operations	**(2.2)**	(2.8)	(21)
Loss attributable to non-controlling interests	**(0.3)**	(0.3)	-
Profit attributable to shareholders: continuing and discontinued operations	**202.3**	191.2	6
Adjusted basic earnings per share (continuing operations)	**140.2p**	133.6p	5
Basic earnings per share (continuing operations)	**136.2p**	130.2p	5
Basic earnings per share (continuing and discontinued operations)	**134.7p**	128.3p	5
Dividend per share	**63.0p**	60.0p	5
Return on opening equity	**17.0%**	18.1%	

Good Performance in the Year

The group delivered another good performance, with adjusted operating profit up 4% to £278.6 million (2017: £268.7 million) and statutory operating profit before tax from continuing operations up 3% to £271.2 million (2017: £262.5 million). The operating margin remained flat on the prior year at 35% (2017: 35%).

The Banking division continued to perform well, delivering an adjusted operating profit of £251.8 million (2017: £247.4 million), up 2% on the prior year, with higher income and continued low bad debts across the businesses. Winterflood delivered another strong result, with operating profit of £28.1 million (2017: £28.1 million), in line with the prior year. Asset Management continued its good performance, achieving strong net inflows, with adjusted operating profit of £23.1 million (2017: £17.4 million). Group net expenses, which include the central functions such as finance, legal and compliance, risk and human resources, were broadly unchanged at £24.4 million (2017: £24.2 million).

Adjusted operating income increased 6% to £805.8 million (2017: £761.4 million), driven by good income growth in the Banking businesses and in Asset Management.

Adjusted operating expenses increased 6% to £480.5 million (2017: £453.7 million), with most of the uplift seen in Banking, where we continue to invest in a number of business initiatives and infrastructure projects.

In Asset Management, costs also increased, driven by higher staff costs reflecting ongoing growth in the business. Overall, both the group's expense/income and compensation ratios were stable at 60% (2017: 60%) and 37% (2017: 37%) respectively.

The bad debt ratio remained low at 0.6% (2017: 0.6%), reflecting the continued prudent application of our lending criteria and the current benign credit environment.

The tax charge in the period was £67.0 million (2017: £68.8 million), which corresponds to an effective tax rate of 25% (2017: 26%), reflecting the reduction in the corporation tax rate during the year.

As a result, adjusted basic earnings per share ("EPS") from continuing operations increased 5% to 140.2p (2017: 133.6p), generating a strong return on opening equity ("RoE") of 17.0% (2017: 18.1%). Basic EPS from continuing operations increased 5% to 136.2p (2017: 130.2p).

Since the financial year end, the group has announced the sale of its unsecured retail point of sale finance business, which has been treated as a discontinued operation in the income statement for 2018 and in the comparable year, and as an asset held for sale on the balance sheet at 31 July 2018. The loss from discontinued operations was £2.2 million (2017: £2.8 million) net of tax.

Basic EPS from continuing and discontinued operations increased 5% to 134.7p (2017: 128.3p).

The board is proposing a final dividend per share of 42.0p (2017: 40.0p), resulting in a full-year dividend per share of 63.0p (2017: 60.0p), an increase of 5% on the prior year. This reflects our progressive dividend policy, which aims to provide sustainable dividend growth year on year, while maintaining a prudent level of dividend cover. Subject to shareholder approval at the Annual General Meeting, the final dividend will be paid on 20 November 2018 to shareholders on the register at 12 October 2018.

Group Balance Sheet

	31 July 2018 £ million	31 July 2017 £ million
Loans and advances to customers	**7,297.5**	6,884.7
Treasury assets[1]	**1,435.4**	1,029.0
Market-making assets[2]	**635.8**	643.4
Other assets	**882.3**	728.1
Total assets	**10,251.0**	9,285.2
Deposits by customers	**5,497.2**	5,113.1
Borrowings	**2,501.1**	2,041.2
Market-making liabilities[2]	**565.5**	556.9
Other liabilities	**338.5**	338.0
Total liabilities	**8,902.3**	8,049.2
Equity	**1,348.7**	1,236.0
Total liabilities and equity	**10,251.0**	9,285.2

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

The structure of our balance sheet remains unchanged, with the majority of assets and liabilities relating to our lending activities. Loans and advances to customers make up the majority of our assets. These are c.90% secured and short-term in nature, with an average maturity of approximately 14 months (31 July 2017: 14 months). 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.

In the year, total assets increased by £965.8 million to £10.3 billion (31 July 2017: £9.3 billion), driven by loan book growth in the year, as well as an increase in treasury assets. Total liabilities increased £853.1

million to £8.9 billion (31 July 2017: £8.0 billion), driven by higher customer deposits and an increase in borrowings, including the issue of a senior unsecured bond.

Total equity increased to £1.3 billion (31 July 2017: £1.2 billion), principally reflecting profit in the period, partially offset by dividend payments of £91.0 million. The group's return on assets remained broadly stable at 2.0% (31 July 2017: 2.1%).

IFRS 9

The provisions of IFRS 9 Financial Instruments apply to the group from 1 August 2018. Under IFRS 9, impairment losses are recognised in the group's financial statements on a forward looking basis, taking into account both the risk profile of the loan book and the macroeconomic outlook at the balance sheet date. This will result in earlier recognition of bad debts in the group's financial statements, and consequently a higher balance of bad debt provisions on the balance sheet, compared to the incurred loss approach under IAS 39.

The implementation of IFRS 9 is expected to increase bad debt provisions on the balance sheet by £59.0 million at 1 August 2018, resulting in a £44.9 million reduction in shareholders' equity and a £14.1 million increase in deferred tax assets. This increase principally reflects the additional forward looking provision on performing and underperforming loans, as well as a broader definition of default compared to IAS 39 and the addition of a macroeconomic overlay.

This corresponds to a 49 bps reduction in the group's CET1 capital ratio on a fully loaded basis, in line with the group's expectation of a 45-55 bps impact. The group will be applying the European Banking Authority's transitional arrangements, which phase in the initial impact over a period of five years and, therefore, the impact on the group's regulatory capital position in the 2019 financial year will be minimal at 2 bps.

The group will be publishing an IFRS 9 transition document with further details on the implementation of IFRS 9 in early November.

Group Capital Position

	31 July 2018 £ million	31 July 2017 £ million
Common equity tier 1 capital	**1,084.4**	990.6
Total capital	**1,282.3**	1,196.2
Risk weighted assets	**8,547.5**	7,859.0
Common equity tier 1 capital ratio	**12.7%**	12.6%
Total capital ratio	**15.0%**	15.2%
Leverage ratio	**10.6%**	10.7%

The group's strong capital generation has allowed us to support continued loan book growth in the year while maintaining capital ratios comfortably ahead of minimum requirements. Overall, the CET1 capital ratio increased marginally to 12.7% (31 July 2017: 12.6%), reflecting continued strong profitability and loan book growth in the period. The total capital ratio decreased marginally to 15.0% (31 July 2017: 15.2%).

In the last year, we generated £93.8 million of CET1 capital, reflecting £202.3 million of profit in the year, partly offset by dividends paid and foreseen of £93.9 million, an increase in intangibles, and other movements in reserves. As a result, CET1 capital increased 9% to £1,084.4 million (31 July 2017: £990.6 million).

Risk weighted assets also increased 9% to £8.5 billion (31 July 2017: £7.9 billion), reflecting continued loan book growth and particularly strong growth in our property development loan book which is risk weighted at 150% under the standardised approach.

Our leverage ratio, which is a transparent measure of capital strength not affected by risk weightings, remains very strong at 10.6% (31 July 2017: 10.7%).

These capital ratios remain comfortably ahead of minimum regulatory requirements. Our fully loaded minimum CET1 capital ratio requirement, effective July 2019, 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.370 bps in our CET1 capital ratio, and c.160 bps in the total capital ratio.

This leaves us well placed to support continued growth in the loan book and absorb any foreseen regulatory changes, including the proposed Basel 3 reforms and the impact of IFRS 9.

We are also continuing to develop the models, systems and processes required to use the Internal Ratings Based approach for capital, which we believe will better reflect the risk profile of our lending longer term. We currently expect to submit our formal application to the PRA during the 2019 calendar year.

