Close Brothers

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This announcement contains inside information

Preliminary Results for the year end to 31 July 2024

19 September 2024

RESILIENT PERFORMANCE IN AN UNCERTAIN ENVIRONMENT

Adrian Sainsbury, Chief Executive, said:

"This year's performance demonstrates the group's resilience. In Banking, we grew our loan book with strong margins and stable underlying credit quality, while progressing our cost actions to improve future efficiency. Close Brothers Asset Management delivered strong net inflows, although Winterflood's performance remained impacted by unfavourable market conditions.

The FCA's review of historical motor finance commission arrangements announced in January introduced significant uncertainty for the group. Against this backdrop, our top priority has been to further strengthen our capital position and protect our valuable franchise, whilst continuing to support our nearly three million customers, including c.350,000 SME businesses.

We are making significant progress against the capital actions previously outlined. The strengths of our model, being our long-term relationships, the deep expertise of our people and our customer-centric approach, leave us well placed to navigate the current uncertainty. We continue to be encouraged by the strength of demand in our Banking business and see good growth prospects for the group, as we focus on resuming our track record of earnings growth and attractive returns."

Mike Biggs, Chairman, commented:

"Following a comprehensive strategic review, the board is pleased to announce the agreed sale of CBAM to Oaktree. The transaction is expected to increase the group's common equity tier 1 capital ratio by approximately 100 basis points, marking significant progress towards the plan we outlined in March 2024 to strengthen our capital base. The board has unanimously approved the transaction and believes that the agreed sale represents competitive value for our shareholders, allowing us to simplify the group and focus on our core lending business. CBAM has delivered impressive growth over the past years and has developed into a strong franchise. Under the new ownership, it will benefit from additional resources to accelerate its growth trajectory. I would like to thank our CBAM colleagues for their dedication, professionalism and exceptional service to our clients."

Key Financials[1]

	Full year 2024	Full year 2023	Change %
Statutory operating profit before tax	**£142.0m**	£112.0m	27
Adjusted operating profit[2]	**£170.6m**	£113.5m	50
Adjusted basic earnings per share[3]	**76.1p**	55.1p	38
Basic earnings per share[3]	**59.7p**	54.3p	10
Ordinary dividend per share	**-**	67.5p	(100)
Return on opening equity	**6.9%**	5.0%	
Return on average tangible equity	**8.3%**	5.9%	
Net interest margin	**7.4%**	7.7%	
Bad debt ratio	**1.0%**	2.2%	

	31 July 2024	31 July 2023	Change %
Loan book[4]	**£10.1bn**	£9.5bn	6

CBAM total client assets	**£20.4bn**	£17.3bn	18
NAV per share	**£11.1**	£11.0	1
TNAV per share	**£9.3**	£9.3	0
CET1 capital ratio (transitional)	**12.8%**	13.3%	
Tier 1 capital ratio (transitional)	**14.7%**	13.3%	
Total capital ratio (transitional)	**16.6%**	15.3%	

Key Financials (Excluding Novitas)

	Full year 2024	Full year 2023	Change %
Statutory operating profit before tax	**£142.2m**	£218.6m	(35)
Adjusted operating profit	**£170.8m**	£220.1m	(22)
Net interest margin	**7.3%**	7.6%	
Bad debt ratio	**0.9%**	0.9%	

	31 July 2024	31 July 2023	Change %
Loan book[4]	**£10.0bn**	£9.5bn	6

1. Please refer to definitions on pages 31 to 34.
2. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in Note 2 "Segmental Analysis".
3. Refer to Note 4 "Earnings per Share" for the calculation of basic and adjusted earnings per share.
4. Loan book includes operating lease assets.

Financial performance

- Operating income up 1% to £944.2 million (2023: £932.6 million), with growth in both Banking and Close Brothers Asset Management ("CBAM") more than offsetting a reduction in Winterflood and higher Group (central functions) interest expense

- Adjusted operating expenses up 10% primarily reflecting increases in staff costs and continued investment in Banking

- Statutory operating profit before tax ("PBT") increased 27% to £142.0 million (2023: £112.0 million), reflecting non-recurrence of prior year impairment charges of £116.8 million related to Novitas. Statutory PBT included £28.6 million of adjusting items (2023: £1.5 million), primarily driven by complaints handling expenses and other operational costs associated with the FCA's review of historical motor finance commission arrangements of £6.9 million; a provision in respect of the Borrowers in Financial Difficulty ("BiFD") review and expected customer compensation of £17.2 million and restructuring costs of £3.1 million

- Adjusted operating profit increased 50% to £170.6 million (2023: £113.5 million), as the significant decrease in impairment charges and 1% growth in income more than offset a 10% growth in adjusted operating expenses

- Group return on average tangible equity ("RoTE") increased to 8.3% (2023: 5.9%)

- In **Banking**, we delivered good loan book growth of 6% to £10.1 billion (31 July 2023: £9.5 billion), reflecting healthy drawdowns in Property and strong new business in Invoice Finance, as well as continued good demand in Asset Finance and Motor Finance, partly offset by a decline in Premium Finance. We delivered a net interest margin of 7.4% (2023: 7.7%) and a stable underlying credit performance, with a bad debt ratio of 1.0% (2023: 2.2%), 0.9% excluding Novitas (2023: 0.9%). Adjusted operating expenses grew by 8%, at the lower end of the 8-10% cost growth guidance range outlined previously. Adjusted operating profit was £205.4 million (2023: £120.1 million)

- **CBAM** delivered strong net inflows of 8%, with a significant contribution from our bespoke investment management business. Total managed assets ("AuM") increased 18% to £19.3 billion, driven by net inflows and positive market performance. Adjusted operating profit decreased 23% to £12.2 million (2023: £15.9 million) as income growth was more than offset by higher costs, reflecting investment in new hires

- In **Winterflood**, market conditions have remained unfavourable and the business delivered an operating loss of £1.7 million (2023: £3.5 million operating profit); **Winterflood Business Services** ("WBS") income increased 17% to £17.3 million, with assets under administration ("AuA") up 21% to £15.6 billion (2023: £12.9 billion)

- Strong balance sheet position with our Common Equity Tier 1 ("CET1") ratio of 12.8% at 31 July 2024 (31 July 2023: 13.3%), significantly above our applicable requirement of 9.7%

- In line with our previous announcement, no dividend will be paid in respect of the 2024 financial year

Decisive actions to further strengthen capital position

- There remains significant uncertainty about the outcome of the FCA's review of historical motor finance commission arrangements at this stage, and the timing, scope and quantum of any potential financial impact on the group cannot be reliably estimated at present

- In March 2024, we announced a range of management actions which have the potential to strengthen the group's available CET1 capital by approximately £400 million by the end of the 2025 financial year

- We have retained c.£100 million of CET1 capital as a result of the group's previously announced decision not to pay a dividend for the 2024 financial year. We are making significant progress against the other identified management actions. To optimise risk weighted assets, we have been growing our loan book selectively, with the impact reflected in both the loan book growth rate delivered this year and the expected trajectory for the 2025 financial year. We have concluded the work in preparation for a significant risk transfer of assets in Motor Finance. Subject to market conditions, we are ready to launch a transaction at the optimal time to maximise the peak capital benefit, aligned to the revised timetable for the FCA's work in the motor finance market. We have continued to deliver against the cost management initiatives previously announced

- Following a comprehensive strategic review, on 19 September 2024, the group announced that it entered into an agreement to sell CBAM to funds managed by Oaktree Capital Management, L.P. ("Oaktree"). The transaction is expected to increase the group's common equity tier 1 capital ratio by approximately 100 basis points on a pro forma basis, marking significant progress towards the plan we outlined in March 2024 to strengthen our capital base. The transaction is expected to complete in early 2025 calendar year and is conditional upon receipt of certain customary regulatory approvals

- The board remains confident that these actions leave the group well positioned to navigate the current uncertainty

Guidance[1]

In **Banking**, we are encouraged by the robust performance we delivered

- Currently plan for low single-digit percentage growth in the loan book for the 2025 financial year

- Well positioned to sustain the net interest margin delivered in the second half of the 2024 financial year of 7.2%

- As announced in March 2024, additional cost management initiatives have been mobilised, which are expected to generate annualised savings of c.£20 million, reaching the full run rate by the end of the 2025 financial year, with the total benefit in the 2026 financial year

- Expect income and adjusted operating expenses growth to be aligned in the 2025 financial year and to deliver positive operating leverage in the 2026 financial year

- Expect the bad debt ratio to remain below our long-term average of 1.2% in the 2025 financial year

Close Brothers Asset Management ("CBAM") is well placed to consolidate its position and maximise opportunities to accelerate profitability

- Continue to target net inflows of 6-10%

In **Winterflood**, while short-term trading conditions remain challenging, we are confident that Winterflood remains well positioned to retain its market position and benefit when investor appetite returns

- Remain focused on diversifying revenue streams
- Expect to grow AuA in WBS to over £20 billion by 2026

We expect **Group (central functions)** net expenses to be between £55 million and £60 million in the 2025 financial year, primarily reflecting an elevated level of professional fees and expenses associated with the potential impact on the group of the FCA's review of historical motor finance commission arrangements and its revised timetable, as well as a decline in income with a reduction in interest rates.

With respect to items recognised as **adjusting** in the 2024 financial year

- Currently estimate costs associated with complaints handling and other operational costs associated with the FCA's review of historical motor finance commission arrangements to be between £10-15 million in the 2025 financial year
- Expect to incur £5-10 million of restructuring costs in the 2025 financial year as we continue to implement cost management actions to improve future efficiency

Subject to the execution of management actions and capital generation, we have the potential to increase the group's CET1 capital ratio to **between 14% and 15%** at the end of the 2025 financial year (excluding any potential redress or provision related to the FCA's review of historical motor finance commission arrangements). Over the medium term, we remain committed to our previous **CET1 capital target range of 12% to 13%**

The reinstatement of **dividends in 2025 and beyond** will be reviewed once the FCA has concluded its process and any financial consequences for the group have been assessed

1. Guidance relating to income statement items excludes any financial impact of a significant risk transfer of assets in Motor Finance. The final impact will be dependent on the transactions' final terms and timing of execution.

Inside information

This announcement contains information which is deemed by the Company to constitute inside information within the meaning of the UK version of the European Union's Market Abuse Regulation ((EU) No. 596/2014). Upon the publication of this announcement via the Regulatory Information Service, the inside information is now considered to be in the public domain. The person responsible for arranging the release of this information on behalf of the Company is Sarah Peazer-Davies, Company Secretary.

Enquiries

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A virtual presentation to analysts and investors will be held today at 9.30 am followed by a Q&A session. A webcast and dial-in facility will be available by registering at https://webcasts.closebrothers.com/results/FullYearResults2024.

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 costs associated with complaints handling and other operational costs associated with the FCA's review of historical motor finance commission arrangements, provisions in relation to the Borrowers in Financial Difficulty review, restructuring costs and amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. The adjusting items are presented within administrative expenses on a statutory basis. Please refer to Note 2 "Segmental Analysis" for further details on items excluded from the adjusted performance metrics.

Financial Calendar (Provisional)

The enclosed provisional financial calendar below is updated on a regular basis throughout the year. Please refer to our website www.closebrothers.com for up-to-date details.

Event	Date
First quarter trading update	November 2024
Annual General Meeting	21 November 2024
Half year end	31 January 2025
Interim results	March 2025
Third quarter trading update	May 2025
Financial year end	31 July 2025
Preliminary results	September 2025

About Close Brothers

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

Chief Executive's Statement

This year's performance demonstrates the group's resilience. In Banking, we grew our loan book with strong margins and stable underlying credit quality, while progressing our cost actions to improve future efficiency. Close Brothers Asset Management delivered strong net inflows, although Winterflood's performance remained impacted by unfavourable market conditions.

The FCA's review of historical motor finance commission arrangements announced in January introduced significant uncertainty for the group. Against this backdrop, our top priority has been to further strengthen our capital position and protect our valuable franchise, whilst continuing to support our nearly three million customers, including c.350,000 SME businesses, by offering them borrowing capacity to acquire essential assets.

Notwithstanding this uncertainty, we have made significant progress in enhancing our business and customer offering over the year. We have written healthy levels of new business as demand from customers has remained strong; we acquired Close Brothers Motor Finance in Ireland and are re-establishing our presence in this strategic market; and we have made key strategic hires across our business franchise, as we further develop our capabilities. We have also taken this opportunity to review many of our processes and implement ways we can operate more efficiently in the future. This continued focus on protecting and sustaining our franchise means we are well positioned to take advantage of future opportunities.

Financial Performance

Statutory operating profit before tax increased 27% to £142.0 million (2023: £112.0 million). This was primarily driven by the non-recurrence of the significant impairment charges related to Novitas in the prior year. On an adjusted basis, excluding the impact from certain items which do not reflect the underlying performance of our business, the group's operating profit increased 50% to £170.6 million, as the significant decrease in impairment charges and 1% growth in income more than offset a 10% growth in adjusted operating expenses.

In Banking, adjusted operating profit increased materially to £205.4 million, driven by loan book growth of 6%, a strong net interest margin of 7.4%, and a stable credit performance when excluding the non-recurrence of prior year impairment charges related to Novitas. Banking costs increased by 8%, at the lower end of the 8-10% cost growth guidance range outlined previously, driven mainly by inflationary-related increases in staff costs, higher regulatory compliance and assurance expenses and continued investment, partly offset by the progress we have made on our tactical and strategic cost management initiatives. We have made good progress on the delivery of the cost management initiatives previously announced, such as through our technology transformation programme, vacating our Wimbledon Bridge House office and through the review of our workforce. We recognise that there is more we can achieve in enhancing our future cost efficiency. Our focus remains on delivering annualised cost savings of c.£20 million, with the full benefit expected in the 2026 financial year.

CBAM delivered strong net inflows of 8%, although profit reduced, as income growth was more than offset by costs primarily related to wage inflation and new hires to support future growth.

Winterflood's performance remained impacted by lower trading income resulting from continued weakness in investor appetite and market uncertainty, with an operating loss of £1.7 million after incurring one-off dual-running property costs of c.£3 million. WBS continued to see good momentum, with income rising 17% to £17.3 million and a 21% increase in AuA to £15.6 billion.

Our capital position was strong, with our CET1 capital ratio at 12.8% (31 July 2023: 13.3%), significantly above our applicable requirement of 9.7%. Total funding increased 5% to £13.0 billion (31 July 2023: £12.4 billion), with 36% growth in our retail deposit base, demonstrating the strength of our Savings proposition. We maintained our prudent liquidity position, with our Liquidity Coverage Ratio over 1,000%, substantially exceeding regulatory requirements.

Continued Uncertainty Arising from the FCA's Review of the Motor Finance Industry

With respect to the FCA's review of discretionary commission arrangements in the motor finance market prior to the 2021 ban on these models, on 30 July 2024, the FCA announced that it now aims to set out next steps by the end of May 2025, rather than by September 2024 as previously expected. There remains significant uncertainty for the industry and the group regarding any potential remedial action as a result of the review. Close Brothers Motor Finance ("CBMF") has operated in the motor finance market for over three decades, during which we have sought to comply with the relevant regulatory requirements. There are a range of possible outcomes and we remain focused on further strengthening the group's capital position, with the priority of protecting and sustaining our valuable franchise.

We have a strong long-term dividend track record and the decision taken in February 2024 not to pay a dividend for the 2024 financial year was not made lightly. The reinstatement of dividends in 2025 and beyond will be reviewed once the FCA has concluded its process and any financial consequences for the group have been assessed.

As previously announced, we are implementing management actions which, combined with the decision not to pay a dividend in the 2024 financial year, have the potential to strengthen the group's available CET1 capital by approximately £400 million by the end of the 2025 financial year.

We have made significant progress against these management actions. Whilst the demand from customers has remained strong, we have been selectively growing our loan book to optimise risk weighted assets, alongside working diligently to find alternatives for writing further business with a lower capital consumption. Whilst we have written c.£8 billion of new business in the 2024 financial year, we estimate that at least c.£570 million in additional loans meeting our credit and pricing requirements could have been underwritten in the current environment. Approximately £220 million of these loans would have been drawn in the year. While this is disappointing, we are confident that we will be well positioned to capture this demand and accelerate the growth of our loan book as soon as feasible. Additionally, we have concluded our work in preparation for a significant risk transfer of assets through motor finance securitisation and are ready to launch a transaction at the optimal time.

We have continued to deliver against the additional cost management initiatives previously announced. These initiatives aim to generate annualised savings of c.£20 million, reaching the full run rate by the end of the 2025 financial year. We are progressing a range of other potential management actions, as previously outlined, which include potential significant risk transfer of other portfolios through securitisation and a continued review of our business portfolios and other tactical actions.

Following a comprehensive strategic review, we are pleased to announce the agreed sale of CBAM to Oaktree. The transaction is expected to increase the group's common equity tier 1 capital ratio by approximately 100 basis points on a pro forma basis, marking significant progress towards the capital plan we outlined in March 2024. Additionally, the agreed sale represents competitive value for our shareholders and allows us to simplify the group, focusing on our core lending business. CBAM has delivered impressive growth over the past years and has developed into a strong franchise. Under the new ownership, it will benefit from additional resources to accelerate its growth trajectory. I would like to thank our CBAM colleagues for their dedication, professionalism and exceptional service to our clients.

Outlook

We remain committed to executing our strategy and protecting our valuable franchise. We are making significant progress against the initiatives previously outlined to further strengthen our capital position.

The strengths of our model, being our long-term relationships, the deep expertise of our people and our customer-centric approach, leave us well placed to navigate the current uncertainty. We continue to be encouraged by the strength of demand in our Banking business and see good growth prospects for our core business.

Adrian Sainsbury
Chief Executive

FCA's Review of Historical Motor Finance Commission Arrangements

On 11 January 2024, the FCA announced it would use its powers under section 166 of the Financial Services and Markets Act 2000 to review historical motor finance commission arrangements and sales at several firms, following high numbers of complaints from customers. The review followed the Financial Ombudsman Service ("FOS") publication of its first two decisions upholding customer complaints relating to discretionary commission arrangements ("DCAs") against two other lenders in the market.

The FCA issued an update to the market on 30 July 2024. In the announcement, it stated that due to delays in collecting and reviewing historical data, as well as relevant ongoing litigation, it would not be able to set out the next steps of its review by 24 September 2024 as it originally planned. The FCA now aims to set out next steps by the end of May 2025.

Overview of Commission Models Operated[1]

CBMF has operated in the motor finance market for over three decades, during which we have sought to comply with the relevant regulatory requirements.

Prior to 2016, CBMF operated an Upward Difference in Charges ("DIC") model. This allowed the dealer or broker full discretion over the customer rate and the commission earned on point-of-sale finance, subject to a hard cap on the amount of commission. Under the DIC model, commission, if any, was paid as a percentage of the total interest paid by the customer.

From 2016, CBMF introduced a Downward Scaled Commission ("DSM") model, which capped both the interest charged to the customer and commission paid to the dealer or broker. This meant that CBMF set the headline rate for the customer and the dealers could only reduce this by decreasing their level of commission. Under the DSM model, commission, if any, was paid as a percentage of the loan size.

From 2021 onwards, CBMF introduced a Risk Adjusted Pricing Model which set the rate for the customer and adjusted the rate according to the customer risk profile. Dealer discretion was removed entirely. Under the Risk Adjusted Pricing Model, commission, if any, is paid as a fixed percentage of the loan size.

All historical models included a "hard cap" on the commission amount paid to the broker or dealer. Commission disclosures were also reviewed and enhanced, as required, over time.

1. For simplicity, dates shown above assume transition when substantially complete.

Impact on Close Brothers

The FCA review is progressing to determine whether there has been industry-wide failure to comply with regulatory requirements which has caused customers harm and, if so, whether it needs to take any actions. Based on the status at the end of the financial year and in accordance with the relevant accounting standards, the board has concluded that no legal or constructive obligation exists and it is currently not required or appropriate to recognise a provision at 31 July 2024 in relation to this matter. The FCA has indicated there could be a range of outcomes, with one potential outcome being an industry-wide consumer redress scheme. On 30 July 2024, the FCA indicated that, while no final decisions have been made, it is more likely than when it started its review that some kind of redress mechanism may be necessary. The estimated impact of any redress scheme, if required, is highly dependent on a number of factors including, for example, the time period covered; the DCA models impacted (the group operated a number of different models during the period under review); appropriate reference commission rates set for any redress; and response rates to any redress scheme. As such, the timing, scope and quantum of the potential financial impact on the group, if any, remain uncertain and cannot be reliably estimated at present. In addition, it is not currently practicable to estimate or disclose any potential financial impact arising from this issue.

The group is subject to a number of claims through the courts regarding historical motor finance commission arrangements. One of these, initially determined in the group's favour, was appealed by the claimant and the case was heard in early July 2024 by the Court of Appeal together with two separate claims made against another lender. The Court's decision is now awaited.

As of 31 August 2024, where individual cases were adjudicated in County Court, the courts found that there was no demonstrable customer harm and hence no compensation to pay in the majority of decided cases for Close Brothers. Nevertheless, there have been only a limited number of adjudicated cases at this time.

There are also a number of complaints that have been referred to the FOS for a determination. To date, no final FOS decisions have been made upholding complaints against Close Brothers. On 9 May 2024, the FOS announced that it would be unlikely to be able to issue final decisions on motor commission cases for some time due to the potential impact of a judicial review proceeding started by another lender in relation to one of its January 2024 decisions and also the outstanding Court of Appeal decisions.

Since the announcement by the FCA of its review of historical motor finance commission arrangements in January 2024, we have seen a further increase in enquiries and complaints. We have also taken steps to enhance our operational capabilities to respond to increased complaints volumes and potential changes such as the implementation of a consumer redress scheme, if required. This financial year, we have incurred £6.9 million of costs associated with complaints handling and other operational costs associated with the FCA's review. This included increased resourcing in our complaints and legal teams, along with associated investments in data, systems and business processes. These costs are lower than our previous estimate of c.£10 million as we remain focused on mitigating the impact on resource expenses through outsourcing and deployment of automated solutions to assist in triaging new complaints, improving our processing speed. In the 2025 financial year, we currently estimate these costs will be between £10-15 million. We continue to monitor the impact on our current handling of these complaints and are following the playbooks in place to ensure we have the appropriate resources to respond effectively.

Further Strengthening our Capital Base to Continue to Support Customers and Protect our Valuable Franchise

While there is no certainty regarding any potential financial impact as a result of the FCA's review, the board recognises the need to plan for a range of possible outcomes. It is a long-standing priority of the group to maintain a strong balance sheet and prudent approach to managing its financial resources. To that end, the board considers it prudent for the group to further strengthen its capital position, balancing this with the need to continue supporting our customers and protecting our business franchise.

In March 2024, we announced a range of management actions which have the potential to strengthen the group's available CET1 capital by approximately £400 million by the end of the 2025 financial year (when compared to the group's projected CET1 capital ratio for 31 July 2025 at the time of our Half Year results announcement, prior to any management actions). We are now providing an update on the progress made since then.

We have retained c.£100 million of CET1 capital in the 2024 financial year as a result of the group's previously announced decision not to pay a dividend for the 2024 financial year.

We announced steps to further strengthen the group's capital position by optimising risk weighted assets ("RWAs"). We plan to reduce RWA growth by approximately £1 billion through a combination of selective loan book growth, partnerships and significant risk transfer of assets related to our Motor Finance business through securitisations. The combination of these actions could release c.£100 million of CET1 capital by the end of the 2025 financial year. In the second half, we grew the loan book selectively while maintaining support for our existing customers, with the impact reflected in the lower loan book growth of 2% in the six months since 31 January 2024. We currently plan for low single-digit percentage growth in the loan book in the 2025 financial year, with the associated impact to be reflected in the group's CET1 capital ratio over the course of the 2025 financial year. We have concluded the work in preparation for a significant risk transfer of assets in Motor Finance. Subject to market conditions, we are ready to launch a transaction at the optimal time to maximise the peak capital benefit, aligned to the revised timetable for the FCA's work in the motor finance market.

We have progressed on the delivery of the additional cost management initiatives previously announced to generate annualised savings of c.£20 million, reaching the full run rate by the end of the 2025 financial year. These initiatives include the continued rationalisation of third-party suppliers and simplification of our property footprint, as well as adjustments to our workforce to drive increased efficiency. We have partnered with a leading technology services and consulting company to help us drive our technology transformation programme, which has led to a headcount reduction of c.100 as we made increased use of outsourcing and the removal of over 115 IT applications to date. We have served notice to vacate our Wimbledon Bridge House office and establish a more suitable London footprint to meet the needs of the business, resulting in the removal of approximately 800 desks. As a result of the review of our workforce, we have incurred £3.1 million of restructuring costs, primarily relating to redundancy and associated costs.

We continue to progress a range of other potential management actions which include potential risk transfer of other portfolios through securitisation and a continued review of our business portfolios and other tactical actions. On 19 September 2024, the group announced that it entered into an agreement to sell CBAM to Oaktree. The transaction is expected to increase the group's common equity tier 1 capital by approximately £100 million, further strengthening our capital position.

Additionally, as our business continues to organically generate capital through 2025, the retention of earnings could potentially strengthen the group's capital position by a further £100 million, if required.

Subject to the execution of these management actions and capital generation, we have the potential to increase the group's CET1 capital ratio to between 14% and 15% at the end of the 2025 financial year (excluding any potential redress or provision related to the FCA's review of historical motor finance commission arrangements).

While there remains considerable uncertainty regarding the specifics of any potential redress scheme, if required, as well as its timing, the board is confident that these actions leave the group well positioned to navigate the current uncertain environment.

Financial Overview

Summary Group Income Statement[1]

	2024 £ million	2023 £ million	Change %
Operating income	**944.2**	932.6	1
Adjusted operating expenses	**(674.8)**	(615.0)	10
Impairment losses on financial assets	**(98.8)**	(204.1)	(52)
Adjusted operating profit	**170.6**	113.5	50
Banking	**205.4**	120.1	71
Banking excluding Novitas	***205.6***	*226.7*	*(9)*
Commercial	**89.5**	15.9	463
Of which: Novitas	***(0.2)***	*(106.6)*	*(100)*
Retail	**37.9**	34.7	9
Property	**78.0**	69.5	12
Asset Management	**12.2**	15.9	(23)
Winterflood	**(1.7)**	3.5	(148)
Group (central functions)	**(45.3)**	(26.0)	74
Adjusting items:			
Complaints handling and other operational costs associated with the FCA's review of historical motor finance commission arrangements	**(6.9)**	-	-
Provision in relation to the BiFD review	**(17.2)**	-	-
Restructuring costs	**(3.1)**	-	-
Amortisation of intangible assets on acquisition	**(1.4)**	(1.5)	(7)
Statutory operating profit before tax	**142.0**	112.0	27
Tax	**(41.6)**	(30.9)	35
Profit after tax	**100.4**	81.1	24
Profit attributable to shareholders	**100.4**	81.1	24
Adjusted basic earnings per share[2]	**76.1p**	55.1p	
Basic earnings per share[2]	**59.7p**	54.3p	
Ordinary dividend per share	**-**	67.5p	
Return on opening equity	**6.9%**	5.0%	
Return on average tangible equity	**8.3%**	5.9%	

1. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in Note 2 "Segmental Analysis".
2. Refer to Note 4 "Earnings per Share" for the calculation of basic and adjusted earnings per share.

Financial Performance

Statutory Operating Profit

Statutory operating profit before tax increased 27% to £142.0 million (2023: £112.0 million), reflecting higher profitability in the Banking division, driven primarily by the non-recurrence of the significant impairment charges incurred in relation to Novitas in the prior year. This was partly offset by costs associated with the handling of complaints and other operational costs associated with the FCA's review of historical motor finance commission arrangements, a provision recognised in relation to the Past Business Review and expected customer compensation in respect of forbearance related to motor finance lending following discussions with the FCA in relation to its market-wide review of Borrowers in Financial Difficulty ("BiFD"), and an increase in Group (central functions) net expenses.

Adjusted Operating Profit

Adjusted operating profit increased 50% to £170.6 million (2023: £113.5 million), as the significant decrease in impairment charges and 1% growth in income offset a 10% growth in adjusted operating expenses. Excluding Novitas, adjusted operating profit decreased to £170.8 million (2023: £220.1 million).

Banking adjusted operating profit increased to £205.4 million (2023: £120.1 million), with the prior year including an impairment charge of £116.8 million taken in relation to Novitas. Excluding Novitas, Banking adjusted operating profit decreased to £205.6 million (2023: £226.7 million) as higher income from loan book growth was more than offset by cost growth in line with guidance. In the Asset Management division, adjusted operating profit declined by 23% to £12.2 million (2023: £15.9 million) as higher income was offset by an increase in costs as we invested in new hires in our bespoke investment management business. Winterflood delivered an operating loss of £1.7 million (2023: operating profit of £3.5 million), primarily reflecting lower trading income in a challenging market environment and one-off dual-running property costs. Group (central functions) net expenses, which include the central functions such as finance, legal and compliance, risk and human resources, increased to £45.3 million (H1 2024: £21.0 million, H2 2024: £24.3 million, 2023: £26.0 million), driven primarily by interest charges of £19.4 million (2023: £2.5 million) incurred on the group's £250 million senior unsecured bond issued in June 2023 at an interest rate of 7.75% and an increase in professional fees and expenses associated with the potential impact on the group of the FCA's review of historical motor finance commission arrangements.

We expect Group (central functions) net expenses to increase to between £55 million and £60 million in the 2025 financial year, primarily reflecting an elevated level of professional fees and expenses associated with the potential impact on the group of the FCA's review of historical motor finance commission arrangements and its revised timetable, as well as a decline in interest income received from the proceeds of the group bond being placed on deposit with the reduction in interest rates.

Return on opening equity increased to 6.9% (2023: 5.0%) and return on average tangible equity increased to 8.3% (2023: 5.9%).

Operating Income

Operating income increased 1% to £944.2 million (2023: £932.6 million), with growth in both Asset Management and Banking offsetting a decline in Winterflood and higher interest expenses from the group senior unsecured bond.

Income in the Banking division increased 2%. This reflected good loan book growth and strong, albeit reduced, margins as we maintained our focus on pricing discipline and optimising funding costs in the higher rate environment, although experienced margin pressures and lower activity-driven fee income in the Commercial businesses. As previously highlighted, Banking income in the prior year benefited from one-off items related to movements through profit and loss from derivatives outside of a hedge accounting relationship and Novitas income. Excluding the impact of these items, Banking income grew 4%. Income in Asset Management increased 9%, driven by higher investment management income, reflecting growth in AuM delivered by our bespoke investment management business. Income in Winterflood reduced 3% as the decline in trading income more than offset growth in WBS. Income decreased in the Group (central functions) to £(11.5) million (2023: £(1.3) million), driven by interest charges incurred on the group's £250 million senior unsecured bond issued in June 2023 at an interest rate of 7.75%, partly offset by interest income received from the proceeds being placed on deposit.

Operating Expenses

Adjusted operating expenses rose 10% to £674.8 million (2023: £615.0 million), primarily driven by increased staff costs across the group, as well as continued investment in Banking. In the Banking division, costs grew 8%, at the lower end of the guidance provided, as we incurred inflationary-related increases in staff costs, higher regulatory compliance and assurance expenses and continued to invest in our strategic programmes. We also made good progress on our strategic and tactical cost management initiatives as we implement measures to deliver annualised cost savings of c.£20 million, reaching the full run rate by the end of the 2025 financial year, with the total benefit in the 2026 financial year. Costs rose 13% in Asset Management, mainly reflecting wage inflation and new hires to support future growth. Winterflood's costs increased 4%, primarily reflecting one-off costs incurred by relocating premises. Expenses in the Group (central functions) rose to £33.8 million (2023: £24.7 million), reflecting an increase in professional fees and expenses associated with the potential impact on the group of the FCA's review of historical motor finance commission arrangements, as well as performance-driven compensation and share-based awards.