Group Funding[1]

	31 July 2018 £ million	31 July 2017 £ million
Customer deposits	**5,497.2**	5,113.1
Secured funding	**1,360.3**	1,297.3
Unsecured funding[2]	**1,421.2**	1,120.3
Equity	**1,348.7**	1,236.0
Total available funding	**9,627.4**	8,766.7
Of which term funding (>1 year)	**4,958.5**	4,766.2
Total funding as % of loan book	**132%**	127%
Term funding as % of loan book	**68%**	69%
Average maturity of term funding (excluding equity)	**43 months**	38 months
Average maturity of funding allocated to loan book[3]	**23 months**	21 months

1 Numbers relate to core funding and exclude working capital facilities at the business level.
2 Unsecured funding excludes £14.6 million (2017: £16.1 million) of non-facility overdrafts included in borrowings and includes £295.0 million (2017: £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. We maintain a conservative approach, with diverse funding sources and a prudent maturity profile, which increases resilience and helps to manage changes in the cost of funding.

Overall, the funding environment remained favourable during the year. Total funding increased to £9.6 billion (31 July 2017: £8.8 billion) and accounted for 132% (31 July 2017: 127%) of the loan book at the balance sheet date. Our average cost of funding of 1.6% (2017: 1.7%) was marginally below the prior year, reflecting new lower cost funding, including a £200 million public motor securitisation issued in November 2017.

The loan book growth in the year was primarily funded by an increase in customer deposits and unsecured funding. Deposits increased 8% to £5.5 billion (31 July 2017: £5.1 billion) with rises in both retail and corporate deposits. The latter represents around two-thirds of the deposit base. Unsecured funding increased to £1.4 billion (31 July 2017: £1.1 billion), reflecting the successful issuance of a £250 million senior unsecured bond in April 2018.

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 c.5% of our total funding at the year end.

We have maintained a prudent maturity profile. Term funding, with a residual maturity over one year, increased to £5.0 billion (31 July 2017: £4.8 billion) and now covers 68% (31 July 2017: 69%) of the loan book. The average maturity of funding allocated to the loan book increased to 23 months (31 July 2017: 21 months), while the average loan book maturity remained at 14 months (31 July 2017: 14 months).

During the year we invested in a new deposit platform, which will allow us to offer a wider range of savings products and to add online capability to our channels of distribution. The programme will enable us to further diversify our funding as well as improve the customer experience. We anticipate the new platform to be rolled out during the 2019 financial year.

Our strong credit ratings have been reaffirmed by both Moody's Investors Services ("Moody's") and Fitch Ratings ("Fitch"). Moody's rates Close Brothers Group ("CBG") A3/P2 and Close Brothers Limited ("CBL") Aa3/P1, with a stable outlook. Fitch rates both CBG and CBL A/F1 with a stable outlook.

Group Liquidity

	31 July 2018 £ million	31 July 2017 £ million
Bank of England deposits	**1,140.4**	805.1
Sovereign and central bank debt	**44.5**	43.6
High quality liquid assets	**1,184.9**	848.7[1]
Certificates of deposit	**250.5**	180.3
Treasury assets	**1,435.4**	1,029.0

1 In addition to and not included in the above, at 31 July 2017 the group held £97.5 million of Treasury Bills drawn under the Funding for Lending Scheme that were not in repurchase agreements.

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 in the form of high quality liquid assets.

We regularly assess and stress test our liquidity requirements and continue to comfortably meet the liquidity coverage ratio requirements under CRD IV, with a 12-month average liquidity coverage ratio of 1,038%. Treasury assets increased to £1.4 billion (31 July 2017: £1.0 billion) and were predominantly held on deposit with the Bank of England, giving us continued good headroom to both internal and external liquidity requirements.

BUSINESS REVIEW

BANKING

Key Financials

Continuing operations[1]	2018 £ million	2017 £ million	Change %
Adjusted operating income	**581.0**	551.1	5
Adjusted operating expenses	**(282.5)**	(264.7)	7
Impairment losses on loans and advances	**(46.7)**	(39.0)	20
Adjusted operating profit	**251.8**	247.4	2
Net interest margin[2]	**8.0%**	8.1%	
Expense/income ratio	**49%**	48%	
Bad debt ratio[2]	**0.6%**	0.6%	
Return on net loan book[2]	**3.5%**	3.6%	
Return on opening equity	**20%**	23%	
Average loan book and operating lease assets[3]	**7,261.1**	6,795.6	7

1 Results from continuing operations exclude the unsecured retail point of sale finance business, which has been classified as a discontinued operation in the group's income statement for the 2017 and 2018 financial years.

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. This does not result in any change to the ratios previously published for the 2017 financial year.

3 Re-presented to exclude the unsecured retail point of sale finance loan book in both the 2017 and 2018 financial years and is used to calculate net interest margin, bad debt ratio and return on net loan book.

Good Financial Performance for the Full Year

Banking adjusted operating profit was up 2% to £251.8 million (2017: £247.4 million), as good loan book growth was partly offset by a marginal reduction in the net interest margin, increased investment and the non-recurrence of provision releases in the prior year. Statutory operating profit from continuing operations increased 1% to £249.9 million (2017: £246.5 million).

The loan book grew 6.0% (2017: 7.0%), with underlying growth of 6.6% excluding the unsecured retail point of sale finance portfolio. This growth reflects our strong customer proposition and the diversification benefits of our loan portfolio, with growth in most of our core businesses, as well as an increasing contribution from some of our smaller, specialist businesses. The return on net loan book remained strong at 3.5% (2017: 3.6%).

Adjusted operating income was up 5% at £581.0 million (2017: £551.1 million), supported by loan book growth at strong margins across the lending businesses. The net interest margin remained strong at 8.0% (2017: 8.1%), albeit with slightly lower yield compared to the prior year. Our strong margins and service led customer relationships position us well to respond to any change in market conditions.

Adjusted operating expenses increased 7% to £282.5 million (2017: £264.7 million), as we continue to invest in a number of strategic projects and new business initiatives, including a new multi-year investment programme in Motor Finance and to support our planned application for IRB. Staff costs, which represent the majority of the cost base, also increased, reflecting continued growth in both front office and support functions. The expense/income ratio was marginally up to 49% (2017: 48%), while the compensation ratio remained flat on the prior year at 29%.

We have seen no change in credit performance and the bad debt ratio remained low at 0.6% (2017: 0.6%), although slightly higher on the prior year, which benefited from £7.5 million of bad debt provision releases. The credit environment remained benign overall and we continue to see low levels of arrears across the businesses.

Return on opening equity remained strong at 20% (2017: 23%), reflecting continued profitability of the business, offset by continued strong growth in the equity base.

Loan Book Analysis

	31 July 2018 £ million	31 July 2017 £ million	Change %
Retail	**2,686.4**[1]	2,702.8	(0.6)
Motor Finance	**1,736.3**	1,761.9	(1.5)
Premium Finance	**950.1**[1]	940.9	1.0
Commercial	**2,783.6**	2,552.6	9.0
Asset Finance	**2,071.2**	2,017.0	2.7
Invoice Finance	**712.4**	535.6	33.0
Property	**1,827.5**	1,629.3	12.2
Closing loan book	**7,297.5**[1]	6,884.7	6.0

1 The loan book at 31 July 2018 excludes the unsecured retail point of sale finance loan book of £66.2 million, which was classified as held for sale at the balance sheet date. The loan book at 31 July 2017 includes £36.7 million in relation to this business.

Loan book growth has always been an output of our business model, and we continue to prioritise margin and credit quality over growth. Our portfolio is diverse, which ensures that our business remains resilient through the cycle. Loan book growth was 6.0% in the year to £7.3 billion (31 July 2017: £6.9 billion), with underlying growth of 6.6% excluding the unsecured retail point of sale finance loan book, which was classified as held for sale at the balance sheet date.

We achieved particularly good growth in Property, which has remained resilient to competitive pressure, as well as Invoice Finance, with growth in both the core business and from smaller, specialist areas. Both Asset and Premium Finance also delivered good growth in the year, while Motor Finance saw a slight contraction, as we prioritise our strict lending criteria in the face of continued competition.

The Republic of Ireland, where we provide Motor, Premium, Asset and Invoice Finance, represents c.10% of the overall Banking loan book. The Irish portfolio also grew in the period, although we now see growth moderating in this market.