Overall, the group's expense/income ratio increased to 71% (2023: 66%), whilst the compensation ratio increased to 41% (2023: 37%), reflecting inflation-related wage increases and new hires in CBAM.

Impairment Charges and IFRS 9 Provisioning

Impairment charges decreased significantly to £98.8 million (2023: £204.1 million), corresponding to a bad debt ratio of 1.0% (2023: 2.2%) with the prior year including a charge of £116.8 million in relation to Novitas. Overall, provision coverage increased to 4.3% (31 July 2023: 3.9%).

Excluding Novitas, impairment charges rose 6% to £92.4 million (2023: £87.3 million), mainly driven by loan book growth and the ongoing review of provisions and coverage across our loan portfolios, partly offset by improvements to the macroeconomic outlook. The bad debt ratio, excluding Novitas, remained stable at 0.9% (2023: 0.9%) and remains below our long-term bad debt ratio of 1.2%. The coverage ratio increased slightly to 2.3% (31 July 2023: 2.1%), excluding Novitas.

Since the 2023 financial year end, we have updated the macroeconomic scenarios to reflect the latest available information regarding the macroeconomic environment and improved outlook, although the weightings assigned to them remain unchanged. At 31 July 2024, there was a 30% weighting to the strong upside, 32.5% weighting to the baseline, 20% weighting to the mild downside, 10.5% weighting to the moderate downside and 7% weighting to the protracted downside.

Whilst we have not seen a significant impact on credit performance, we continue to monitor closely the evolving impacts of inflation and cost of living on our customers. We remain confident in the quality of our loan book, which is predominantly secured or structurally protected, prudently underwritten, diverse, and supported by the deep expertise of our people. Looking forward, we expect the bad debt ratio for the 2025 financial year to remain below our long-term average of 1.2%.

Adjusting Items

We recognised £28.6 million of adjusting items in the 2024 financial year, of which £2.9 million were incurred in the first half (consisting of £0.6 million of amortisation of intangible assets on acquisition and £2.3 million relating to complaints handling expenses and other operational costs associated with the FCA's review of historical motor finance commission arrangements, which have been recategorised as an adjusting item).

We incurred £6.9 million of complaints handling expenses and other operational costs associated with the FCA's review of historical motor finance commission arrangements.

As highlighted in the Q3 trading update, following discussions with the FCA in relation to its market-wide review of Borrowers in Financial Difficulty, which assessed forbearance and related practices, the group has conducted a Past Business Review of customer forbearance related to its motor finance lending. This has now concluded and a provision of £17.2 million has been recognised in respect of the review and expected customer compensation. We have commenced making compensation payments to customers, with the resulting remediation programme expected to be materially complete this calendar year. This provision, which should sufficiently address the outcomes of the review, is higher than previously estimated, reflecting our decision to both widen the population of in-scope customers and increase the assumptions for average distress and inconvenience payments, in line with our commitment to achieving fair customer outcomes.

In addition, we incurred £3.1 million of restructuring costs in the 2024 financial year primarily relating to redundancy and associated costs. We have made good progress on streamlining the workforce, which has been achieved through the consolidation of roles across our businesses and functions, as well as through the management of vacancies.

Tax Expense

The tax expense was £41.6 million (2023: £30.9 million), which corresponds to an effective tax rate of 29.3% (2023: 27.6%).

The standard UK corporation tax rate for the financial year is 25.0% (2023: 21.0%). The effective tax rate is above the UK corporation tax rate primarily due to disallowable expenditure, including expected customer compensation following the BiFD review, partly offset by tax relief from the Additional Tier 1 ("AT1") securities coupon payments. An additional banking surcharge of 3% (2023: 6.3%) applies to banking company profits as defined in legislation, but only above a certain amount, resulting in a nil (2023: 5.5%) surcharge impact.

Earnings Per Share

Adjusted basic earnings per share ("EPS") increased to 76.1p (2023: 55.1p) and basic EPS increased to 59.7p (2023: 54.3p). Both the adjusted and basic EPS calculation include the payment of the coupon related to the Fixed Rate Resetting AT1 Perpetual Subordinated Contingent Convertible Securities, at an annual rate of 11.125%, on 29 May 2024. The associated coupon is due on 29 May and 29 November of each year, with any AT1 coupons paid deducted from retained earnings, reducing the profit attributable to ordinary shareholders.

Dividend

Given the significant uncertainty regarding the outcome of the FCA's review of historical motor finance commission arrangements and any potential financial impact as a result, the board has considered it prudent for the group to further strengthen its capital position, while supporting our customers and business franchise. Therefore, as announced on 15 February 2024, the group will not pay a dividend on its ordinary shares for the 2024 financial year.

The reinstatement of dividends in the 2025 financial year and beyond will be reviewed once the FCA has concluded its process and any financial consequences for the group have been assessed.

Summary Group Balance Sheet

	31 July 2024 £ million	31 July 2023 £ million
Loans and advances to customers and operating lease assets[1]	**10,098.7**	9,526.2
Treasury assets[2]	**2,300.9**	2,229.4
Market-making assets[3]	**691.8**	787.6
Other assets	**989.4**	1,007.1
Total assets	**14,080.8**	13,550.3
Deposits by customers	**8,693.6**	7,724.5
Borrowings[4]	**2,339.2**	2,839.4
Market-making liabilities[3]	**631.6**	700.7
Other liabilities	**573.9**	640.8
Total liabilities	**12,238.3**	11,905.4
Equity[5]	**1,842.5**	1,644.9
Total liabilities and equity	**14,080.8**	13,550.3

1. Includes operating lease assets of £267.9 million (31 July 2023: £271.2 million).
2. Treasury assets comprise cash and balances at central banks and debt securities held to support the Banking division.
3. Market-making assets and liabilities comprise settlement balances, long and short trading positions and loans to or from money brokers.
4. Borrowings comprise debt securities in issue, loans and overdrafts from banks and subordinated loan capital.
5. Equity includes the group's £200.0 million Fixed Rate Reset Perpetual Subordinated Contingent Convertible Securities (AT1 securities), net of transaction costs, which are classified as an equity instrument under IAS 32.

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

Total assets increased 4% to £14.1 billion (31 July 2023: £13.6 billion), mainly reflecting growth in the loan book and higher Treasury assets. Total liabilities were 3% higher at £12.2 billion (31 July 2023: £11.9 billion), driven primarily by higher customer deposits, partly offset by a reduction in borrowings. Both market-making assets and liabilities, which related to trading activity at Winterflood, were lower due to a decrease in value traded at the end of the year.

Total equity increased 12% to £1.8 billion (31 July 2023: £1.6 billion), primarily reflecting the issuance of AT1 securities net of transaction costs and profit in the year, which was partially offset by dividend payments for the 2023 financial year of £67.1 million (2023: £99.1 million) and the AT1 coupon payment of £11.1 million (2023: £nil). The group's return on assets increased to 0.8% (2023: 0.6%).

Group Capital

	31 July 2024 £ million	31 July 2023 £ million
Common Equity Tier 1 capital	**1,374.8**	1,310.8
Tier 1 capital	**1,574.8**	1,310.8
Total capital	**1,774.8**	1,510.8
Risk weighted assets	**10,701.2**	9,847.6
Common Equity Tier 1 capital ratio (transitional)	**12.8%**	13.3%
Tier 1 capital ratio (transitional)	**14.7%**	13.3%
Total capital ratio (transitional)	**16.6%**	15.3%
Leverage ratio[1]	**12.7%**	11.4%

1. The leverage ratio is calculated as tier 1 capital as a percentage of total balance sheet assets excluding central bank claims, adjusting for certain capital deductions, including intangible assets, and off-balance sheet exposures, in line with the UK leverage framework under the UK Capital Requirements Regulation.

Movements in Capital and Other Regulatory Metrics

The CET1 capital ratio reduced from 13.3% to 12.8%, mainly driven by loan book growth (-c.100bps), a decrease in IFRS 9 transitional arrangements (-c.20bps), Bluestone Motor Finance (Ireland) DAC acquisition (-c.20bps) and AT1 coupon (-c.10bps). This was partly offset by profits for the current financial year (c.90bps).

CET1 capital increased 5% to £1,374.8 million (31 July 2023: £1,310.8 million), mainly driven by £100.4 million of profits, partly offset by the dividends paid and foreseen related to the AT1 coupon of £15.0 million and a decrease in the transitional IFRS 9 add-back to capital of £19.7 million.

Tier 1 capital increased 20% to £1,574.8 million (31 July 2023: £1,310.8 million), driven by the issuance of the group's inaugural AT1 in a £200 million transaction to optimise the capital structure and provide further flexibility to grow the business. The transaction strengthened the regulatory capital position and was in line with the group's strategy and capital management framework.

Total capital increased 17% to £1,774.8 million (31 July 2023: £1,510.8 million), primarily reflecting the AT1 issuance.

RWAs increased 9% to £10.7 billion (31 July 2023: £9.8 billion), driven by loan book growth (c.£790 million) primarily in Commercial and Property, the acquisition of Bluestone Motor Finance (Ireland) DAC (c.£120 million), and a decrease in operational risk RWAs (c.£40 million), reflecting a reduction in average income in Winterflood partly offset by loan book growth.

As a result, CET1, tier 1 and total capital ratios were 12.8% (31 July 2023: 13.3%), 14.7% (31 July 2023: 13.3%) and 16.6% (31 July 2023: 15.3%), respectively.

The applicable CET1, tier 1 and total capital ratio requirements, including Capital Requirements Directive ("CRD") buffers but excluding any applicable Prudential Regulation Authority ("PRA") buffer, were 9.7%, 11.4% and 13.7%, respectively, at 31 July 2024. Accordingly, we continue to have headroom significantly above the applicable requirements of c.310bps in the CET1 capital ratio, c.330bps in the tier 1 capital ratio and c.290bps in the total capital ratio.

The group applies IFRS 9 regulatory transitional arrangements which allow banks to add back to their capital base a proportion of the IFRS 9 impairment charges during the transitional period. Our capital ratios are presented on a transitional basis after the application of these arrangements. On a fully loaded basis, without their application, the CET1, tier 1 and total capital ratios would be 12.7%, 14.6% and 16.5%, respectively.

The leverage ratio, which is a transparent measure of capital strength not affected by risk weightings, increased to 12.7% (31 July 2023: 11.4%) primarily due to the increase in tier 1 capital.

The PRA Policy Statement PS 9/24 Implementation of the Basel 3.1 standards near-final part 2 was published on 12 September 2024, with an implementation date of 1 January 2026, six months later than previously anticipated. The majority of rules applicable to the group remain unchanged, including the proposed removal of the small and medium-sized enterprises ("SME") supporting factor, new conversion factor for cancellable facilities and new market risk rules. As a result, we continue to expect implementation to result in an increase of up to c.10% in the group's RWAs calculated under the standardised approach. However, the PRA has proposed to apply an SME lending adjustment as part of Pillar 2a, to ensure that the removal of the SME support factor does not result in an increase in overall capital requirements for SME lending. Whilst this adjustment is subject to PRA confirmation and a resulting restatement of the group's total capital requirements, we would reasonably expect the UK implementation of Basel 3.1 to have a less significant impact on the group's capital headroom position than initially anticipated.

As outlined at the Half Year 2024 results, following our application (in December 2020) to transition to the Internal Ratings Based ("IRB") approach, the application has successfully moved to Phase 2 of the process and engagement with the regulator continues. Our Motor Finance, Property Finance and Energy portfolios, where the use of models is most mature, were submitted with our initial application.

Further Strengthening our Capital Position

In March 2024, we announced a range of management actions which have the potential to strengthen the group's available CET1 capital by approximately £400 million by the end of the 2025 financial year (when compared to the group's projected CET1 capital ratio for 31 July 2025 at the time of our Half Year results announcement, prior to any management actions). While there remains considerable uncertainty regarding the specifics of any potential redress scheme, if required, as well as its timing, the board is confident that these actions leave the group well positioned to navigate the current uncertainty.

Subject to the execution of these management actions and capital generation, we have the potential to increase the group's CET1 capital ratio to between 14% and 15% at the end of the 2025 financial year (excluding any potential redress or provision related to the FCA's review of historical motor finance commission arrangements). Over the medium term, we remain committed to our previous CET1 capital target range of 12% to 13%.

Group Funding[1]

	31 July 2024 £ million	31 July 2023 £ million
Customer deposits	**8,693.6**	7,724.5
Secured funding	**1,205.1**	1,676.6
Unsecured funding[2]	**1,219.1**	1,308.6
Equity	**1,842.5**	1,644.9
Total available funding[3]	**12,960.3**	12,354.6
Total funding as a percentage of loan book[4]	**128%**	130%
Average maturity of funding allocated to loan book[5]	**20 months**	21 months

1. Numbers relate to core funding and exclude working capital facilities at the business level.
2. Unsecured funding excludes £55.7 million (31 July 2023: £44.3 million) of non-facility overdrafts included in borrowings and includes £140.0 million (31 July 2023: £190.0 million) of undrawn facilities.
3. Includes £250 million of funds raised via a senior unsecured bond with a five-year tenor by Close Brothers Group plc, the group's holding company, in June 2023, with proceeds currently used for general corporate purposes.
4. Total funding as a percentage of loan book includes £267.9 million (31 July 2023: £271.2 million) of operating lease assets in the loan book figure.
5. Average maturity of total available funding, excluding equity and funding held for liquidity purposes.

Our Treasury function is focused on managing funding and liquidity to support the Banking businesses, as well as interest rate risk.

Our conservative approach to funding is based on the principle of "borrow long, lend short", with a spread of maturities over the medium and longer term, comfortably ahead of a shorter average loan book maturity. We have maintained a prudent maturity profile, with the average maturity of funding allocated to the loan book at 20 months (31 July 2023: 21 months), ahead of the average loan book maturity at 16 months (31 July 2023: 16 months).

Our funding draws on a wide range of wholesale and deposit markets including several public debt securities at both group and operating company level, as well as public and private secured funding programmes and a diverse mix of customer deposits. This broad funding base reduces concentration risk and ensures we can adapt our position through the cycle.

Total funding increased by 5% over the year to £13.0 billion (31 July 2023: £12.4 billion), which accounted for 128% (31 July 2023: 130%) of the loan book at the balance sheet date, as we actively sought to grow our customer deposit base over the year. The average cost of funding in Banking increased to 5.5% (2023: 3.2%) reflecting the stabilisation of interest rates at a higher level and the corresponding impact on deposit pricing pressure. With macroeconomic indicators showing improvement in the second half of the financial year, the Bank of England base rate cut in August 2024 and further expectations of interest rate reductions, the pressure on cost of funding has begun to ease in recent months. We are well positioned to continue benefiting from our diverse funding base.

Customer deposits increased 13% to £8.7 billion (31 July 2023: £7.7 billion). Of this, non-retail deposits decreased 15% to £3.0 billion (31 July 2023: £3.5 billion) and retail deposits increased by 36% to £5.7 billion (31 July 2023: £4.2 billion), as we actively sought to grow our retail deposit base and product offering. In line with our prudent and conservative approach to funding, our deposits are predominantly term, with only 8% of total deposits available on demand and over 65% having at least three months to maturity. At 31 July 2024, approximately 86% of retail deposits were protected by the Financial Services Compensation Scheme.

Secured funding decreased 28% to £1.2 billion (31 July 2023: £1.7 billion), with our fifth public Motor Finance securitisation completed in November 2023 more than offset by a £250 million repayment related to our Motor Finance warehouse securitisation and the repayment of £490 million of the Term Funding Scheme for Small and Medium-sized Enterprises ("TFSME") ahead of the scheduled maturity date. This takes our remaining drawings under the scheme to £110 million (31 July 2023: £600 million), which will mature in October 2025, and which we expect to replace in line with our diverse funding profile, dependent on market conditions and demand.