BANKING: Retail

Continuing operations[1]	2018 £ million	2017 £ million	Change %
Adjusted operating income	**225.5**	218.2	3
Adjusted operating expenses	**(119.2)**	(110.8)	8
Impairment losses on loans and advances	**(25.2)**	(24.6)	2
Adjusted operating profit	**81.1**	82.8	(2)
Net interest margin[2]	**8.4%**	8.5%	
Expense/income ratio	**53%**	51%	
Bad debt ratio[2]	**0.9%**	1.0%	
Average loan book[3]	**2,676.3**	2,575.6	4

1 Results from continuing operations exclude the unsecured retail point of sale finance business, which has been classified as a discontinued operation in the group's income statement for the 2017 and 2018 financial years.

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. This does not result in any change to the ratios previously published for the 2017 financial year.

3 Re-presented to exclude the unsecured retail point of sale finance loan book in both the 2017 and 2018 financial years and is used to calculate net interest margin, bad debt ratio and return on net loan book.

The Retail segment provides intermediated finance, principally to individuals, through motor dealers and insurance brokers and incorporates our Premium and Motor Finance businesses.

The Retail loan book was broadly flat overall at £2.7 billion (31 July 2017: £2.7 billion), as good underlying loan book growth in Premium Finance was offset by a slight decline in the Motor Finance book and the agreed sale of the unsecured retail point of sale finance business.

Premium Finance delivered good underlying growth of 5% driven by volumes from recent broker wins. The Premium Finance business continues to be well positioned competitively, benefiting from the ongoing multi-year investment programme in its infrastructure aimed at improving both broker and end customer experience.

The Motor Finance loan book reduced 1% to £1.7 billion (31 July 2017: £1.8 billion). The UK book saw a small contraction in the period, as we continue to prioritise margin and credit quality in a highly competitive market. This was partly offset by continued modest growth in the Republic of Ireland, which accounts for 26% (2017: 23%) of the Motor Finance loan book, where we operate through a local partner, First Auto Finance, who provide the distribution and dealer relationships. In both the UK and Ireland, our core product remains hire-purchase contracts for second-hand vehicles, with Personal Contract Plans ("PCP") accounting for 13% of the Motor Finance loan book at 31 July 2018.

On 14 September we announced the sale of our unsecured retail point of sale finance business, which provides finance to consumers through retailers, and had a loan book of £66.2 million (31 July 2017: £36.7 million) at the balance sheet date. After gradually and incrementally developing this business and assessing the market opportunity over the last several years, we have concluded that it does not provide a long-term fit with our predominantly secured business model.

Overall, adjusted operating profit for the Retail segment of £81.1 million (2017: £82.8 million) was marginally down on the prior year, and statutory operating profit from continuing operations reduced to £80.8 million (2017: £82.4 million). This was due to ongoing investment in both Premium and Motor Finance as well as lower income in the Motor Finance business.

Adjusted operating income was up 3% year on year at £225.5 million (2017: £218.2 million) with the net interest margin broadly stable at 8.4% (2017: 8.5%).

Adjusted operating expenses increased 8%, to £119.2 million (2017: £110.8 million), as our multi-year investment in both Premium Finance and, more recently, the Motor Finance business continues. The investment programme in our Motor Finance business is still in its early stage and is aimed at improving the service proposition, streamlining operational processes and increasing sales effectiveness. As a result, the expense/income ratio increased to 53% (2017: 51%).

Credit performance remains in line with our expectations at this stage of the cycle, with the bad debt ratio at 0.9% (2017: 1.0%), reflecting continued commitment to our strict lending criteria.

BANKING: Commercial

	2018 **£ million**	2017 £ million	Change %
Operating income	**225.5**	213.3	6
Adjusted operating expenses	**(132.2)**	(125.2)	6
Impairment losses on loans and advances	**(17.2)**	(15.5)	11
Adjusted operating profit	**76.1**	72.6	5
Net interest margin	**7.9%**	8.0%	
Expense/income ratio	**59%**	59%	
Bad debt ratio	**0.6%**	0.6%	
Average loan book and operating leases	**2,856.4**	2,676.8	7

The Commercial segment focuses on specialist, secured lending principally to the SME market and includes Asset and Invoice Finance, including smaller, specialist businesses such as Novitas Loans, a specialist provider of finance to clients of the legal profession acquired in 2017, and Brewery Rentals, which provides service and finance solutions for brewery equipment and containers in the UK and Germany.

The overall Commercial loan book increased 9% to £2.8 billion (31 July 2017: £2.6 billion), with growth across all businesses, but particularly in the core Invoice Finance business, Novitas Loans and Brewery Rentals. The Asset Finance loan book was also up 3% in the year, notwithstanding active competition from both new and existing lenders in this market.

Adjusted operating profit of £76.1 million (2017: £72.6 million) was up 5%, driven by good income growth and continued low bad debt. Statutory operating profit increased 3% to £74.5 million (2017: £72.1 million).

Operating income of £225.5 million (2017: £213.3 million) was 6% higher than the prior year, reflecting growth in the loan book. Despite ongoing pricing pressure in the Asset Finance market, we have maintained a strong net interest margin of 7.9% (2017: 8.0%), which remains ahead of the industry.

Costs grew by 6% to £132.2 million (2017: £125.2 million), driven by ongoing investment in new initiatives. These include our Technology Services business, where we offer financing solutions for IT infrastructure, the expansion of our Asset Finance offering into Germany, and post-acquisition integration of Novitas Loans. Despite this ongoing investment, the expense/income ratio remained stable at 59% (2017: 59%).

The bad debt ratio remained in line with the prior year at 0.6% (2017: 0.6%), with good overall credit performance.

BANKING: Property

	2018 £ million	2017 £ million	Change %
Operating income	**130.0**	119.6	9
Operating expenses	**(31.1)**	(28.7)	8
Impairment losses on loans and advances	**(4.3)**	1.1	
Operating profit	**94.6**	92.0	3
Net interest margin	**7.5%**	7.7%	
Expense/income ratio	**24%**	24%	
Bad debt ratio	**0.2%**	(0.1%)	
Average loan book	**1,728.4**	1,543.3	12

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

Property delivered another year of strong loan book growth at 12%, to £1.8 billion (31 July 2017: £1.6 billion). We continue to see strong structural demand in our core market of property development finance for new build family housing with an average unit price of £500,000. London and the South East represent c.70% of the portfolio, however growth also remains strong in regional locations, around major commuting hubs such as Manchester, Birmingham and Bristol. Our long track record, expertise and quality of service ensure the business remains resilient to competitive pressures and continues to generate high levels of repeat business.

The business delivered an operating profit of £94.6 million (2017: £92.0 million), up 3% on the prior year. The net interest margin reduced slightly to 7.5% (2017: 7.7%), predominantly reflecting the mix of new business in the period. The bad debt ratio was low at 0.2% (2017: -0.1%), with the net recovery in the 2017 financial year reflecting provision releases in that year.

Operating expenses of £31.1 million (2017: £28.7 million) were up 8%, and the expense/income ratio remained at 24% (2017: 24%), reflecting the lower operational requirements of the business with larger transaction sizes at lower volumes.

SECURITIES

Key Financials

	2018 £ million	2017 £ million	Change %
Operating income	**109.1**	106.7	2
Operating expenses	**(81.0)**	(78.6)	3
Operating profit	**28.1**	28.1	-
Bargains per day	**68k**	65k	3
Operating margin	**26%**	26%	
Return on opening equity	**29%**	29%	

Continued Good Performance in Favourable Market Conditions

Winterflood had another strong year, maximising revenue opportunities in mostly favourable market conditions and delivering operating profit of £28.1 million (2017: £28.1 million), in line with the prior year.

Operating income increased 2% to £109.1 million (2017: £106.7 million), reflecting strong trading income across all trading sectors and particularly in AIM, investment trusts and FTSE 350. Geopolitical developments and rising markets attracted higher levels of investor trading activity both on the retail and institutional sides, benefitting most trading sectors. Winterflood is also diversifying its income by increasing its presence in the institutional market, which contributed to income growth in the period.

Average daily bargains increased 3% to 67,520 (2017: 65,286), reflecting increased trading activity. Winterflood had no loss days in the year (2017: one), and at the financial year end had 16 consecutive months without a loss day, notwithstanding some periods of higher market volatility, demonstrating the skill and expertise of our traders.

Operating expenses increased 3% to £81.0 million (2017: £78.6 million), reflecting slightly higher variable costs and settlement fees, as a result of increased trading activity. We also continue to invest in Winterflood Business Services, which provides flexible outsourced dealing, custody and settlement services.

Both the expense/income ratio and the compensation ratio were broadly in line with the prior year, at 74% (2017: 74%) and 47% (2017: 48%) respectively.

Winterflood has a long track record of trading profitably in a range of conditions; however, due to the nature of the business, it always remains sensitive to changes in the market environment.

ASSET MANAGEMENT

Key Financials

	2018 £ million	2017 £ million	Change %
Investment management	**75.2**	63.7	18
Advice and other services[1]	**39.6**	37.1	7
Other income	**0.7**	2.1	(67)
Operating income	**115.5**	102.9	12
Adjusted operating expenses	**(92.4)**	(85.5)	8
Adjusted operating profit[2]	**23.1**	17.4	33
Revenue margin (bps)	**98**	96	
Operating margin	**20%**	17%	
Return on opening equity	**34%**	26%	

1 Income from advice and self-directed services, excluding investment management income.
2 Excluding the OLIM Investment Managers ("OLIM") business sold in 2017, adjusted operating profit increased by 49% to £23.1 million (2017: £15.5 million), with an underlying operating margin of 20% (2017: 15%).

Strong Performance in the Year

Asset Management made significant progress in the year, achieving strong net inflows and significant growth in operating profit, with continued good demand for our integrated advice and investment management services.

The division delivered a 33% increase in adjusted operating profit to £23.1 million (2017: £17.4 million) and an operating margin of 20% (2017: 17%). Statutory operating profit was also up at £17.6 million (2017: £12.1 million). Managed assets increased 17% to £10.4 billion (31 July 2017: £8.9 billion), with positive net flows of £1,083 million (31 July 2017: £757 million), or 12% (2017: 9%) of opening managed assets.

Operating income increased 12% to £115.5 million (2017: £102.9 million), driven by growth in client assets from both strong net inflows and rising markets. The revenue margin increased to 98 bps (2017: 96 bps) reflecting growth of our integrated wealth management offering, which combines advice and investment management.

Adjusted operating expenses increased 8% to £92.4 million (2017: £85.5 million), and the expense/income ratio improved to 80% (2017: 83%) reflecting the benefits of operating leverage. The increase in expenses was predominantly driven by staff costs, reflecting greater numbers of support staff and hiring of investment managers. The compensation ratio remained in line with the prior year at 55% (2017: 55%).

The increase in staff costs was partly offset by ongoing savings from the consolidation of custody, trading and administration onto a single platform, enabling investment in people to drive growth in our advice and investment management offering.

Positive Inflows Across All Channels

After seeing strong growth in the first half, we continued to sustain good net inflows alongside mixed market conditions in the second, achieving 17% growth in managed assets to £10.4 billion (31 July 2017: £8.9 billion). For the full year, net inflows increased 43% to £1,083 million (2017: £757 million), with strong flows both directly from our own advisers and investment managers, and through third party IFAs. Positive market movements contributed a further £395 million (2017: £588 million) to growth in managed assets.

During the year we saw positive inflows into our investment propositions from the 2017 acquisitions of EOS Wealth Management and Adrian Smith & Partners, both of which are now fully incorporated into our integrated wealth management offering and making strong contributions. We also benefited from the addition of new clients and managed assets resulting from hiring additional high net worth investment managers.

Advised assets under third party management decreased by 18% following transfers of assets into our management. Overall, total client assets grew 10% to £12.2 billion (31 July 2017: £11.2 billion).

Movement in Client Assets

	31 July 2018 £ million	31 July 2017 £ million
Opening managed assets	**8,900**	8,047
Inflows	**1,961**	1,884
Outflows	**(878)**	(1,127)
Net inflows	**1,083**	757
Market movements	**395**	588
Disposals	**-**	(492)
Total managed assets	**10,378**	8,900
Advised only assets	**1,841**	2,257
Total client assets[1]	**12,219**	11,157
Net flows as % of opening managed assets	**12%**	9%

1 Total client assets include £4.2 billion (31 July 2017: £3.7 billion) of assets that are both advised and managed.

Our investment strategy focuses on delivering long-term returns to clients using a prudent investment approach tailored to an individual client's risk profile. Over the year, all our funds and segregated strategies have continued to deliver strong positive risk-adjusted returns. Relative to their peer group, 11 of our 14 unitised funds have outperformed their respective Investment Association sectors, and our segregated bespoke investment strategies have continued to outperform their ARC peer group average returns.

During the year, our focus remained on providing excellent service to our clients, while optimising our adviser productivity, allowing us to drive operating leverage, revenue growth and net inflows.

In addition, we have made significant progress implementing strategic technological changes to improve our operating efficiency, and support our ability to offer a range of alternative propositions. We will continue to invest through selective hiring of advisers and investment managers, as well as opportunistic acquisitions, and we see good growth potential for the business longer term.

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

Bad debt ratio[1]: Impairment losses as a percentage of average continuing operations net loans and advances to customers and operating lease assets

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

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

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

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

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

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

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 ("LTV"): For a secured loan, the loan balance as a percentage of the total value of the asset

Net interest margin ("NIM")[1]: 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 continuing operations loans and advances to customers (net of impaired loans) and operating lease assets

Operating margin: Adjusted operating profit divided by adjusted operating income

Return on assets: Profit attributable to shareholders divided by total assets at balance sheet date

Return on net loan book ("RoNLB") [1]: Adjusted operating profit from lending activities divided by average continuing operations net loans and advances to customers and operating lease assets

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

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

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

[1]The calculation for the 2018 financial year excludes the unsecured retail point of sale finance loan book from both the opening and closing loan book

CONSOLIDATED INCOME STATEMENT
for the year ended 31 July 2018

	Note	2018 £ million	2017[1] £ million
Interest income		**601.0**	574.3
Interest expense		**(114.9)**	(116.8)
Net interest income		**486.1**	457.5
Fee and commission income		**213.3**	206.4
Fee and commission expense		**(13.7)**	(16.7)
Gains less losses arising from dealing in securities		**100.1**	94.2
Other income		**65.1**	57.3
Depreciation of operating lease assets and other direct costs	11	**(45.1)**	(37.3)
Non-interest income		**319.7**	303.9
Operating income		**805.8**	761.4
Administrative expenses		**(480.5)**	(453.7)
Impairment losses on loans and advances		**(46.7)**	(39.0)
Total operating expenses before amortisation of intangible assets on acquisition		**(527.2)**	(492.7)
Operating profit before amortisation of intangible assets on acquisition		**278.6**	268.7
Amortisation of intangible assets on acquisition	10	**(7.4)**	(6.2)
Operating profit before tax		**271.2**	262.5
Tax	3	**(67.0)**	(68.8)
Profit after tax from continuing operations		**204.2**	193.7
Loss from discontinued operations, net of tax		**(2.2)**	(2.8)
Profit after tax		**202.0**	190.9
Loss attributable to non-controlling interests from continuing operations		**(0.3)**	(0.3)
Profit attributable to shareholders		**202.3**	191.2
From continuing operations			
Basic earnings per share	5	**136.2p**	130.2p
Diluted earnings per share	5	**135.3p**	129.3p
From continuing and discontinued operations			
Basic earnings per share	5	**134.7p**	128.3p
Diluted earnings per share	5	**133.8p**	127.5p
Interim dividend per share paid	6	**21.0p**	20.0p
Final dividend per share	6	**42.0p**	40.0p

1 Restated – see note 4.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 July 2018

	2018 £ million	2017 £ million
Profit after tax	**202.0**	190.9
Other comprehensive income/(expense) that may be reclassified to income statement from continuing operations		
Currency translation gains	**0.3**	0.4
Gains on cash flow hedging	**4.4**	4.7
Gains/(losses) on financial instruments classified as available for sale:		
Sovereign and central bank debt	**0.6**	0.7
Contingent consideration	**(0.3)**	0.3
Tax relating to items that may be reclassified	**(1.3)**	(2.3)
	3.7	3.8
Other comprehensive income/(expense) that will not be reclassified to income statement from continuing operations		
Defined benefit pension scheme gains	**1.7**	2.7
Tax relating to items that will not be reclassified	**(0.4)**	(0.5)
	1.3	2.2
Other comprehensive income, net of tax from continuing operations	**5.0**	6.0
Total comprehensive income	**207.0**	196.9
Attributable to		
Non-controlling interests	**(0.3)**	(0.3)
Shareholders	**207.3**	197.2
	207.0	196.9