Unsecured funding, which includes senior unsecured and subordinated bonds and undrawn committed revolving facilities, reduced 7% to £1.2 billion (31 July 2023: £1.3 billion).

The investment in our customer deposit platform continues to deliver tangible benefits and provide us with scalability. Deposits held through this platform have now grown to over £6.3 billion and we have continued to expand and diversify our products, with Easy Access complementing our existing offering of Notice Accounts and Fixed Rate Cash ISAs. The introduction of Easy Access provides us access to a large potential deposit pool, with balances of c.£540 million (at 31 July 2024). We have also recently onboarded an additional depositor aggregator partner, which has provided another avenue for us to secure fixed retail funding. We remain focused on growing our retail funding base from a variety of segments, further optimising our cost of funding and maturity profile.

Our Savings business provides simple and straightforward savings products to both individuals and businesses, whilst being committed to providing the highest level of customer service. In the second half of the financial year, we conducted a review aimed at enhancing operational efficiency and supporting our retail deposit growth ambitions. As a result, our Savings business has been integrated into the Retail business. This strategic move will leverage established shared operations, supporting the continued expansion of the business.

Our credit ratings continue to reflect the group's inherent financial strength, diversified business model and consistent risk appetite. Moody's Investors Services ("Moody's") ratings for CBG and CBL are A3/P2 and A1/P1 respectively (at 14 August 2024) with a negative outlook. Moody's ratings for Close Brothers Group's senior unsecured and subordinated debt is A3 (at 14 August 2024). Fitch Ratings ("Fitch") Issuer Default Ratings ("IDRs") for CBG and CBL are BBB+/F2 with a "negative outlook" (at 20 February 2024).

Group Liquidity

	31 July 2024 £ million	31 July 2023 £ million
Cash and balances at central banks	**1,584.0**	1,937.0
Sovereign and central bank debt	**383.7**	186.1
Supranational, sub-sovereigns and agency ("SSA") bonds	**145.5**	-
Covered bonds	**187.7**	106.3
Treasury assets	**2,300.9**	2,229.4

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

In light of the significant uncertainty regarding the outcome of the FCA's review of historical motor finance commission arrangements, we have deliberately maintained a higher level of liquidity. We have continued to diversify our large, high quality liquid asset portfolio held mainly in cash and government bonds. Over the year, treasury assets increased 3% to £2.3 billion (31 July 2023: £2.2 billion) and were predominantly held on deposit with the Bank of England.

We regularly assess and stress test the group's liquidity requirements and continue to exceed the liquidity coverage ratio ("LCR") regulatory requirements, with a 12-month average LCR to 31 July 2024 of 1,034% (31 July 2023: 1,143%). In addition to internal measures, we monitor funding risk based on the CRR rules for the net stable funding ratio ("NSFR"). The four-quarter average NSFR to 31 July 2024 was 134.4% (31 July 2023: 126.0%).

Post Balance Sheet Event

Following a comprehensive strategic review, on 19 September 2024 the group announced that it entered into an agreement to sell CBAM to Oaktree for an equity value of up to £200 million.

The upfront proceeds would increase the group's common equity tier 1 ("CET1") capital ratio by approximately 100 basis points on a pro forma basis. This calculation is based on a net asset value of £121.8 million at 31 July 2024, a tangible net asset value of £66.1 million, and assumes an immediate reduction in credit risk weighted assets ("RWAs") associated with the CBAM business. It does not include any immediate reduction in operational risk RWAs and excludes any capital impact in respect of the contingent deferred consideration. This estimate is subject to change before completion.

The transaction is expected to complete in early 2025 calendar year and is conditional upon receipt of certain customary regulatory approvals.

Further details of the financial impacts of the sale agreement on the group can be found in Note 23 "Post Balance Sheet Event".

Business Review

Banking

Key Financials

	2024 £ million	2023 £ million	Change %
Operating income	**724.9**	713.8	2
Adjusted operating expenses	**(420.6)**	(389.7)	8
Impairment losses on financial assets	**(98.9)**	(204.0)	(52)
Adjusted operating profit	**205.4**	120.1	71
Adjusted operating profit, pre provisions	**304.3**	324.1	(6)
Adjusting items:			
Complaints handling and other operational costs associated with the FCA's review of historical motor finance commission arrangements	**(6.9)**	-	-
Provision in relation to the BiFD review	**(17.2)**	-	-
Restructuring costs	**(3.1)**	-	-
Amortisation of intangible assets on acquisition	**(0.2)**	(0.1)	100
Statutory operating profit	**178.0**	120.0	48
Net interest margin	**7.4%**	7.7%	
Expense/income ratio	**58.0%**	54.6%	
Bad debt ratio	**1.0%**	2.2%	
Return on net loan book	**2.1%**	1.3%	
Return on opening equity	**10.6%**	6.6%	
Closing loan book and operating lease assets	**10,098.7**	9,526.2	6

Key Financials (Excluding Novitas)

	2024 £ million	2023 £ million	Change %
Operating income	**713.9**	694.9	3
Adjusted operating expenses	**(415.8)**	(381.0)	9
Impairment losses on financial assets	**(92.5)**	(87.2)	6
Adjusted operating profit	**205.6**	226.7	(9)
Adjusted operating profit, pre provisions	**298.1**	313.9	(5)
Net interest margin	**7.3%**	7.6%	
Expense/income ratio	**58.2%**	54.8%	
Bad debt ratio	**0.9%**	0.9%	
Closing loan book and operating lease assets	**10,036.3**	9,466.3	6

Robust Profit Performance Reflecting our Focus on Costs and Pricing Discipline

Whilst the market backdrop was mixed in the first half of the year, with the continued uncertainty testing the resilience of SMEs and consumers, we saw an overall improvement in sentiment in the second part of the year as inflation fell and interest rates peaked, with the Bank of England base rate reduced in August 2024.

In Commercial, we have delivered good loan book growth of 6% and are starting to benefit from the investment in our Asset Finance transformation programme. Net interest margin has declined to 6.6%, driven by a combination of pressure on new business margins in the higher interest rate environment, a reduction in activity-driven fee income and a higher proportion of growth in some of our portfolios with larger loan sizes and lower margin. Whilst the Retail business has faced a challenging regulatory backdrop, we have remained focused on providing excellent service for our customers and delivered a 9% increase in adjusted operating profit. Motor Finance has continued to see good customer demand in the UK and is rebuilding its presence in the Irish market, with the loan book up 3%. Premium Finance has delivered a strong performance overall, notwithstanding a 3% decline in the loan book. The Property business has had a strong year, with profitability up 12% and the loan book at c.£2 billion, as optimism returns to the UK property market and we continue to build customer advocacy through our relationship-led model. This resilient performance has been delivered notwithstanding the challenging regulatory backdrop, as we have sought to balance supporting our customers whilst protecting our franchise.

Banking adjusted operating profit increased to £205.4 million (2023: £120.1 million), with the prior year including an impairment charge of £116.8 million in relation to Novitas. Excluding Novitas, Banking adjusted operating profit decreased 9% to £205.6 million (2023: £226.7 million), as growth in income, driven by good loan book growth and a strong, albeit reduced, net interest margin, was more than offset by higher costs and an increase in impairment charges.

On a statutory basis, operating profit increased to £178.0 million (2023: £120.0 million), notwithstanding £27.4 million of adjusting items which included £6.9 million of costs associated with the handling of complaints and other operational costs associated with the FCA's review of historical motor finance commission arrangements, including increased resourcing in our complaints and legal teams and £3.1 million of restructuring costs. In addition, in respect of the FCA's market-wide review of BiFD, which is focused on providing a stronger framework for firms to protect customers facing payment difficulties and covers matters such as affordability, forbearance and vulnerable customers, we have conducted a Past Business Review of customer forbearance related to motor finance lending. This was a voluntary review undertaken with oversight from the FCA. A provision of £17.2 million has been recognised in respect of the review and expected customer compensation. We have commenced making compensation payments to customers, with the resulting remediation programme expected to be materially complete this calendar year.

The loan book grew 6% over the year to £10.1 billion (31 July 2023: £9.5 billion), reflecting healthy drawdowns in Property and strong new business in Invoice Finance, as well as good demand in Motor Finance and in Asset Finance, driven by the Leasing business. This was partly offset by a decline in Premium Finance and the run-off of the legacy Republic of Ireland Motor Finance loan book. Overall, the loan book grew 4% in the first half of the year and slowed to 2% in the second half, reflecting the selective loan book actions identified at the Half Year 2024 results.

Excluding the businesses in run-off, Novitas and the legacy Republic of Ireland Motor Finance business, the loan book grew 7% to £9.9 billion (31 July 2023: £9.3 billion).

Operating income increased 2% to £724.9 million (2023: £713.8 million), reflecting good loan book growth and strong, albeit reduced, margins. As previously highlighted, the prior year benefited from Novitas income (£19 million in 2023 versus £11 million in 2024) and movements through profit and loss from derivatives outside of a hedge accounting relationship (£2 million benefit in 2023 versus £5 million adverse impact in 2024). Excluding the impact of Novitas and these movements in derivatives, operating income rose 4%, driven by loan book growth.

Whilst the net interest margin remained strong as we maintained our focus on pricing discipline and optimising funding costs in the higher rate environment, it decreased to 7.4% (2023: 7.7%), with c.12bps of margin reduction reflecting the movements through profit and loss from derivatives outside of a hedge accounting relationship and Novitas income benefiting the prior year. Excluding the impact of these items, the net interest margin decreased by c.16bps, primarily reflecting margin pressures and lower activity-driven fee income in the Commercial businesses, partly offset by the pass through of higher rates in Retail. We are well positioned to sustain the net interest margin delivered in the second half of the 2024 financial year of 7.2%.

Adjusted operating expenses increased 8% to £420.6 million (2023: £389.7 million), driven mainly by inflationary-related increases in staff costs, higher regulatory compliance and assurance expenses and continued investment, partly offset by the progress we have made on our tactical and strategic cost management initiatives. This also included £6.5 million (2023: £0.8 million) of costs related to the acquisition, integration and running of Close Brothers Motor Finance in Ireland, which completed in October 2023, and spend of £4.8 million (2023: £8.7 million) related to Novitas as we continue to wind down the business. The expense/income ratio increased to 58.0% (2023: 54.6%) and the compensation ratio rose to 32% (2023: 30%), reflecting inflation-related wage increases.

Overall Banking cost growth was at the lower end of the 8-10% guidance range provided at the Full Year 2023 results on a like-for-like basis, with an 8% increase to £421.0 million (2023: £388.9 million), when including £6.9 million (2023: £nil) of costs associated with the handling of complaints and other operational costs associated with the FCA's review of historical motor finance commission arrangements and excluding £6.5 million (2023: £0.8 million) related to Close Brothers Motor Finance in Ireland.

Over the year, we have continued to make good progress on our strategic cost management initiatives. Our technology transformation programme, initiated in 2023, is focused on simplifying and modernising our technology estate, removing unnecessary cost and increasing our use of strategic partners, whilst creating a more digitally enabled and agile IT environment that is secure, resilient and sustainable. We have partnered with Wipro, a leading technology services and consulting company, to help us drive our transformation. To date, we have reduced our headcount by c.100, as we made increased use of outsourcing, and removed over 115 IT applications.

As outlined at the Half Year 2024 results, we have also mobilised additional cost management initiatives to support the ongoing profitability of the business, particularly in light of the capital actions and their expected impact on future income. These initiatives are expected to generate annualised savings of c.£20 million, reaching the full run rate by the end of the 2025 financial year, with the total benefit in the 2026 financial year. These include rationalising our third-party suppliers and property footprint and adjusting our workforce to drive increased efficiency and effectiveness. In recent months, we have served notice to vacate our Wimbledon Bridge House office and establish a more suitable London footprint to meet the needs of the business, resulting in the removal of approximately 800 desks.

We have incurred £3.1 million of restructuring costs, which have been recognised as an adjusting item in the 2024 financial year, primarily relating to redundancy and associated costs. We expect to incur £5-10 million of restructuring costs in the 2025 financial year as we continue to implement cost management actions to improve future efficiency.

We expect income and adjusted operating expenses growth, excluding the impact of adjusting items which do not reflect the underlying performance of our business, to be aligned in the 2025 financial year and to deliver positive operating leverage in the 2026 financial year.

Impairment charges decreased significantly to £98.9 million (2023: £204.0 million), corresponding to a bad debt ratio of 1.0% (2023: 2.2%) with the prior year including a charge of £116.8 million in relation to Novitas. Overall, provision coverage increased to 4.3% (31 July 2023: 3.9%).

Excluding Novitas, impairment charges rose 6% to £92.5 million (2023: £87.2 million), mainly driven by loan book growth and the ongoing review of provisions and coverage across our loan portfolios, partly offset by improvements to the macroeconomic outlook. The bad debt ratio, excluding Novitas, remained stable at 0.9% (2023: 0.9%) and remains below our long-term bad debt ratio of 1.2%. The coverage ratio increased slightly to 2.3% (31 July 2023: 2.1%), excluding Novitas.

Whilst we have not seen a significant impact on credit performance, we continue to monitor closely the evolving impacts of inflation and cost of living on our customers. We remain confident in the quality of our loan book, which is predominantly secured or structurally protected, prudently underwritten, diverse, and supported by the deep expertise of our people. Looking forward, we expect the bad debt ratio for the 2025 financial year to remain below our long-term average.

Update on Progress Relating to Novitas

The decision was made to wind down Novitas and withdraw from the legal services financing market following a strategic review in July 2021, which concluded that the overall risk profile of the business was no longer compatible with our long-term strategy and risk appetite. As announced in H1 2023, we have accelerated our efforts to resolve the issues surrounding this business and continue to pursue formal legal action issued against one of the After the Event ("ATE") insurers in November 2022. We are actively seeking recovery from a second insurer and entered into a settlement with another smaller ATE insurer in July 2023.

During the year, we recognised impairment charges of £6.4 million (2023: £116.8 million) in relation to Novitas, primarily as a result of increased time to recovery assumptions and legal costs associated with the insurer disputes. While we will continue to review provisioning levels in light of future developments, including the experienced credit performance of the book and the outcome of the group's initiated legal action, we believe the provisions adequately reflect the remaining risk of credit losses for the Novitas loan book (c.£62 million net loan book at 31 July 2024).

In addition, in line with IFRS 9 requirements, a proportion of the expected credit loss is expected to unwind, over the estimated time to recovery period, to interest income. The group remains focused on maximising the recovery of remaining loan balances, either through successful outcome of cases or recourse to the customers' ATE insurers, whilst complying with its regulatory obligations and always focusing on ensuring good customer outcomes.

Loan Book Analysis

	31 July 2024 £ million	31 July 2023 £ million	Change %
Commercial	**5,101.6**	4,821.3	6
Commercial – Excluding Novitas	**5,039.2**	4,761.4	6
Asset Finance[1]	**3,655.4**	3,481.3	5
Invoice and Speciality Finance[1]	**1,446.2**	1,340.0	8
Invoice and Speciality Finance – Excluding Novitas[1]	**1,383.8**	1,280.1	8
Retail	**3,041.9**	3,001.8	1
Motor Finance[2]	**2,016.0**	1,948.4	3
Premium Finance	**1,025.9**	1,053.4	(3)
Property	**1,955.2**	1,703.1	15
Closing loan book and operating lease assets[3]	**10,098.7**	9,526.2	6
Closing loan book and operating lease assets – Excluding Novitas	**10,036.3**	9,466.3	6

1. The Asset Finance and Invoice and Speciality Finance loan books have been re-presented for 31 July 2023 to reflect the recategorisation of Close Brothers Brewery Rentals ("CBBR") from Invoice and Speciality Finance to Asset Finance.
2. The Motor Finance loan book includes £92.8 million (31 July 2023: £206.7 million) relating to the Republic of Ireland Motor Finance business, which is in run-off following the cessation of our previous partnership in the Republic of Ireland from 30 June 2022.
3. Includes operating lease assets of £267.9 million (31 July 2023: £271.2 million).