CONSOLIDATED BALANCE SHEET
at 31 July 2018

	Note	**2018 £ million**	2017 £ million
Assets			
Cash and balances at central banks		**1,140.4**	805.1
Settlement balances		**512.2**	546.7
Loans and advances to banks		**140.2**	99.8
Loans and advances to customers	7	**7,297.5**	6,884.7
Debt securities	8	**320.6**	240.1
Equity shares	9	**32.1**	32.7
Loans to money brokers against stock advanced		**66.4**	48.6
Derivative financial instruments		**16.6**	27.0
Intangible assets	10	**201.3**	191.7
Property, plant and equipment	11	**226.1**	202.7
Deferred tax assets		**43.0**	47.4
Prepayments, accrued income and other assets		**187.1**	158.7
Assets classified as held for sale	4	**67.5**	-
Total assets		**10,251.0**	9,285.2
Liabilities			
Settlement balances and short positions	12	**543.1**	552.6
Deposits by banks	13	**55.2**	72.0
Deposits by customers	13	**5,497.2**	5,113.1
Loans and overdrafts from banks	13	**509.8**	330.9
Debt securities in issue	13	**1,773.4**	1,489.6
Loans from money brokers against stock advanced		**22.4**	4.3
Derivative financial instruments		**15.7**	11.5
Current tax liabilities		**17.4**	21.4
Accruals, deferred income and other liabilities		**249.6**	233.1
Subordinated loan capital		**217.9**	220.7
Liabilities classified as held for sale	4	**0.6**	-
Total liabilities		**8,902.3**	8,049.2
Equity			
Called up share capital		**38.0**	38.0
Share premium account		**-**	307.8
Retained earnings		**1,327.7**	906.6
Other reserves		**(16.2)**	(15.9)
Total shareholders' equity		**1,349.5**	1,236.5
Non-controlling interests		**(0.8)**	(0.5)
Total equity		**1,348.7**	1,236.0
Total liabilities and equity		**10,251.0**	9,285.2

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 July 2018

				Other reserves						
	Called up share capital £ million	Share premium account £ million	Retained earnings £ million	Available for sale movements reserve £ million	Share-based payments reserve £ million	Exchange movements reserve £ million	Cash flow hedging reserve £ million	Total attributable to equity holders £ million	Non-controlling interests £ million	Total equity £ million
At 1 August 2016	37.7	284.0	797.5	-	(14.3)	(1.1)	(6.7)	1,097.1	(0.2)	1,096.9
Profit/(loss) for the year	-	-	191.2	-	-	-	-	191.2	(0.3)	190.9
Other comprehensive income/(expense)	-	-	2.2	0.7	-	(0.4)	3.5	6.0	-	6.0
Total comprehensive income/(expense) for the year	-	-	193.4	0.7	-	(0.4)	3.5	197.2	(0.3)	196.9
Exercise of options	-	0.1	-	-	-	-	-	0.1	-	0.1
Dividends paid	-	-	(85.6)	-	-	-	-	(85.6)	-	(85.6)
Shares purchased	-	-	-	-	(12.7)	-	-	(12.7)	-	(12.7)
Shares issued	0.3	23.7	-	-	-	-	-	24.0	-	24.0
Shares released	-	-	-	-	15.8	-	-	15.8	-	15.8
Other movements	-	-	0.2	-	(0.7)	-	-	(0.5)	-	(0.5)
Share premium cancellation	-	-	-	-	-	-	-	-	-	-
Income tax	-	-	1.1	-	-	-	-	1.1	-	1.1
At 31 July 2017	38.0	307.8	906.6	0.7	(11.9)	(1.5)	(3.2)	1,236.5	(0.5)	1,236.0
Profit/(loss) for the year	-	-	202.3	-	-	-	-	202.3	(0.3)	202.0
Other comprehensive income	-	-	1.3	0.1	-	0.3	3.3	5.0	-	5.0
Total comprehensive income/(expense) for the year	-	-	203.6	0.1	-	0.3	3.3	207.3	(0.3)	207.0
Exercise of options	-	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	(91.0)	-	-	-	-	(91.0)	-	(91.0)
Shares purchased	-	-	-	-	(16.0)	-	-	(16.0)	-	(16.0)
Shares issued	-	-	-	-	-	-	-	-	-	-
Shares released	-	-	-	-	12.5	-	-	12.5	-	12.5
Other movements	-	-	-	-	(0.5)	-	-	(0.5)	-	(0.5)
Share premium cancellation	-	(307.8)	307.8	-	-	-	-	-	-	-
Income tax	-	-	0.7	-	-	-	-	0.7	-	0.7
At 31 July 2018	**38.0**	**-**	**1,327.7**	**0.8**	**(15.9)**	**(1.2)**	**0.1**	**1,349.5**	**(0.8)**	**1,348.7**

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 July 2018

	Note	**2018 £ million**	2017 £ million
Net cash inflow from operating activities	15(a)	**306.0**	120.0
Net cash (outflow)/inflow from investing activities			
Purchase of:			
Property, plant and equipment		**(11.4)**	(7.1)
Intangible assets – software		**(33.0)**	(33.1)
Subsidiaries and non-controlling interest	15(b)	**(1.2)**	(6.3)
Sale of:			
Property, plant and equipment		**-**	-
Equity shares held for investment		**-**	1.3
Subsidiary	15(c)	**0.9**	(0.3)
		(44.7)	(45.5)
Net cash inflow before financing activities		**261.3**	74.5
Financing activities			
Purchase of own shares for employee share award schemes		**(16.0)**	(12.7)
Equity dividends paid		**(91.0)**	(85.6)
Interest paid on subordinated loan capital and debt financing		**(10.8)**	(13.6)
Issuance/(redemption) of group bonds, net of transaction costs		**248.6**	(200.0)
Issuance of subordinated loan capital, net of transaction costs		**-**	173.7
Net increase/(decrease) in cash		**392.1**	(63.7)
Cash and cash equivalents at beginning of year		**859.6**	923.3
Cash and cash equivalents at end of year	15(d)	**1,251.7**	859.6

THE NOTES

1. Basis of preparation and accounting policies

The financial information contained in this announcement does not constitute the statutory accounts for the years ended 31 July 2018 or 31 July 2017 within the meaning of section 435 of the Companies Act 2006, but is derived from those accounts. The accounting policies used are consistent with those set out in the Annual Report 2017.

On the Consolidated Income Statement, fee and commission expense in the prior year has been restated to exclude other direct costs of £12.3 million, which are now presented alongside depreciation of operating lease assets.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and is effective for the group from 1 August 2018. The group estimates the transition to IFRS 9 will reduce shareholders' equity by £44.9 million reflecting an increase in impairment provisions of £59.0 million offset by a deferred tax asset of £14.1 million.

The financial statements are prepared on a going concern basis.

Whilst the financial information has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS"), this announcement does not itself contain sufficient information to comply with IFRS. The company expects to publish full financial statements that comply with IFRS by 1 October 2018.

Following a competitive tender process for the audit of the group and its subsidiaries in 2017, PricewaterhouseCoopers LLP was formally appointed as the group's auditors at the 2017 Annual General Meeting.

The financial information for the year ended 31 July 2018 has been derived from the audited financial statements of Close Brothers Group plc for that year. Statutory accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered following the company's Annual General Meeting. The previous auditor, Deloitte LLP, has reported on the 2017 accounts and PricewaterhouseCoopers LLP on the 2018 accounts: their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

2. Segmental analysis

The directors manage the group by class of business and present the segmental analysis on that basis. The group's activities are presented in five (2017: five) operating segments: Retail, Commercial, Property, Securities and Asset Management.

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.