Good Loan Book Growth from Continued Customer Demand

The loan book grew 6% over the year to £10.1 billion (31 July 2023: £9.5 billion), reflecting healthy drawdowns in Property and strong new business in Invoice Finance, as well as good demand in Motor Finance and in Asset Finance, driven by the Leasing business. This was partly offset by a decline in Premium Finance and the run-off of the legacy Republic of Ireland Motor Finance loan book. Overall, the loan book grew 4% in the first half of the year and slowed to 2% in the second half, reflecting the selective loan book actions identified at the Half Year 2024 results.

Excluding the businesses in run-off, Novitas and the legacy Republic of Ireland Motor Finance business, the loan book grew 7% to £9.9 billion (31 July 2023: £9.3 billion).

The Commercial loan book grew 6% to £5.1 billion (31 July 2023: £4.8 billion). Asset Finance delivered loan book growth of 5%, reflecting good demand in the Leasing business particularly from the Contract Hire, Energy and Materials Handling portfolios, notwithstanding a stabilisation in the second half of the year. Invoice and Speciality Finance grew 8% over the year, despite the typical seasonal decline seen in the first half, driven by strong new business volumes and higher level of utilisations. Excluding Novitas, the Commercial book increased 6% to £5.0 billion (31 July 2023: £4.8 billion).

The Retail loan book grew 1% to £3.0 billion (31 July 2023: £3.0 billion). Motor Finance grew 3% as strong new business volumes in the UK Motor Finance business more than offset the run-off of the legacy Republic of Ireland loan book. Following the acquisition of Bluestone Motor Finance (Ireland) DAC, which completed in October 2023, this business has been rebranded as Close Brothers Motor Finance and had a loan book of £38.8 million at 31 July 2024. The Premium Finance loan book contracted 3%, reflecting the competitive market environment and marginally reduced demand from business customers in the higher interest rate environment.

The legacy Republic of Ireland Motor Finance business accounted for 5% of the Motor Finance loan book (31 July 2023: 11%) and 1% of the Banking loan book (31 July 2023: 2%).

The Property loan book grew 15% as we saw healthy drawdowns from our new business pipeline, as the market benefited from the stabilisation of interest rates and improving market sentiment.

Whilst we remain focused on delivering disciplined growth over the medium term, our priority in the short term is to further strengthen our capital position through identified management actions, including selective loan book growth. Within Commercial and Property, we are exploring the use of partnerships and capital efficient government lending schemes. Across our businesses, we are continuing to prioritise pricing discipline and credit quality and are centred on optimising the allocation of capital across our portfolio of businesses. As a result, we currently plan for low single-digit percentage growth in the loan book for the 2025 financial year.

Banking: Commercial

	2024 £ million	2023 £ million	Change %
Operating income	**329.6**	347.8	(5)
Adjusted operating expenses	**(208.4)**	(194.4)	7
Impairment losses on financial assets	**(31.7)**	(137.5)	(77)
Adjusted operating profit	**89.5**	15.9	463
Adjusted operating profit, pre provisions	**121.2**	153.4	(21)
Adjusting items:			
Provision in relation to the BiFD review	**(0.6)**	-	-
Restructuring costs	**(2.2)**	-	-
Amortisation of intangible assets on acquisition	**-**	(0.1)	(100)
Statutory operating profit	**86.7**	15.8	449
Net interest margin	**6.6%**	7.4%	
Expense/income ratio	**63.2%**	55.9%	
Bad debt ratio	**0.6%**	2.9%	
Closing loan book and operating lease assets[1]	**5,101.6**	4,821.3	6

Commercial Key Metrics Excluding Novitas

	2024 £ million	2023 £ million	Change %
Operating income	**318.6**	328.9	(3)
Adjusted operating expenses	**(203.6)**	(185.7)	10
Impairment losses on financial assets	**(25.3)**	(20.7)	22
Adjusted operating profit	**89.7**	122.5	(27)
Adjusted operating profit, pre provisions	**115.0**	143.2	(20)
Net interest margin	**6.5%**	7.2%	
Expense/income ratio	**63.9%**	56.5%	
Bad debt ratio	**0.5%**	0.5%	
Closing loan book and operating lease assets[1]	**5,039.2**	4,761.4	6

1. Operating lease assets of £267.9 million (31 July 2023: £271.2 million).

Continued Demand in Commercial, Reflecting the Diversity of our Offering

The Commercial businesses provide specialist, predominantly secured lending principally to the SME market and include Asset Finance and Invoice and Speciality Finance. We finance a diverse range of sectors, with Asset Finance offering commercial asset financing, hire purchase and leasing solutions across a broad range of assets including commercial vehicles, machine tools, contractors' plant, printing equipment, company car fleets, energy project finance, and aircraft and marine vessels, as well as our Vehicle Hire and Brewery Rentals businesses. The Invoice and Speciality Finance business provides debt factoring, invoice discounting and asset-based lending, and also includes Novitas. As previously announced, Novitas ceased lending to new customers in July 2021.

Whilst market uncertainty has continued over the year, we have seen the resilience of SME businesses. Customer demand has remained relatively robust, notwithstanding the competitive marketplace, reflecting the diversity of our offering and the strength of our customer relationships. Our growth initiatives continue to prove successful, with healthy new business volumes written by both our Materials Handling and Agricultural Equipment teams and our second syndication deal completed in Invoice Finance. We have also been approved to lend under the UK government's Growth Guarantee Scheme, launched in July 2024, and the Irish Growth and Sustainability Loan Scheme, which launched in August 2024.

During the year, we completed an internal restructure and created a Broker and Professional Solutions business to simplify and improve our offering to the broker market.

Adjusted operating profit for Commercial increased to £89.5 million (2023: £15.9 million), reflecting a significant decrease in impairment charges. On a pre-provision basis, adjusted operating profit reduced 21% to £121.2 million (2023: £153.4 million), reflecting both a decline in income and cost growth. Excluding Novitas, adjusted operating profit decreased 27% to £89.7 million (2023: £122.5 million).

On a statutory basis, operating profit increased to £86.7 million (2023: £15.8 million) and includes £2.8 million of adjusting items. These primarily relate to £2.2 million of restructuring costs and a £0.6 million provision in relation to the Past Business Review and expected customer compensation in respect of customer forbearance related to motor finance lending.

Operating income reduced 5% to £329.6 million (2023: £347.8 million) as loan book growth was more than offset by pressure on new business margins and activity-driven fee income, as well as reduction in Novitas income. The net interest margin declined to 6.6% (2023: 7.4%), reflecting both lower fee income and the need to balance the repricing of new business written in Asset Finance with our focus on maintaining support to our customers impacted by the higher interest rate environment, as highlighted in the first half. Furthermore, we saw a higher proportion of loan book growth in some of our portfolios with larger loan sizes and lower margin. Excluding Novitas, the net interest margin decreased to 6.5% (2023: 7.2%).

Adjusted operating expenses grew 7% to £208.4 million (2023: £194.4 million), mainly driven by increased staff costs and investment spend, which has been partly offset by lower costs in relation to Novitas. As a result, the Commercial expense/income ratio increased to 63.2% (2023: 55.9%).

During the year, we completed the Asset Finance transformation programme, which has introduced a single technology platform across the business that has standardised processes, increased efficiencies and improved customer and colleague experience.

Impairment charges decreased materially to £31.7 million (2023: £137.5 million), with £116.8 million incurred in relation to Novitas in the prior year. Provision coverage increased marginally to 5.7% (31 July 2023: 5.2%).

Excluding Novitas, there was an increase in impairment charges to £25.3 million (2023: £20.7 million), reflecting loan book growth and the ongoing review of provisions and coverage, including a slight uptick in arrears in Asset Finance as we enter a more normalised credit environment. This corresponded to a bad debt ratio of 0.5% (2023: 0.5%) and a stable coverage ratio (excluding Novitas) of 1.4% (31 July 2023: 1.4%).

Banking: Retail

	2024 £ million	2023 £ million	Change %
Operating income	**262.4**	248.1	6
Adjusted operating expenses	**(177.3)**	(164.4)	8
Impairment losses on financial assets	**(47.2)**	(49.0)	(4)
Adjusted operating profit	**37.9**	34.7	9
Adjusted operating profit, pre provisions	**85.1**	83.7	2
Adjusting items:			
Complaints handling and other operational costs associated with the FCA's review of historical motor finance commission arrangements	**(6.9)**	-	-
Provision in relation to the BiFD review	**(16.6)**	-	-
Restructuring costs	**(0.6)**	-	-
Amortisation of intangible assets on acquisition	**(0.2)**	-	-
Statutory operating profit	**13.6**	34.7	(61)
Net interest margin	**8.7%**	8.2%	
Expense/income ratio	**67.6%**	66.3%	
Bad debt ratio	**1.6%**	1.6%	
Closing loan book[1]	**3,041.9**	3,001.8	1

1. The Motor Finance loan book includes £92.8 million (31 July 2023: £206.7 million) relating to the legacy Republic of Ireland Motor Finance business, which is in run-off following the cessation of our previous partnership in the Republic of Ireland from 30 June 2022.

Focus on Maintaining our Margins and Underwriting Discipline in a Challenging Backdrop

The Retail businesses provide intermediated finance, through motor dealers, motor finance brokers and insurance brokers. Finance is provided to both individuals and to a broad spectrum of UK businesses.

Whilst the market backdrop has presented challenges, with significant uncertainty in relation to the FCA's motor finance work, we have seen good demand over the year and have remained focused on providing excellent service to our customers and partners. In Motor Finance, we have seen strong volumes as we have benefited from expanding our routes to market and our ability to partner with more finance technology providers, such as iVendi and AutoConvert, as part of our strategy to be where the consumer chooses finance. Whilst the Premium Finance business operates in a mature and competitive market, in which we have continued to deepen and evolve our proposition to best meet the needs of our customers and to support broker partners in simplifying premium finance in their businesses. More broadly across our Retail businesses, we have been focused on monitoring our delivery of good customer outcomes in respect of Consumer Duty.

We completed the acquisition of Bluestone Motor Finance (Ireland) (DAC) in October 2023 and have since rebranded the business to Close Brothers Motor Finance. This year, we have focused on the integration and alignment of our pricing and underwriting standards and credit risk appetite. Demand has been healthy and, looking forward, we plan to launch new products and services, enabling us to take advantage of opportunities in the Irish market.

During the second half of the financial year, we integrated our Savings business, which provides simple and straightforward savings products to both individuals and businesses, into Retail. This strategic move will leverage established shared operations, supporting the continued expansion of our retail deposit offering. The presentation of the Retail business financial performance is not impacted by this move.

Adjusted operating profit for Retail rose to £37.9 million (2023: £34.7 million), as growth in income and lower impairment charges were partly offset by higher costs. On a pre-provision basis, adjusted operating profit increased 2% to £85.1 million (2023: £83.7 million).

On a statutory basis, operating profit decreased to £13.6 million (2023: £34.7 million) and was driven mainly by £6.9 million of costs associated with the handling of complaints and other operational costs associated with the FCA's review of historical motor finance commission arrangements, a £16.6 million provision in relation to the Past Business Review and expected customer compensation in respect of customer forbearance related to motor finance lending and £0.6 million of restructuring costs.

Operating income increased 6% to £262.4 million (2023: £248.1 million), driven by both growth in Retail loan book and a strengthening of the net interest margin to 8.7% (2023: 8.2%), as we focused on pricing discipline in the higher rate environment.

Adjusted operating expenses grew 8% to £177.3 million (2023: £164.4 million), driven primarily by the acquisition of Close Brothers Motor Finance in Ireland, higher staff costs and increased regulatory costs. As a result, the expense/income ratio increased to 67.6% (2023: 66.3%).

As previously outlined, the FCA is conducting a review of historical motor finance commission arrangements and sales at several firms, following high numbers of complaints from customers. The estimated impact of any redress scheme, if required, is highly dependent on a number of factors and as such, at this early stage, the timing, scope and quantum of a potential financial impact on the group, if any, cannot be reliably estimated at present. Since the announcement by the FCA of its review of historical motor finance commission arrangements in January 2024, we have seen a further increase in enquiries and complaints. We have also taken steps to enhance our operational capabilities to respond to increased complaints volumes and potential changes such as the implementation of a consumer redress scheme, if required. We remain focused on mitigating the impact on resource expenses through outsourcing and deployment of automated solutions to assist in triaging new complaints, improving our processing speed. We continue to monitor the impact on our current handling of these complaints and are following the playbooks in place to ensure we have the appropriate resources to respond effectively.

Impairment charges decreased marginally to £47.2 million (2023: £49.0 million), driven primarily by an improvement in the macroeconomic outlook compared to the prior year. As previously highlighted, in Motor Finance, arrears levels have stabilised at a higher level than pre-pandemic, reflecting the continued cost of living pressures on our customers. The bad debt ratio remained stable at 1.6% (2023: 1.6%), with the provision coverage ratio increasing modestly to 3.0% (31 July 2023: 2.9%).

We remain confident in the credit quality of the Retail loan book. The Motor Finance loan book is predominantly secured on second hand vehicles which are less exposed to depreciation or significant declines in value than new cars. Our core Motor Finance product remains conditional sale and hire-purchase contracts, with less exposure to residual value risk associated with Personal Contract Purchase ("PCP"), which accounted for c.10% of the Motor Finance loan book at 31 July 2024 (31 July 2023: c.9%). The Premium Finance loan book benefits from various forms of structural protection including premium refundability and, in most cases, broker recourse for the personal lines product.

Banking: Property

	2024 £ million	2023 £ million	Change %
Operating income	**132.9**	117.9	13
Adjusted operating expenses	**(34.9)**	(30.9)	13
Impairment losses on financial assets	**(20.0)**	(17.5)	14
Adjusted operating profit	**78.0**	69.5	12
Adjusted operating profit, pre provisions	**98.0**	87.0	13
Adjusting items:			
Restructuring costs	**(0.3)**	-	-
Statutory operating profit	**77.7**	69.5	12
Net interest margin	**7.3%**	7.4%	
Expense/income ratio	**26.3%**	26.2%	
Bad debt ratio	**1.1%**	1.1%	
Closing loan book	**1,955.2**	1,703.1	15

Healthy Drawdowns Driving Strong Loan Book Growth

Property comprises Property Finance and Commercial Acceptances. The Property Finance business is focused on specialist residential development finance to established SME housebuilders and professional developers in the UK. Property Finance also provides funding for commercial properties, housing associations and refurbishment and bridging finance. Commercial Acceptances provides bridging and short-term loans for auction properties, refurbishment projects and small residential development projects.

Although the backdrop has been mixed over the year, with SME housebuilders having faced a challenging period, we have seen positive sentiment return to the UK property market. The economic environment is more stable, housebuilding is a focus area for the new UK government and the mortgage market remains competitive. We delivered a strong financial performance, supported by our relationship-led proposition and excellent customer service. Our focus on expanding in the regions outside of London and the South East is continuing to prove successful, and our pipeline remains healthy at c.£850 million (2023: c.£1 billion). We are also seeing a benefit through our initiatives including Tomorrow's Developer.

Adjusted operating profit rose 12% to £78.0 million (2023: £69.5 million), as the business achieved neutral operating leverage. On a pre-provision basis, operating profit increased 13% to £98.0 million (2023: £87.0 million).

On a statutory basis, operating profit also increased 12% to £77.7 million (2023: £69.5 million) and included £0.3 million of restructuring costs.

Operating income rose 13% to £132.9 million (2023: £117.9 million), driven by strong loan book growth, although the net interest margin decreased marginally to 7.3% (2023: 7.4%), mainly reflecting one-off early redemptions benefiting the prior year and lower fee yields due to the higher utilisation of loan facilities.

Adjusted operating expenses also rose 13% to £34.9 million (2023: £30.9 million), reflecting an increase in staff costs and a higher apportionment of indirect central resources in line with loan book growth. The expense/income ratio remained stable at 26.3% (2023: 26.2%).

Impairment charges increased to £20.0 million (2023: £17.5 million), corresponding to a bad debt ratio of 1.1% (2023: 1.1%). This was driven primarily by loan book growth and an ongoing review of provisions and coverage, which included increased specific provisions relating to legacy facilities. The provision coverage ratio increased to 3.0% (31 July 2023: 2.4%).

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

Asset Management

Key Financials[1]

	2024 £ million	2023 £ million	Change %
Investment management	**126.9**	113.3	12
Advice and other services	**28.4**	29.9	(5)
Other income[2]	**2.5**	1.6	56
Operating income	**157.8**	144.8	9
Adjusted operating expenses[1]	**(145.6)**	(128.8)	13
Impairment losses on financial assets	**-**	(0.1)	(100)
Adjusted operating profit	**12.2**	15.9	(23)
Adjusting items:			
Amortisation of intangible assets on acquisition	**(1.2)**	(1.5)	(20)
Statutory operating profit	**11.0**	14.4	(24)
Revenue margin (bps)	**82**	84	
Operating margin	**8%**	11%	
Return on opening equity[3]	**7.3%**	12.0%	

1. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in Note 2 "Segmental analysis".
2. Other income includes net interest income and expense, income on principal investments and other income.
3. Prior year comparative has been restated following a misstatement. The figure reported in the prior year was 15.5%.

Building on our Successful Growth Track Record

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

Total operating income rose 9% to £157.8 million (2023: £144.8 million), reflecting positive net inflows and market movements, with growth in AuM delivered by our bespoke investment management business resulting in higher investment management income. This was partially offset by a decrease in income from advice and other services due to a shift in product mix and an increase in higher value clients where an initial fee is typically not charged. The revenue margin reduced to 82bps (2023: 84bps) primarily due to a change in the mix of business into more lower margin passive and fixed income products and a move to larger client size with a typically lower fee margin.

Adjusted operating expenses increased 13% to £145.6 million (2023: £128.8 million), reflecting wage inflation and new hires to support future growth. Of this, £10.4 million (2023: £4.7 million) of costs related to the hiring of investment managers and the associated AuM in the bespoke investment management business. The expense/income ratio grew to 92.3% (2023: 89.0%), with the compensation ratio also increasing to 64% (2023: 59%).

Adjusted operating profit in CBAM decreased 23% to £12.2 million (2023: £15.9 million) as income growth was more than offset by higher costs, reflecting investment in new hires. The operating margin reduced to 8% (2023: 11%), corresponding to 14% (2023: 14%) when excluding the costs related to the hiring of investment managers and the associated AuM in the bespoke investment management business. Statutory operating profit before tax was £11.0 million (2023: £14.4 million).

CBAM has a strong track record of growth, with net inflows delivered through successfully servicing existing clients and attracting new clients, as well as through selective in-fill acquisitions. In March, we completed the acquisition of Bottriell Adams, an IFA business based in Dorset with c.£220 million of assets, as we expand our regional presence in the South West. During the year, we also hired 12 bespoke investment managers (H1 2024: nine, H2 2024: three, 2023: 14) and following a period of strong growth in our Bespoke business, our priority in this channel is to now strengthen our position and maximise opportunities to accelerate our profitability.

Strong Net Inflows Delivered in a Mixed Macroeconomic Environment

Whilst the backdrop has been fairly mixed and presented challenges over the year, the general improvement in economic indicators in the second half of the year has led to a strengthening in equity markets and positive investor sentiment. Over the year, net inflows remained healthy at £1.3 billion (2023: £1.3 billion) and delivered a net inflow rate of 8% (2023: 9%), with the bespoke investment management business contributing significantly to the overall inflow rate.

Total managed assets increased 18% to £19.3 billion (31 July 2023: £16.4 billion), driven by strong net inflows and positive market performance. Total client assets, which includes advised and managed assets, also increased by 18% to £20.4 billion (31 July 2023: £17.3 billion) and includes the associated client assets following the acquisition of Bottriell Adams.

Movement in Client Assets

	31 July 2024 £ million	31 July 2023 £ million
Opening managed assets	**16,419**	15,302
Inflows	**3,231**	2,729
Outflows	**(1,928)**	(1,411)
Net inflows	**1,303**	1,318
Market movements	**1,609**	(201)
Total managed assets	**19,331**	16,419
Advised only assets	**1,091**	907
Total client assets[1]	**20,422**	17,326
Net flows as percentage of opening managed assets	**8%**	9%

1. Total client assets include £5.3 billion of assets (31 July 2023: £4.9 billion) that are both advised and managed.

Fund Performance

Our funds and segregated bespoke portfolios are designed to provide attractive risk-adjusted returns for our clients, consistent with their long-term goals and investment objectives. Fund performance has been good across asset classes, with all our funds delivering positive absolute returns during the period and 13 out of 15 outperforming their peer group and delivering first and second quartile returns, demonstrating the strength of our investment team.

Our Sustainable Funds and Net Zero Commitment

At CBAM, we continue to look at how to develop and enhance our sustainable proposition as more of our clients seek to make a difference with their investments. Complementing our Socially Responsible Investment Service and the ethical screening we can offer our Bespoke clients, we are growing our range of Sustainable Funds. Our Sustainable Select Fixed Income Fund, which utilises a sustainable investment methodology to target a reduction in CO_2 emissions intensity versus its benchmark, continues to see healthy net inflows. Over the last five years to the end of July 2024, the fund returned 16.8% against its benchmark of 8%.

We became signatories to the Net Zero Asset Managers ("NZAM") initiative in September 2022 and as part of our initial target disclosure, committed to 18% of our AuM (as at 31 July 2022) being in line with net zero by 2050. We have also been developing a stewardship and engagement strategy focused on our NZAM targets and are developing a climate risk management process to track and support the achievement of these targets. We also published our first Task Force on Climate-related Financial Disclosures ("TCFD") aligned entity report in June 2024, along with product-level disclosures aligned with TCFD recommendations.

The FCA Sustainability Disclosure Requirements ("SDR") regulations for fund managers came into force during 2024 which included anti-greenwashing rules and a name and labelling regime for sustainable investment funds. We are working through these regulations to align our sustainable funds with the SDR regulations for the December 2024 implementation date.

Well Placed to Strengthen CBAM's Position

Following a period of strong growth and investment, our focus is to strengthen our position and maximise opportunities to accelerate profitability through providing excellent service, building on the strength of our client relationships. In the Bespoke business, we are shifting our focus to only selective hiring of investment managers. We continue to target net inflows in the range of 6-10%.

Sale Agreement with Oaktree

Following a comprehensive strategic review, on 19 September 2024, the group announced that it entered into an agreement to sell CBAM to Oaktree for an equity value of up to £200 million.

CBAM is a well-regarded UK wealth management franchise with a strong track record of growth, healthy net inflows and significant growth potential. To realise the potential value of the business in the medium-term to the fullest extent possible, the group would need to continue to invest to accelerate CBAM's growth strategy in the short and medium term, including via acquisitions against a consolidating market backdrop.

The transaction marks significant progress towards the plan we outlined in March 2024 to strengthen our capital base. Additionally, this sale represents competitive value for the group's shareholders and allows us to simplify the group, focusing on our core lending business.

The transaction will also enable CBAM to accelerate its growth strategy under Oaktree's ownership, which recognises CBAM's value and its potential to become a leading UK wealth manager of scale. In order to achieve this, Oaktree intends to provide CBAM with the incremental investment required to increase its profitability and presence in the wealth management sector.

The transaction is expected to complete in early 2025 calendar year and is conditional upon receipt of certain customary regulatory approvals. The details regarding the transaction can be found in the relevant announcement published on 19 September 2024, available on the Investor Relations website.

Further details of the financial impacts of the sale agreement on the group can be found in Note 23 "Post Balance Sheet Event".

Winterflood

Key Financials

	2024 £ million	2023 £ million	Change %
Operating income	**73.0**	75.3	(3)
Operating expenses	**(74.8)**	(71.8)	4
Impairment gains on financial assets	**0.1**	-	-
Operating (loss)/profit	**(1.7)**	3.5	(148)
Average bargains per day ('000)	**55**	60	
Operating margin	**(2)%**	5%	
Return on opening equity	**(2.5)%**	2.6%	
Loss days	**3**	1	
Winterflood Business Services assets under administration (£ billion)	**15.6**	12.9	21

Uncertain Macroeconomic Outlook Continued to Negatively Affect Trading Performance

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

Over the year, uncertainty in the macroeconomic environment, combined with geopolitical concerns, have continued to weigh on domestic markets and impact investor appetite. With investors currently able to achieve equity-like returns from money markets and debt instruments, which have a lower risk profile, we have seen a reduction in trading volumes and subdued Investment Trusts corporate activity. As a result, Winterflood experienced a reduction in trading income in the year and delivered an operating loss of £1.7 million (2023: operating profit of £3.5 million), after incurring one-off dual-running property costs of c.£3 million.

Operating income reduced 3% to £73.0 million (2023: £75.3 million), as lower trading volumes have driven a decline in trading income, which more than offset growth in WBS.

Trading income decreased 12% to £51.8 million (2023: £58.6 million) reflecting the unfavourable market conditions, particularly in the first quarter where we incurred three loss days (2023: one loss day), as equity and bond prices declined. Whilst there was an improvement in general market conditions in the second half of the year, AIM, Small Cap and FTSE 350 trading sectors recorded a decline against the prior year. Average daily bargains for the year were 55k, down 8% year-on-year (2023: 60k) and marginally lower than pre-pandemic levels (2019: 56k).

Notwithstanding low issuance and transaction volumes in the year, income from the Investments Trusts corporate business increased 60% to £4.0 million (2023: £2.5 million).

WBS continued to see good momentum, with income rising 17% to £17.3 million (2023: £14.8 million). AuA increased 21% to £15.6 billion (H1 2024: £13.8 billion, 2023: £12.9 billion), supported by net inflows and positive market movements as equity markets improved in the second half of the year.

Operating expenses increased 4% to £74.8 million (2023: £71.8 million), primarily driven by one-off dual-running property costs of c.£3 million incurred by relocating premises. As highlighted in the Half Year 2024 results, we have undertaken a cost review during the year to right-size elements of the business, to ensure we are appropriately and efficiently organised to meet current business requirements, whilst remaining scalable for future growth. This cost review will result in annualised fixed cost savings of £4.0 million from the 2025 financial year onwards, with the impact in 2024 of £0.9 million, helping to offset inflationary pressures.

We continue to explore growth opportunities which are additive to the trading business, whilst remaining focused on driving efficiencies and optimising organisational resilience which maintains the strengths of the franchise. WBS remains focused on developing its client relationships and investing in its award-winning proprietary technology to provide highly scalable and bespoke solutions for clients. WBS is well positioned for further growth, both organically and supported by a healthy pipeline of clients, and expects to grow AuA to over £20 billion by 2026.

We have also developed Winterflood Retail Access Platform (“WRAP”) using in-house technology and expertise. This is an end-to-end retail distribution platform that enables retail investors to participate in capital markets transactions such as initial public offerings and secondary fundraisings through retail intermediaries, across both equity and fixed income instruments. Since inception, WRAP has raised over £47 million from retail investors, across both equity and gilt offerings. In 2024, WRAP has been mandated on 17 transactions, representing approximately a third of the total retail platform offers executed in the UK market. WRAP combines the expertise of Winterflood’s whole of retail market reach with comprehensive in-house delivery across implementation, order aggregation and settlement.

While short-term trading conditions remain challenging, we are confident that Winterflood remains well positioned to retain its market position and benefit when investor appetite returns.

Definitions

Additional Tier 1 ("AT1") capital: Additional regulatory capital that along with CET1 capital makes up a bank's Tier 1 regulatory capital. Includes the group's perpetual subordinated contingent convertible securities classified as other equity instruments under IAS 32

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

Adjusted earnings per share ("AEPS"): Adjusted profit attributable to ordinary shareholders divided by basic weighted average number of ordinary shares in issue

Applicable requirements: Applicable capital ratio requirements consist of the Pillar 1 requirement as defined by the CRR, the Pillar 2a requirement set by the PRA, and the capital conservation buffer and countercyclical buffer as defined by the CRD. Any applicable PRA buffer is excluded

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

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

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

Basic earnings per share ("EPS"): Profit attributable to ordinary shareholders divided by basic weighted average number of ordinary shares in issue

Bounce Back Loan Scheme ("BBLS"): UK government business lending scheme that helped small and medium-sized businesses to borrow between £2,000 and £50,000 (up to a maximum of 25% of their turnover)

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

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

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

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

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

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

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

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

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

Effective interest rate ("EIR"): The interest rate at which revenue is recognised on loans and discounted to their carrying value over the life of the financial asset

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

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

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

Financial Conduct Authority ("FCA"): A financial regulatory body in the UK, regulating financial firms and maintaining integrity of the UK's financial market

Financial Ombudsman Service ("FOS"): The Financial Ombudsman Service settles complaints between consumers and businesses that provide financial services

Forbearance: Forbearance occurs when a customer is experiencing financial difficulty in meeting their financial commitments and a concession is granted, by changing the terms of the financial arrangement, which would not otherwise be considered

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

Gross carrying amount: Loan book before expected credit loss provision

Growth Guarantee Scheme ("GGS"): The successor scheme to the Recovery Loan Scheme, the Growth Guarantee Scheme launched in July 2024 and is designed to support access to finance for UK small businesses as they look to invest and grow

High quality liquid assets ("HQLAs"): Assets which qualify for regulatory liquidity purposes, including Bank of England deposits and sovereign and central bank debt

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

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

International Accounting Standards ("IAS"): Older set of standards issued by the International Accounting Standards Council, setting up accounting principles and rules for preparation of financial statements. IAS are being superseded by IFRS

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

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

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

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

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

Long-term bad debt ratio: Long-term bad debt ratio is calculated using IAS 39 until the change to IFRS 9 in FY19. Bad debt ratio excluding Novitas only disclosed from FY21 onwards. Long-term average bad debt ratio of 1.2% based on the average bad debt ratio for FY08-FY24, excluding Novitas.