2. Segmental analysis continued

Summary income statement for the year ended 31 July 2018

	Banking						
	Retail £ million	Commercial £ million	Property £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Net interest income/(expense)	195.9	160.9	129.8	(0.7)	0.1	0.1	486.1
Non-interest income	29.6	64.6	0.2	109.8	115.4	0.1	319.7
Operating income	225.5	225.5	130.0	109.1	115.5	0.2	805.8
Administrative expenses	(109.5)	(124.2)	(27.2)	(79.2)	(90.6)	(24.6)	(455.3)
Depreciation and amortisation	(9.7)	(8.0)	(3.9)	(1.8)	(1.8)	-	(25.2)
Impairment losses on loans and advances	(25.2)	(17.2)	(4.3)	-	-	-	(46.7)
Total operating expenses	(144.4)	(149.4)	(35.4)	(81.0)	(92.4)	(24.6)	(527.2)
Adjusted operating profit/(loss)[1]	81.1	76.1	94.6	28.1	23.1	(24.4)	278.6
Amortisation of intangible assets on acquisition	(0.3)	(1.6)	-	-	(5.5)	-	(7.4)
Operating profit/(loss) before tax from continuing operations	80.8	74.5	94.6	28.1	17.6	(24.4)	271.2
Operating loss before tax from discontinued operations	(3.0)	-	-	-	-	-	(3.0)
Operating profit/(loss) before tax	77.8	74.5	94.6	28.1	17.6	(24.4)	268.2
External operating income/(expense)	265.3	270.7	154.4	109.1	115.6	(109.3)	805.8
Inter segment operating (expense)/income	(39.8)	(45.2)	(24.4)	-	(0.1)	109.5	-
Segment operating income	225.5	225.5	130.0	109.1	115.5	0.2	805.8

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

2. Segmental analysis continued

Balance sheet information at 31 July 2018

	Banking						
	Retail £ million	Commercial £ million	Property £ million	Securities £ million	Asset Management £ million	Group[2] £ million	Total £ million
Total assets[1]	**2,686.4**	**2,982.4**	**1,827.5**	**711.4**	**119.4**	**1,923.9**	**10,251.0**
Total liabilities	**-**	**-**	**-**	**640.3**	**63.9**	**8,198.1**	**8,902.3**

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Balance sheet includes £1,915.0 million assets and £8,278.6 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

Equity is allocated across the group as set out below. Banking division equity which is managed as a whole rather than on a segmental basis, reflects loan book and operating lease assets of £7,496.3 million, in addition to assets and liabilities of £1,915.0 million and £8,278.6 million respectively primarily comprising treasury balances which are included within the Group column above.

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Equity	**1,132.7**	**71.1**	**55.5**	**89.4**	**1,348.7**

Other segmental information for the year ended 31 July 2018

	Banking						
	Retail	Commercial	Property	Securities	Asset Management	Group	Total
Employees (average number)[1]	**1,079**	**1,046**	**146**	**262**	**647**	**61**	**3,241**

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

2. Segmental analysis continued

Summary income statement for the year ended 31 July 2017[1]

	Banking						
	Retail £ million	Commercial £ million	Property £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Net interest income/(expense)	191.8	146.4	119.8	(0.9)	(0.1)	0.5	457.5
Non-interest income	26.4	66.9	(0.2)	107.6	103.0	0.2	303.9
Operating income	218.2	213.3	119.6	106.7	102.9	0.7	761.4
Administrative expenses	(99.8)	(117.4)	(24.9)	(76.7)	(83.7)	(24.9)	(427.4)
Depreciation and amortisation	(11.0)	(7.8)	(3.8)	(1.9)	(1.8)	-	(26.3)
Impairment losses on loans and advances	(24.6)	(15.5)	1.1	-	-	-	(39.0)
Total operating expenses	(135.4)	(140.7)	(27.6)	(78.6)	(85.5)	(24.9)	(492.7)
Adjusted operating profit/(loss)[2]	82.8	72.6	92.0	28.1	17.4	(24.2)	268.7
Amortisation of intangible assets on acquisition	(0.4)	(0.5)	-	-	(5.3)	-	(6.2)
Operating profit/(loss) before tax from continuing operations	82.4	72.1	92.0	28.1	12.1	(24.2)	262.5
Operating loss before tax from discontinued operations	(3.9)	-	-	-	-	-	(3.9)
Operating profit/(loss) before tax	78.5	72.1	92.0	28.1	12.1	(24.2)	258.6
External operating income/(expense)	262.0	260.9	141.8	106.7	103.2	(113.2)	761.4
Inter segment operating (expense)/income	(43.8)	(47.6)	(22.2)	-	(0.3)	113.9	-
Segment operating income	218.2	213.3	119.6	106.7	102.9	0.7	761.4

1 Restated – see note 4.

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

2. Segmental analysis continued

Balance sheet information at 31 July 2017

	Banking						
	Retail £ million	Commercial £ million	Property £ million	Securities £ million	Asset Management £ million	Group[2] £ million	Total £ million
Total assets[1]	2,702.8	2,730.4	1,629.3	699.5	113.2	1,410.0	9,285.2
Total liabilities	-	-	-	628.8	57.7	7,362.7	8,049.2

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Balance sheet includes £1,402.7 million assets and £7,490.9 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Equity[1]	974.3	70.7	55.5	135.5	1,236.0

1 Equity of the Banking division reflects loan book and operating lease assets of £7,062.5 million, in addition to assets and liabilities of £1,402.7 million and £7,490.9 million respectively primarily comprising treasury balances which are included within the Group column in the balance sheet information above.

Other segmental information for the year ended 31 July 2017

	Banking						
	Retail	Commercial	Property	Securities	Asset Management	Group	Total
Employees (average number)[1]	1,055	1,013	139	246	600	61	3,114

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

3. Taxation

	2018 £ million	2017[1] £ million
Tax charged/(credited) to the income statement		
Current tax:		
UK corporation tax	**64.7**	65.9
Foreign tax	**1.5**	2.1
Adjustments in respect of previous years	**(2.3)**	(0.6)
	63.9	67.4
Deferred tax:		
Deferred tax charge for the current year	**1.1**	0.5
Adjustments in respect of previous years	**2.0**	0.9
	67.0	68.8
Tax on items not charged/(credited) to the income statement		
Current tax relating to:		
Financial instruments classified as available for sale	**-**	0.2
Share-based payments	**(0.3)**	(1.0)
Deferred tax relating to:		
Cash flow hedging	**1.1**	1.2
Defined benefit pension scheme	**0.4**	0.5
Financial instruments classified as available for sale	**0.2**	0.1
Share-based payments	**(0.4)**	(0.1)
Currency translation gains	**-**	0.8
	1.0	1.7
Reconciliation to tax expense		
UK corporation tax for the year at 19.0% (2017: 19.7%) on operating profit	**51.5**	51.7
Gain on sale of subsidiary	**-**	(0.3)
Effect of different tax rates in other jurisdictions	**(0.2)**	(0.4)
Disallowable items and other permanent differences	**1.1**	0.9
Banking surcharge	**15.1**	14.5
Deferred tax impact of (increased)/decreased tax rates	**(0.2)**	2.1
Prior year tax provision	**(0.3)**	0.3
	67.0	68.8

1 Restated – see note 4.

The standard UK corporation tax rate for the financial year is 19.0% (2017: 19.7%). However, an additional 8% surcharge applies to banking company profits as defined in legislation. The effective tax rate of 24.7% (2017: 26.2%) is above the UK corporation tax rate primarily due to the surcharge applying to most of the group's profits.

3. Taxation continued

Movements in deferred tax assets and liabilities were as follows:

	Capital allowances £ million	Pension scheme £ million	Share-based payments and deferred compensation £ million	Available for sale assets £ million	Cash flow hedging £ million	Intangible assets £ million	Other £ million	Total £ million
At 1 August 2016	44.9	(0.3)	10.2	-	2.3	(2.6)	0.7	55.2
(Charge)/credit to the income statement	(1.5)	-	(0.8)	-	-	1.1	(0.2)	(1.4)
Charge to other comprehensive income	(0.8)	(0.5)	-	(0.1)	(1.2)	-	-	(2.6)
Credit to equity	-	-	0.1	-	-	-	-	0.1
Acquisitions	-	-	-	-	-	(3.9)	-	(3.9)
At 31 July 2017	42.6	(0.8)	9.5	(0.1)	1.1	(5.4)	0.5	47.4
(Charge)/credit to the income statement	(4.2)	0.1	(0.3)	-	-	1.3	-	(3.1)
Charge to other comprehensive income	-	(0.4)	-	(0.2)	(1.1)	-	-	(1.7)
Credit to equity	-	-	0.4	-	-	-	-	0.4
Acquisitions	-	-	-	-	-	-	-	-
At 31 July 2018	**38.4**	**(1.1)**	**9.6**	**(0.3)**	**-**	**(4.1)**	**0.5**	**43.0**

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

4. Discontinued operations and non-current assets held for sale

On 14 September 2018, the group announced the sale of Close Brothers Retail Finance, which provides unsecured retail point of sale finance to consumers, to Klarna Bank AB.

At the balance sheet date, the business fulfilled the requirements of IFRS 5 to be classified as “discontinued operations” in the consolidated income statement. Additionally, the assets that have not yet been sold are presented as “held for sale” in the 31 July 2018 consolidated balance sheet.