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

Loss given default ("LGD"): The amount lost on a loan if a customer defaults

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

Modelled expected credit loss provision: ECL = PD x LGD x EAD

Net asset value ("NAV") per share: Total assets less total liabilities and other equity instruments, divided by the number of ordinary shares in issue excluding own shares

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

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

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

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

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

Operating margin: Adjusted operating profit divided by operating income

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

Probability of default ("PD"): Probability that a customer will default on their loan

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

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

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

Return on average tangible equity ("RoTE"): Adjusted operating profit attributable to ordinary shareholders divided by average total shareholder's equity, excluding intangible assets and other equity instruments

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

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

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

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

Secured debt: Debt backed or secured by collateral

Senior debt: Represents the type of debt that takes priority over other unsecured or more junior debt owed by the issuer. Senior debt is first to be repaid ahead of other lenders or creditors

Significant increase in credit risk ("SICR"): An assessment of whether credit risk has increased significantly since initial recognition of a loan using a range of triggers. Accounts which have experienced a significant increase in credit risk will be allocated to Stage 2

Standardised approach: Generic term for regulator-defined approaches for calculating credit, operational and market risk capital requirements as set out in the CRR

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

Tangible net asset value ("TNAV") per share: Total assets less total liabilities, other equity instruments and intangible assets, divided by the number of ordinary shares in issue excluding own shares

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

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

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

Tier 2 capital: Additional regulatory capital that along with Tier 1 capital makes up a bank's total regulatory capital. Includes qualifying subordinated debt

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

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

Watch list: Internal risk management process for heightened monitoring of exposures that are showing increased credit risk

Consolidated Income Statement
For the year ended 31 July 2024

	Note	2024 £ million	2023 £ million
Interest income		**1,156.8**	897.5
Interest expense		**(565.5)**	(304.9)
Net interest income		**591.3**	592.6
Fee and commission income		**271.2**	262.9
Fee and commission expense		**(22.8)**	(17.9)
Gains less losses arising from dealing in securities		**53.2**	58.6
Other income		**132.7**	114.2
Depreciation of operating lease assets and other direct costs	10	**(81.4)**	(77.8)
Non-interest income		**352.9**	340.0
Operating income		**944.2**	932.6
Administrative expenses before amortisation of intangible assets on acquisition, provision in relation to the Borrowers in Financial Difficulty ("BiFD") review, restructuring costs and complaints handling and other operational costs associated with the FCA's review of historical motor finance commission arrangements		**(674.8)**	(615.0)
Amortisation of intangible assets on acquisition	9	**(1.4)**	(1.5)
Provision in relation to the BiFD review	16	**(17.2)**	—
Restructuring costs	16	**(3.1)**	—
Complaints handling and other operational costs associated with the FCA's review of historical motor finance commission arrangements	17	**(6.9)**	—
Total administrative expenses		**(703.4)**	(616.5)
Impairment losses on financial assets	6	**(98.8)**	(204.1)
Total operating expenses		**(802.2)**	(820.6)
Operating profit before tax		**142.0**	112.0
Tax	3	**(41.6)**	(30.9)
Profit after tax		**100.4**	81.1
Attributable to			
Shareholders		**89.3**	81.1
Other equity owners	13	**11.1**	—
		100.4	81.1
Basic earnings per share	4	**59.7p**	54.3p
Diluted earnings per share	4	**59.5p**	54.2p
Interim dividend per share paid	5	**—**	22.5p
Final dividend per share	5	**—**	45.0p

Consolidated Statement of Comprehensive Income
For the year ended 31 July 2024

		2024 £ million	2023 £ million
Profit after tax		**100.4**	81.1
Items that may be reclassified to income statement			
Currency translation (losses)/gains		**(0.5)**	0.7
(Losses)/gains on cash flow hedging		**(29.8)**	17.6
Losses on financial instruments classified at fair value through other comprehensive income		**(3.6)**	(3.9)
Tax relating to items that may be reclassified		**9.8**	(4.3)
		(24.1)	10.1
Items that will not be reclassified to income statement			
Defined benefit pension scheme losses		**–**	(5.7)
Tax relating to items that will not be reclassified		**–**	1.6
		–	(4.1)
Other comprehensive (expense)/income, net of tax		**(24.1)**	6.0
Total comprehensive income		**76.3**	87.1
Attributable to			
Shareholders		**65.2**	87.1
Other equity owners	13	**11.1**	–
		76.3	87.1

Consolidated Balance Sheet
At 31 July 2024

	Note	31 July 2024 £ million	31 July 2023 £ million
Assets			
Cash and balances at central banks		**1,584.0**	1,937.0
Settlement balances		**627.5**	707.0
Loans and advances to banks		**293.7**	330.3
Loans and advances to customers	6	**9,830.8**	9,255.0
Debt securities	7	**740.5**	307.6
Equity shares	8	**27.4**	29.3
Loans to money brokers against stock advanced		**22.5**	37.6
Derivative financial instruments		**101.4**	88.5
Intangible assets	9	**266.0**	263.7
Property, plant and equipment	10	**349.6**	357.1
Current tax assets		**36.4**	42.3
Deferred tax assets		**14.3**	10.8
Prepayments, accrued income and other assets		**186.7**	184.1
Total assets		**14,080.8**	13,550.3
Liabilities			
Settlement balances and short positions	11	**614.9**	695.9
Deposits by banks	12	**138.4**	141.9
Deposits by customers	12	**8,693.6**	7,724.5
Loans and overdrafts from banks	12	**165.6**	651.9
Debt securities in issue	12	**1,986.4**	2,012.6
Loans from money brokers against stock advanced		**16.7**	4.8
Derivative financial instruments		**129.0**	195.9
Accruals, deferred income and other liabilities		**306.5**	303.0
Subordinated loan capital		**187.2**	174.9
Total liabilities		**12,238.3**	11,905.4
Equity			
Called up share capital		**38.0**	38.0
Retained earnings		**1,634.4**	1,608.5
Other equity instrument	13	**197.6**	—
Other reserves		**(27.5)**	(1.6)
Total shareholders' and other equity owners' equity		**1,842.5**	1,644.9
Total equity		**1,842.5**	1,644.9
Total equity and liabilities		**14,080.8**	13,550.3

Consolidated Statement of Changes in Equity
For the year ended 31 July 2024

	Called up share capital £ million	Retained earnings £ million	Other equity instrument £ 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 shareholders and other equity owners £ million	Total equity £ million
At 1 August 2022	38.0	1,628.4	—	0.1	(29.2)	(1.5)	21.7	1,657.5	1,657.5
Profit for the year	—	81.1	—	—	—	—	—	81.1	81.1
Other comprehensive (expense)/income	—	(4.1)	—	(2.8)	—	0.2	12.7	6.0	6.0
Total comprehensive income for the year	—	77.0	—	(2.8)	—	0.2	12.7	87.1	87.1
Dividends paid (note 5)	—	(99.1)	—	—	—	—	—	(99.1)	(99.1)
Shares purchased	—	—	—	—	(5.0)	—	—	(5.0)	(5.0)
Shares released	—	—	—	—	5.6	—	—	5.6	5.6
Other movements	—	2.3	—	—	(3.4)	—	—	(1.1)	(1.1)
Income tax	—	(0.1)	—	—	—	—	—	(0.1)	(0.1)
At 31 July 2023	38.0	1,608.5	—	(2.7)	(32.0)	(1.3)	34.4	1,644.9	1,644.9
Profit for the year	—	100.4	—	—	—	—	—	100.4	100.4
Other comprehensive expense	—	—	—	(2.6)	—	(0.1)	(21.4)	(24.1)	(24.1)
Total comprehensive income for the year	—	100.4	—	(2.6)	—	(0.1)	(21.4)	76.3	76.3
Dividends paid (note 5)	—	(67.1)	—	—	—	—	—	(67.1)	(67.1)
Shares purchased	—	—	—	—	(3.5)	—	—	(3.5)	(3.5)
Shares released	—	—	—	—	4.6	—	—	4.6	4.6
Other equity instrument issued (note 13)	—	—	197.6	—	—	—	—	197.6	197.6
Coupon paid on other equity instrument (note 13)	—	(11.1)	—	—	—	—	—	(11.1)	(11.1)
Other movements	—	3.7	—	—	(2.9)	—	—	0.8	0.8
Income tax	—	—	—	—	—	—	—	—	—
At 31 July 2024	**38.0**	**1,634.4**	**197.6**	**(5.3)**	**(33.8)**	**(1.4)**	**13.0**	**1,842.5**	**1,842.5**

Consolidated Cash Flow Statement
For the year ended 31 July 2024

	Note	2024 £ million	2023 £ million
Net cash (outflow)/inflow from operating activities	18(a)	**(382.0)**	1,021.4
Net cash (outflow)/inflow from investing activities			
Purchase of:			
Property, plant and equipment		**(14.2)**	(8.7)
Intangible assets – software		**(30.3)**	(53.2)
Subsidiaries, net of cash acquired	18(b)	**(15.4)**	(0.5)
Sale of:			
Equity shares held for investment		**0.2**	—
Subsidiaries	18(c)	**0.9**	—
		(58.8)	(62.4)
Net cash (outflow)/inflow before financing activities		**(440.8)**	959.0
Financing activities			
Purchase of own shares for employee share award schemes		**(3.5)**	(5.0)
Equity dividends paid		**(67.1)**	(99.1)
Interest paid on subordinated loan capital and debt financing		**(23.4)**	(10.9)
Payment of lease liabilities		**(16.5)**	(16.2)
Issuance of senior bond		**—**	248.5
Redemption of senior bond		**—**	(250.0)
Issuance of Additional Tier 1 (“AT1”) capital securities		**200.0**	—
Costs arising on issue of AT1		**(2.4)**	—
AT1 coupon payment		**(11.1)**	—
Net (decrease)/increase in cash		**(364.8)**	826.3
Cash and cash equivalents at beginning of year		**2,209.3**	1,383.0
Cash and cash equivalents at end of year	18(d)	**1,844.5**	2,209.3

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 2024 or 31 July 2023 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 2023.

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 financial information for the year ended 31 July 2024 has been derived from the financial statements of Close Brothers Group plc for that year. Statutory accounts for 2023 have been delivered to the Registrar of Companies and those for 2024 will be delivered following the company's Annual General Meeting. The group's auditor, PricewaterhouseCoopers LLP, will report on the 2024 accounts: their report is expected to be unqualified, and is not expected to draw attention to any matters by way of emphasis or contain statements under Section 498(2) or (3) of the Companies Act 2006.

Critical accounting judgements and estimates

The reported results of the group are sensitive to the judgements, estimates and assumptions that underlie the application of its accounting policies and preparation of its financial statements. UK company law and IFRS require the directors, in preparing the group's financial statements, to select suitable accounting policies, apply them consistently and make judgements, estimates and assumptions that are reasonable.

The group's estimates and assumptions are based on historical experience and reasonable expectations of future events and are reviewed on an ongoing basis. Actual results in the future may differ from the amounts estimated due to the inherent uncertainty.

The group's critical accounting judgements, made in applying its accounting policies, and the key sources of estimation uncertainty that may have a significant risk of causing a material adjustment within the next financial year are set out below.

The impact of climate change on the group's judgements, estimates and assumptions has been considered in preparing these financial statements. While no material impact has been identified, climate risk continues to be monitored on an ongoing basis.

Critical accounting judgements

The critical accounting judgements of the group, which relate to expected credit loss provisions calculated under IFRS 9 and Motor Finance commission arrangements, are as follows:

- Establishing the criteria for a significant increase in credit risk;
- Determining the appropriate definition of default; and
- Determining whether the criteria for the recognition of a provision under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' have been met in relation to Motor Finance commission arrangements.
- Determining the impact of the FCA's motor commissions review and the group's strategic and capital actions response on the group's goodwill impairment assessment.

Information on the first two accounting judgements can be found below, while further information on the third and fourth judgements can be found in Note 17 and Note 16 respectively.

Significant increase in credit risk

Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk since initial recognition. Typically, the group assesses whether a significant increase in credit risk has occurred based on a quantitative and qualitative assessment, with a "30 days past due" backstop.

Due to the diverse nature of the group's lending businesses, the specific indicators of a significant increase in credit risk vary by business and may include some or all of the following factors:

- quantitative assessment: the lifetime probability of default ("PD") has increased by more than an agreed threshold relative to the equivalent at origination. Thresholds are based on a fixed number of risk grade movements which are bespoke to each business to ensure that the increased risk since origination is appropriately captured;
- qualitative assessment: events or observed behaviour indicate credit deterioration. This includes a wide range of information that is reasonably available including individual credit assessments of the financial performance of borrowers as appropriate during routine reviews, plus forbearance and watch list information; or
- backstop criteria: the "30 days past due" backstop is met.

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

Key sources of estimation uncertainty

The key sources of estimation uncertainty of the group relate to expected credit loss provisions and goodwill and are as follows:

- Two key model estimates, being time to recover periods and recovery rates, underpinning the expected credit loss provision of Novitas. These were also key estimates in the prior year;
- Forward-looking macroeconomic information incorporated into expected credit loss models. This was also a key estimate in the prior year;
- Adjustments by management to model calculated expected credit losses due to limitations in the group's expected credit loss models or input data, which may be identified through ongoing model monitoring and validation of models. This was also a key estimate in the prior year; and
- Estimate of future cash flow forecasts in the calculation of value in use for the testing of goodwill for impairment in relation to the Winterflood Securities and Banking division, in particular Motor Finance, cash generating units due to more challenging trading conditions expected for both. This was a key estimate for Winterflood Securities in the prior year and new for Motor Finance this year. Additional disclosures can be found in Note 9.

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

As previously announced, following a strategic review, in July 2021 the group decided to cease permanently the approval of lending to new customers across all of the products offered by Novitas and withdraw from the legal services financing market. Since that time, the Novitas loan book has been in run-off, and the business has continued to work with solicitors and insurers, with a focus on supporting existing customers and managing the existing book to ensure good customer outcomes, where it is within Novitas' ability to do so.

In the financial year under review, management has maintained its assumptions for expected case failure rates, and expected recovery rates which continue to appropriately reflect experienced credit performance and ongoing dialogue with customers' insurers. Within the 2024 financial year impairment charge for Novitas of £6.4 million, an adjustment has been made for extended time to recovery assumptions from insurers. This reflects management's latest assessment of negotiations with customers' insurers and the current timeline of litigation proceedings.

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

Since 31 July 2023, expected credit loss provisions have increased by £36.6 million to £220.7 million (31 July 2023: £184.1 million). This increase is a primarily a result of interest accrual on civil litigation accounts, for which a full loss provision is applied, and the update to the time to recover assumption.

Given that the majority of the Novitas portfolio is in Stage 3, the key sources of estimation uncertainty for the portfolio's expected credit loss provision are time to recover periods and recovery rates for the civil litigation portfolio. On this basis, management assessed and completed sensitivity analysis when compared to the expected credit loss provision for Novitas of £220.7 million (31 July 2023: £184.1 million).

At 31 July 2024, a 10% absolute deterioration or improvement in recovery rates would increase or decrease the ECL provision by £13.4 million. Separately, a 12-month improvement in the time to recover period will reduce the ECL provision by £13.4 million, while a 12-month delay in the time to recover period will increase the ECL provision by £11.0 million.

Further detail on the impairment provision is included in Note 6.

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

In order to calculate forward-looking provisions, economic scenarios are sourced from Moody's Analytics. These cover a range of plausible economic paths that are used in conjunction with PD, EAD and LGD parameters for each portfolio to assess expected credit loss provisions across a range of conditions. An overview of these scenarios using key macroeconomic indicators is provided on page 43. Ongoing benchmarking of the scenarios to other economic providers is carried out monthly to provide management with comfort on Moody's Analytics scenario paths.

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

The impact of forward-looking information varies across the group's lending businesses because of the differing sensitivity of each portfolio to specific macroeconomic variables.

This is reflected through the development of bespoke macroeconomic models that recognise the specific response of each business to the macroeconomic environment.

The modelled impact of macroeconomic scenarios and their respective weightings is reviewed by business experts in relation to stage allocation and coverage ratios at the individual and portfolio level, incorporating management's experience and knowledge of customers, the sectors in which they operate, and the assets financed.

This includes assessment of the reaction of the ECL in the context of the prevailing and forecast economic conditions, for example where currently higher interest rates and inflationary conditions exist compared to recent periods.

Economic forecasts have evolved over the course of 2024 and reflect the mixed external backdrop observed in the year. Forecasts deployed in IFRS 9 macroeconomic models are updated on a monthly basis. At 31 July 2024, the latest baseline scenario forecasts gross domestic product ("GDP") growth of 1.0% in calendar year 2024 and an average base rate of 5.1% across calendar year 2024. Consumer Price Index ("CPI") inflation is forecast to be 2.5% in calendar year 2024 in the baseline scenario, with 0.7% forecast in the protracted downside scenario over the same period.

At 31 July 2024, the scenario weightings were: 30% strong upside, 32.5% baseline, 20% mild downside, 10.5% moderate downside and 7% protracted downside. As economic forecasts are considered to appropriately recognise developments in the macroeconomic environment, no change has been made to the weightings ascribed to the scenarios since 31 July 2023.

Given the current economic uncertainty, further analysis has been undertaken to assess the appropriateness of the five scenarios used. This included benchmarking the baseline scenario to consensus economic views, as well as consideration of an additional forecast related to stagflation, which could be considered as an alternative downside scenario.

Compared to the scenarios in use in the expected credit losses calculation, the stagflation scenario includes a longer period of higher interest rates coupled with a shallower but extended impact on GDP. Due to the relatively short tenor of the portfolios, the stagflation scenario is considered to be of less relevance than those deployed. This is supported by the fact that, due to the higher severity of recessionary factors in the existing scenarios, using the stagflation scenario instead of the moderate or protracted downside scenario would result in lower expected credit losses.

The final scenarios deployed reflect general improvement in the UK economic outlook relative to 31 July 2023. Under the baseline scenario, UK headline CPI inflation is expected to stabilise at current levels as a result of sustained base rate increases in 2022 and 2023 and eased supply chain pressures. Aligned to recent reductions in inflation, the Bank of England base rate is forecast to gradually reduce in all scenarios. House price outlook has improved across all scenarios, recognising more resilient housing market performance than previously anticipated. Unemployment rate forecasts have marginally deteriorated compared to 31 July 2023.