Results of discontinued operations

	2018 **£ million**	2017 £ million
Operating income	**6.6**	4.2
Operating expenses	**(7.2)**	(6.9)
Impairment losses on loans and advances	**(2.3)**	(1.2)
Operating loss before tax	**(2.9)**	(3.9)
Tax	**0.8**	1.1
Impairment of plant, property and equipment and intangible assets	**(0.1)**	-
Loss after tax	**(2.2)**	(2.8)

Assets and liabilities held for sale

The major classes of assets and liabilities classified as held for sale are as follows:

	2018 **£ million**
Balance sheet	
Intangible assets	0.9
Loans and advances to customers	66.2
Other assets	0.4
Total assets classified as held for sale	**67.5**
Other liabilities	0.6
Total liabilities classified as held for sale	**0.6**

Cash flow from discontinued operations

	2018 **£ million**	2017 £ million
Net cash flow from operating activities	**(31.9)**	(14.4)
Net cash flow from investing activities	**(0.4)**	(0.3)
Net cash flow from financing activities	**-**	-

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.

	2018	2017[1]
Continuing operations		
Basic	**136.2p**	130.2p
Diluted	**135.3p**	129.3p
Adjusted basic[2]	**140.2p**	133.6p
Adjusted diluted[2]	**139.3p**	132.7p
Continuing and discontinued operations		
Basic	**134.7p**	128.3p
Diluted	**133.8p**	127.5p

1 Restated – see note 4.
2 Excludes amortisation of intangible assets on acquisition and their tax effects.

	2018 £ million	2017 £ million
Profit attributable to shareholders	**202.3**	191.2
Less loss from discontinued operations, net of tax	**(2.2)**	(2.8)
Profit attributable to shareholders on continuing operations	**204.5**	194.0
Adjustments:		
Amortisation of intangible assets on acquisition	**7.4**	6.2
Tax effect of adjustments	**(1.3)**	(1.2)
Adjusted profit attributable to shareholders on continuing operations	**210.6**	199.0

	2018 million	2017 million
Average number of shares		
Basic weighted	**150.2**	149.0
Effect of dilutive share options and awards	**1.0**	1.0
Diluted weighted	**151.2**	150.0

6. Dividends

	2018 £ million	2017 £ million
For each ordinary share		
Final dividend for previous financial year paid in November 2017: 40.0p (2016: 38.0p)	**59.7**	56.0
Interim dividend for current financial year paid in April 2018: 21.0p (2017: 20.0p)	**31.3**	29.6
	91.0	85.6

A final dividend relating to the year ended 31 July 2018 of 42.0p, amounting to an estimated £62.7 million, is proposed. This final dividend, which is due to be paid on 20 November 2018 to shareholders on the register at 12 October 2018, is not reflected in these financial statements.

7. Loans and advances to customers

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Impairment provisions £ million	Total £ million
At 31 July 2018	**77.3**	**2,135.8**	**2,301.1**	**1,324.3**	**1,402.3**	**95.8**	**(39.1)**	**7,297.5**
At 31 July 2017	59.3	1,914.3	2,115.2	1,340.7	1,431.6	76.0	(52.4)	6,884.7

	2018 £ million	2017 £ million
Impairment provisions on loans and advances to customers		
At 1 August	**52.4**	59.7
Charge for the year	**46.7**	40.2
Amounts written off net of recoveries	**(60.0)**	(47.5)
At 31 July	**39.1**	52.4
Loans and advances to customers comprise		
Hire purchase agreement receivables	**2,852.4**	2,842.9
Finance lease receivables	**447.6**	418.9
Other loans and advances	**3,997.5**	3,622.9
At 31 July	**7,297.5**	6,884.7

At 31 July 2018, gross impaired loans were £131.0 million (31 July 2017: £135.8 million) and equate to 1.8% (31 July 2017: 2.0%) of the gross loan book before impairment provisions. The majority of the group's lending is secured and therefore the gross impaired loans quoted do not reflect the expected loss.

8. Debt securities

	Held for trading £ million	**Available for sale £ million**	**Loans and receivables £ million**	**Total £ million**
Long trading positions in debt securities	**25.6**	**-**	**-**	**25.6**
Certificates of deposit	**-**	**-**	**250.5**	**250.5**
Sovereign and central bank debt	**-**	**44.5**	**-**	**44.5**
At 31 July 2018	**25.6**	**44.5**	**250.5**	**320.6**

	Held for trading £ million	Available for sale £ million	Loans and receivables £ million	Total £ million
Long trading positions in debt securities	16.2	-	-	16.2
Certificates of deposit	-	-	180.3	180.3
Sovereign and central bank debt	-	43.6	-	43.6
At 31 July 2017	16.2	43.6	180.3	240.1

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

	2018 £ million	2017 £ million
Sovereign and central bank debt at 1 August	**43.6**	-
Additions	**-**	41.6
Currency translation differences	**-**	1.7
Movement in value	**0.9**	0.3
Sovereign and central bank debt at 31 July	**44.5**	43.6

9. Equity shares

	31 July 2018 £ million	31 July 2017 £ million
Long trading positions	**31.6**	31.9
Other equity shares	**0.5**	0.8
	32.1	32.7

Movements on the book value of other equity shares comprise:

	2018 £ million	2017 £ million
Other equity shares held at 1 August	**0.8**	2.1
Disposals	**(0.3)**	(1.4)
Currency translation differences	**-**	0.1
Movement in value of:		
Equity shares classified as available for sale	**-**	-
Other equity shares held at 31 July	**0.5**	0.8

10. Intangible assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Total £ million
Cost				
At 1 August 2016	140.8	104.6	44.3	289.7
Additions	16.9	31.1	22.7	70.7
Disposals	(7.0)	(4.1)	-	(11.1)
At 31 July 2017	150.7	131.6	67.0	349.3
Additions	-	36.2	-	36.2
Disposals	-	(7.0)	-	(7.0)
At 31 July 2018	**150.7**	**160.8**	**67.0**	**378.5**
Amortisation and impairment				
At 1 August 2016	54.9	59.1	27.8	141.8
Amortisation charge for the year	-	17.2	6.2	23.4
Disposals	(7.0)	(0.6)	-	(7.6)
At 31 July 2017	47.9	75.7	34.0	157.6
Amortisation charge for the year	-	16.6	7.4	24.0
Disposals	-	(4.4)	-	(4.4)
At 31 July 2018	**47.9**	**87.9**	**41.4**	**177.2**
Net book value at 31 July 2018	**102.8**	**72.9**	**25.6**	**201.3**
Net book value at 31 July 2017	102.8	55.9	33.0	191.7
Net book value at 1 August 2016	85.9	45.5	16.5	147.9

Additions in goodwill in 2017 of £12.1 million, £3.9 million and £0.9 million and intangible assets on acquisition of £15.9 million, £5.1 million and £1.7 million relate to the 100% acquisitions of Novitas Loans Limited (“Novitas”), EOS Wealth Management Limited (“EOS”) and Adrian Smith & Partners Limited (“ASPL”) respectively. Novitas is a specialist provider of secured finance to law firms and their clients and EOS and ASPL are independent financial advisers. These acquisitions are not regarded as material in the context of the group’s financial statements and therefore information required for material acquisitions by IFRS 3 has not been disclosed.

The £7.0 million disposal of goodwill in 2017 relates to the sale of Asset Management’s OLIM Limited business.

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

In the 2018 financial year, £7.4 million (2017: £6.2 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £16.6 million (2017: £17.2 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	Total £ million
Cost					
At 1 August 2016	21.5	40.2	201.4	0.4	263.5
Additions	1.6	5.4	56.2	-	63.2
Disposals	(0.7)	(0.5)	(26.8)	(0.1)	(28.1)
At 31 July 2017	22.4	45.1	230.8	0.3	298.6
Additions	0.3	11.2	79.6	-	91.1
Disposals	(0.3)	(0.5)	(41.5)	(0.2)	(42.5)
At 31 July 2018	**22.4**	**55.8**	**268.9**	**0.1**	**347.2**
Depreciation					
At 1 August 2016	9.7	26.1	41.6	0.3	77.7
Charge for the year	2.0	7.1	25.0	-	34.1
Disposals	(0.6)	(1.5)	(13.6)	(0.2)	(15.9)
At 31 July 2017	11.1	31.7	53.0	0.1	95.9
Charge for the year	2.1	6.5	31.3	-	39.9
Disposals	(0.3)	(0.2)	(14.2)	-	(14.7)
At 31 July 2018	**12.9**	**38.0**	**70.1**	**0.1**	**121.1**
Net book value at 31 July 2018	**9.5**	**17.8**	**198.8**	**-**	**226.1**
Net book value at 31 July 2017	11.3	13.4	177.8	0.2	202.7
Net book value at 1 August 2016	11.8	14.1	159.8	0.1	185.8

The gain from the sale of assets held under operating leases for the year ended 31 July 2018 was £0.1 million (2017: £0.1 million loss).

12. Settlement balances and short positions

	31 July 2018 £ million	31 July 2017 £ million
Settlement balances	**512.5**	524.9
Short positions held for trading:		
Debt securities	**16.4**	11.5
Equity shares	**14.2**	16.2
	30.6	27.7
	543.1	552.6

13. Financial liabilities

	On demand £ million	**Within three months £ million**	**Between three months and one year £ million**	**Between one and two years £ million**	**Between two and five years £ million**	**After more than five years £ million**	**Total £ million**
Deposits by banks	**7.9**	**16.1**	**31.2**	**-**	**-**	**-**	**55.2**
Deposits by customers	**86.5**	**1,275.0**	**2,570.6**	**1,142.6**	**422.5**	**-**	**5,497.2**
Loans and overdrafts from banks	**9.6**	**5.2**	**-**	**-**	**495.0**	**-**	**509.8**
Debt securities in issue	**0.6**	**23.1**	**561.3**	**190.3**	**709.9**	**288.2**	**1,773.4**
At 31 July 2018	**104.6**	**1,319.4**	**3,163.1**	**1,332.9**	**1,627.4**	**288.2**	**7,835.6**

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
Deposits by banks	18.4	15.4	37.5	0.7	-	-	72.0
Deposits by customers	123.4	956.6	2,528.2	991.3	513.6	-	5,113.1
Loans and overdrafts from banks	12.3	74.9	-	20.5	223.2	-	330.9
Debt securities in issue	13.6	22.8	108.4	516.0	540.9	287.9	1,489.6
At 31 July 2017	167.7	1,069.7	2,674.1	1,528.5	1,277.7	287.9	7,005.6

The group has accessed £495.0 million (31 July 2017: £224.4 million) cash under the Bank of England's Term Funding Scheme and £nil (31 July 2017: £197.5 million) UK Treasury Bills under the Bank of England's Funding for Lending Scheme. At 31 July 2017, £100.0 million of the £197.5 million UK Treasury Bills drawn under the Funding for Lending Scheme were lent in exchange for cash. The UK Treasury Bills were not recorded on the group's consolidated balance sheet as ownership remained with the Bank of England. Cash from the Term Funding Scheme and repurchase agreements is included within bank loans and overdrafts. Residual maturities of the Term Funding Scheme and repurchase agreements are as follows:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
At 31 July 2018	**-**	**0.2**	**-**	**-**	**495.0**	**-**	**495.2**
At 31 July 2017	1.2	69.9	-	20.5	223.2	-	314.8

14. Capital

At 31 July 2018, the group's common equity tier 1 ("CET1") capital ratio was 12.7% (31 July 2017: 12.6%). CET1 capital increased to £1,084.4 million (31 July 2017: £990.6 million) primarily due to retained profit.

Risk weighted assets calculated using the standardised approach increased to £8,547.5 million (31 July 2017: £7,859.0 million) as a result of growth in credit and counterparty risk associated with the loan book. Notional risk weighted assets for operational risk also increased reflecting increased revenues and loan book growth over recent years.

All risk weighted assets and capital ratios shown are unaudited.

	31 July 2018 £ million	31 July 2017 £ million
CET1 capital		
Called up share capital	**38.0**	38.0
Share premium account	**-**	307.8
Retained earnings	**1,327.7**	906.6
Other reserves recognised for CET1 capital	**21.3**	21.4
Deductions from CET1 capital		
Intangible assets, net of associated deferred tax liabilities	**(198.1)**	(186.3)
Foreseeable dividend[1]	**(62.7)**	(59.8)
Investment in own shares	**(37.6)**	(34.1)
Pension asset, net of associated deferred tax liabilities	**(4.0)**	(2.8)
Prudent valuation adjustment	**(0.2)**	(0.2)
CET1 capital	**1,084.4**	990.6
Tier 2 capital – subordinated debt[2]	**197.9**	205.6
Total regulatory capital	**1,282.3**	1,196.2
Risk weighted assets (notional) – unaudited		
Credit and counterparty credit risk	**7,605.4**	6,967.6
Operational risk[3]	**845.8**	806.8
Market risk[3]	**96.3**	84.6
	8,547.5	7,859.0
CET1 capital ratio – unaudited	**12.7%**	12.6%
Total capital ratio – unaudited	**15.0%**	15.2%

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2018 and 31 July 2017 for a foreseeable dividend being the proposed final dividend as set out in note 6.
2 Shown after applying the Capital Requirements Regulations transitional and qualifying own funds arrangements.
3 Operational and market risk include a notional adjustment at 8% in order to determine notional risk weighted assets.

14. Capital continued

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

	31 July 2018 £ million	31 July 2017 £ million
Equity	**1,348.7**	1,236.0
Regulatory deductions from equity:		
Intangible assets, net of associated deferred tax liabilities	**(198.1)**	(186.3)
Foreseeable dividend[1]	**(62.7)**	(59.8)
Pension asset, net of associated deferred tax liabilities	**(4.0)**	(2.8)
Prudent valuation adjustment	**(0.2)**	(0.2)
Other reserves not recognised for CET1 capital:		
Cash flow hedging reserve	**(0.1)**	3.2
Non-controlling interests	**0.8**	0.5
CET1 capital	**1,084.4**	990.6

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2018 and 31 July 2017 for a foreseeable dividend being the proposed final dividend as set out in note 6.

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

	£ million
CET1 capital at 31 July 2017	990.6
Profit in the period attributable to shareholders	202.3
Dividends paid and foreseen	(93.9)
Increase in intangible assets, net of associated deferred tax liabilities	(11.8)
Share premium cancellation	(307.8)
Other movements in reserves recognised for CET1 capital	309.7
Other movements in deductions from CET1 capital	(4.7)
CET1 capital at 31 July 2018	**1,084.4**

15. Consolidated cash flow statement reconciliation

	31 July 2018 £ million	31 July 2017 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit before tax from continuing operations	**271.2**	262.5
Loss before tax from discontinued operations[1]	**(3.0)**	(3.9)
Tax paid	**(66.8)**	(63.6)
Depreciation and amortisation	**63.9**	57.5
(Increase)/decrease in:		
Interest receivable and prepaid expenses	**(18.4)**	(18.1)
Net settlement balances and trading positions	**15.9**	6.7
Net loans to/from money brokers against stock advanced	**0.3**	(21.9)
Increase in interest payable and accrued expenses	**9.4**	19.1
Net cash inflow from trading activities	**272.5**	238.3
Decrease/(increase) in:		
Loans and advances to banks not repayable on demand	**16.4**	0.3
Loans and advances to customers	**(449.8)**	(453.1)
Assets let under operating leases	**(68.0)**	(43.2)
Certificates of deposit	**(70.2)**	20.7
Sovereign and central bank debt	**(0.9)**	(44.5)
Other assets less other liabilities	**14.1**	22.5
Increase/(decrease) in:		
Deposits by banks	**(16.8)**	0.9
Deposits by customers	**384.1**	218.5
Loans and overdrafts from banks	**178.9**	(138.2)
Issuance/redemption of debt securities, net of transaction costs	**45.7**	297.8
Net cash inflow from operating activities	**306.0**	120.0
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and non-controlling interests		
Cash consideration paid	**(1.2)**	(6.3)
(c) Analysis of net cash inflow/(outflow) in respect of the sale of a subsidiary		
Cash consideration received	**0.9**	0.3
Cash and cash equivalents disposed of	**-**	(0.6)
	0.9	(0.3)
(d) Analysis of cash and cash equivalents[2]		
Cash and balances at central banks	**1,126.2**	798.2
Loans and advances to banks repayable on demand	**125.5**	61.4
	1,251.7	859.6

1 Restated – see note 4.
2 Excludes Bank of England cash reserve account and amounts held as collateral.

During the year ended 31 July 2018, the non-cash changes on debt financing amounted to £9.4 million (31 July 2017: £8.3 million) arising largely from interest accretion.

Cautionary Statement

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

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