The tables below show economic assumptions within each scenario, and the weighting applied to each at 31 July 2024. The metrics shown are key UK economic indicators, chosen to describe the economic scenarios. These are the main metrics used to set scenario paths, which then influence a wide range of additional metrics that are used in expected credit loss models. The first tables show the forecasts of the key metrics for the scenarios utilised for calendar years 2024 and 2025. The subsequent tables show averages and peak-to-trough ranges for the same key metrics over the five-year period from 2024 to 2028.

Scenario forecasts and weights

	Baseline		**Upside (strong)**		**Downside (mild)**		**Downside (moderate)**		**Downside (protracted)**	
	2024	**2025**	**2024**	**2025**	**2024**	**2025**	**2024**	**2025**	**2024**	**2025**
At 31 July 2024										
UK GDP growth	**1.0 %**	1.2 %	**1.8 %**	3.9 %	**0.3 %**	(1.4)%	**(0.1)%**	(3.9)%	**(0.3)%**	(5.4)%
UK unemployment	**4.4 %**	4.5 %	**4.2 %**	4.0 %	**4.5 %**	4.9 %	**4.7 %**	6.6 %	**4.8 %**	7.8 %
UK HPI growth	**0.7 %**	3.2 %	**7.1 %**	13.3 %	**(2.3)%**	(2.6)%	**(4.1)%**	(9.2)%	**(6.0)%**	(16.4)%
BoE base rate	**5.1 %**	4.2 %	**5.2 %**	4.4 %	**5.0 %**	3.5 %	**5.0 %**	2.9 %	**4.8 %**	2.3 %
Consumer Price Index	**2.5 %**	2.1 %	**2.6 %**	2.2 %	**1.6 %**	0.4 %	**1.1 %**	(0.5)%	**0.7 %**	(1.0)%
Weighting	**32.5%**		**30%**		**20%**		**10.5%**		**7%**	

	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024
At 31 July 2023										
UK GDP growth	0.5 %	0.3 %	1.3 %	3.0 %	(0.2)%	(2.3)%	(0.6)%	(4.8)%	(0.8)%	(6.2)%
UK unemployment	4.1 %	4.4 %	3.9 %	3.9 %	4.2 %	4.8 %	4.4 %	6.5 %	4.5 %	7.7 %
UK HPI growth	(6.3)%	(1.4)%	(0.4)%	8.3 %	(9.1)%	(6.9)%	(10.8)%	(13.2)%	(12.6)%	(20.1)%
BoE base rate	4.9 %	5.5 %	4.9 %	5.7 %	4.8 %	4.8 %	4.7 %	4.2 %	4.5 %	3.6 %
Consumer Price Index	5.2 %	2.2 %	4.8 %	2.2 %	3.8 %	1.2 %	3.0 %	(0.3)%	1.5 %	(2.3)%
Weighting	32.5%		30%		20%		10.5%		7%	

Notes:
UK GDP growth: National Accounts Annual Real Gross Domestic Product, Seasonally Adjusted – year-on-year change (%)
UK unemployment: ONS Labour Force Survey, Seasonally Adjusted – Average (%)
UK HPI growth: Average nominal house prices, Land Registry, Seasonally Adjusted – Q4-to-Q4 change (%)
BoE base rate: Bank of England base rate – Average (%)
Consumer Price Index: ONS, All items, annual inflation – Q4-to-Q4 change (%)

	Five-year average (calendar years 2024 to 2028)				
	Baseline	**Upside (strong)**	**Downside (mild)**	**Downside (moderate)**	**Downside (protracted)**
At 31 July 2024					
UK GDP growth	**1.5%**	**2.3%**	**1.1%**	**0.6%**	**0.4%**
UK unemployment	**4.6%**	**4.0%**	**4.8%**	**6.6%**	**7.4%**
UK HPI growth	**2.5%**	**4.2%**	**0.9%**	**(1.0)%**	**(3.5)%**
BoE base rate	**3.5%**	**3.6%**	**3.2%**	**2.5%**	**2.0%**
Consumer Price Index	**2.1%**	**2.2%**	**1.5%**	**1.2%**	**0.8%**
Weighting	**32.5%**	**30%**	**20%**	**10.5%**	**7%**

	Five-year average (calendar years 2023 to 2027)				
	Baseline	Upside (strong)	Downside (mild)	Downside (moderate)	Downside (protracted)
At 31 July 2023					
UK GDP growth	0.9%	1.7%	0.5%	—%	(0.1)%
UK unemployment	4.4%	3.9%	4.6%	6.4%	7.3%
UK HPI growth	0.5%	2.1%	(1.1)%	(2.9)%	(5.4)%
BoE base rate	3.8%	3.8%	3.5%	2.8%	2.3%
Consumer Price Index	2.6%	2.6%	2.1%	1.6%	0.7%
Weighting	32.5%	30%	20%	10.5%	7%

Notes:
UK GDP growth: National Accounts Annual Real Gross Domestic Product, Seasonally Adjusted – CAGR (%)
UK unemployment: ONS Labour Force Survey, Seasonally Adjusted – Average (%)
UK HPI growth: Average nominal house prices, Land Registry, Seasonally Adjusted – CAGR (%)
BoE base rate: Bank of England base rate – Average (%)
Consumer Price Index: ONS, All items, annual inflation – CAGR (%)

The forecasts represent an economic view at 31 July 2024, after which there have been further economic developments, including the Bank of England base rate cut to 5.0%. These developments, including the potential for further rate reductions, and their impact on scenarios and weightings, are subject to ongoing monitoring by management.

These periods have been included as they demonstrate the short, medium and long-term outlooks for the key macroeconomic indicators which form the basis of the scenario forecasts. The portfolio has an average residual maturity of 15 months, with 99% of loan value having a maturity of five years or less.

The tables below provide a summary for the five-year period (calendar years 2024 to 2028) of the peak-to-trough range of values of the key UK economic variables used within the economic scenarios at 31 July 2024 and 31 July 2023.

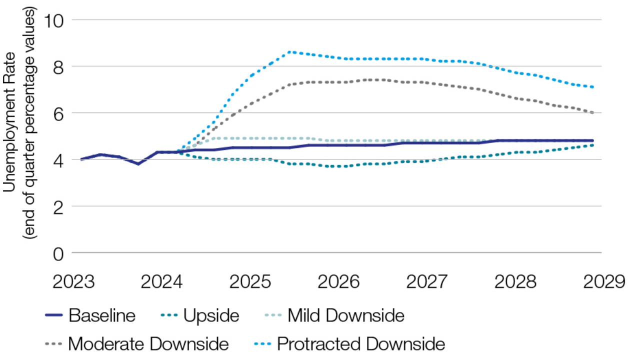
	Five-year period (calendar year 2024 to 2028)									
	Baseline		**Upside (strong)**		**Downside (mild)**		**Downside (moderate)**		**Downside (protracted)**	
	Peak	**Trough**	**Peak**	**Trough**	**Peak**	**Trough**	**Peak**	**Trough**	**Peak**	**Trough**
At 31 July 2024										
UK GDP growth	**7.7 %**	**0.7 %**	**11.8 %**	**0.7 %**	**5.5 %**	**(1.4)%**	**2.8 %**	**(4.2)%**	**2.2 %**	**(6.3)%**
UK unemployment	**4.8 %**	**4.3 %**	**4.3 %**	**3.7 %**	**4.9 %**	**4.3 %**	**7.4 %**	**4.3 %**	**8.6 %**	**4.3 %**
UK HPI growth	**13.3 %**	**0.7 %**	**27.2 %**	**0.7 %**	**4.4 %**	**(5.7)%**	**0.9 %**	**(14.2)%**	**0.9 %**	**(23.4)%**
BoE base rate	**5.3 %**	**2.5 %**	**5.3 %**	**2.5 %**	**5.3 %**	**2.1 %**	**5.3 %**	**1.1 %**	**5.3 %**	**0.6 %**
Consumer Price Index	**3.6 %**	**2.0 %**	**3.6 %**	**2.0 %**	**3.6 %**	**(0.4)%**	**3.6 %**	**(1.1)%**	**3.6 %**	**(2.0)%**
Weighting	**32.5%**		**30%**		**20%**		**10.5%**		**7%**	

	Five-year period (calendar year 2023 to 2027)									
	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough
At 31 July 2023										
UK GDP growth	4.6 %	0.1 %	8.7 %	0.1 %	2.5 %	(3.0)%	0.3 %	(5.9)%	0.3 %	(8.1)%
UK unemployment	4.6 %	3.9 %	4.1 %	3.7 %	4.9 %	3.9 %	7.3 %	3.9 %	8.5 %	3.9 %
UK HPI growth	2.6 %	(7.8)%	12.9 %	(3.1)%	(0.5)%	(15.4)%	(0.5)%	(24.0)%	(0.5)%	(32.1)%
BoE base rate	5.8 %	2.3 %	5.9 %	2.3 %	5.4 %	2.2 %	5.2 %	1.3 %	5.2 %	0.6 %
Consumer Price Index	10.2 %	1.8 %	10.2 %	1.8 %	10.2 %	0.8 %	10.2 %	(1.0)%	10.2 %	(3.8)%
Weighting	32.5%		30%		20%		10.5%		7%	

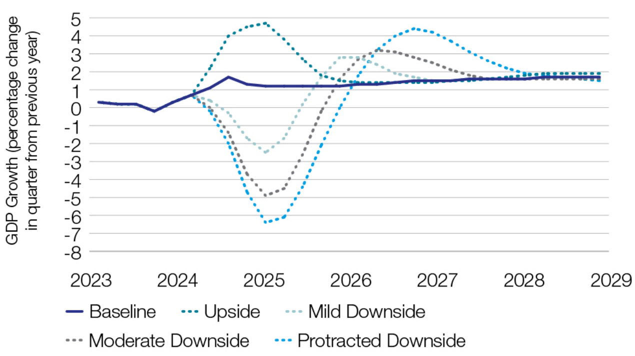
Notes:
UK GDP growth: Maximum and minimum quarterly GDP as a percentage change from start of period (%)
UK unemployment: Maximum and minimum unemployment rate (%)
UK HPI growth: Maximum and minimum average nominal house price as a percentage change from start of period (%)
BoE base rate: Maximum and minimum Bank of England base rate (%)
Consumer Price Index: Maximum and minimum inflation rate over the five-year period (%)

The following charts below represent the quarterly forecast data included in the above tables incorporating actual metrics up to 31 July 2024. The dark blue line shows the baseline scenario, while the other lines represent the various upside and downside scenarios.

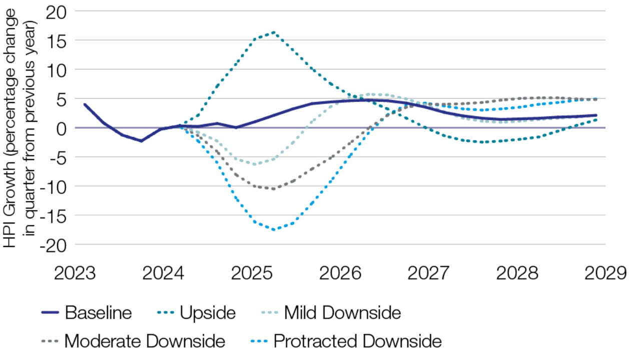
Unemployment Rate (%)



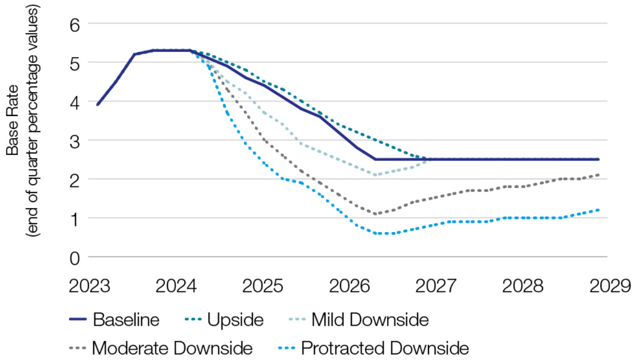
Real Gross Domestic Product (Annual % Change)



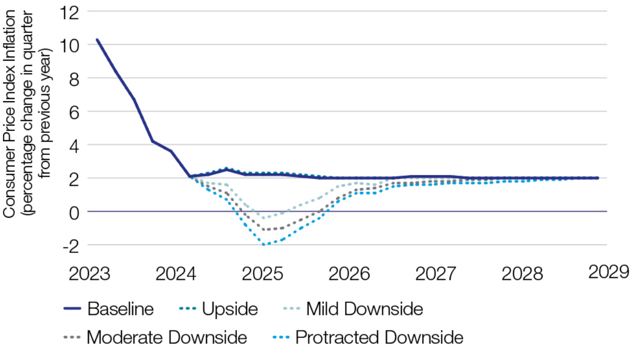
House Price Index – Current Prices (Annual % Change)



Bank of England Base Rate (%)



Consumer Price Index (Annual % Change)



Scenario sensitivity analysis

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

- For the majority of the portfolios, the modelled expected credit loss provision has been recalculated under the upside strong and downside protracted scenarios described above, applying a 100% weighting to each scenario in turn. The change in provision requirement is driven by the movement in risk metrics under each scenario and resulting impact on stage allocation.
- Expected credit losses based on a simplified approach, which do not utilise a macroeconomic model and require expert judgement, are excluded from the sensitivity analysis.
- In addition to the above, key considerations for the sensitivity analysis are set out below, by segment:
  - In Commercial, the sensitivity analysis excludes Novitas, which is subject to a separate approach, as it is deemed more sensitive to credit factors than macroeconomic factors.
  - In Retail, the sensitivity analysis does not apply further stress to the expected credit loss provision on loans and advances to customers in Stage 3, because the measurement of expected credit losses is considered more sensitive to credit factors specific to the borrower than macroeconomic scenarios.
  - In Property, the sensitivity analysis excludes individually assessed provisions, and certain sub-portfolios which are deemed more sensitive to credit factors than the macroeconomic scenarios.

Based on the above analysis, at 31 July 2024, application of 100% weighting to the upside strong scenario would decrease the expected credit loss by £21.3 million whilst application of 100% weighting to the downside protracted scenario would increase the expected credit loss by £40.1 million, driven by the aforementioned changes in risk metrics and stage allocation of the portfolios.

When performing sensitivity analysis there is a high degree of estimation uncertainty. On this basis, 100% weighted expected credit loss provisions presented for the upside and downside scenarios should not be taken to represent the lower or upper range of possible and actual expected credit loss outcomes. The recalculated expected credit loss provision for each of the scenarios should be read in the context of the sensitivity analysis as a whole and in conjunction with the disclosures provided in note 6. The modelled impact presented is based on gross loans and advances to customers at 31 July 2024; it does not incorporate future changes relating to performance, growth or credit risk. In addition, given the change in the macroeconomic conditions, underlying modelled provisions and methodology, and refined approach to adjustments, comparison between the sensitivity results at 31 July 2024 and 31 July 2023 is not appropriate.

The economic environment remains uncertain and future impairment charges may be subject to further volatility, including from changes to macroeconomic variable forecasts impacted by sustained cost of living pressures, policy changes resulting from the recent change in government and ongoing geopolitical tensions.

Use of Adjustments

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

Macroeconomic forecasts continue to react to a range of external factors including the recent change in government, the ongoing conflict in Ukraine, policies aimed at addressing cost of living and inflationary pressures, and long-term impacts of the Covid-19 pandemic. In response, our use of adjustments has evolved.

In particular, adjustments were applied in the previous financial year in response to improvements in macroeconomic forecasts that resulted in releases in modelled provisions. A number of these releases were considered premature or counterintuitive by management and adjustments were made as a result. Portfolio performance has been closely monitored during the financial year under review, over which modelled provisions have increased and external forecasts have remained broadly stable. As a result, adjustments have gradually reduced in recognition of the portfolio and models appropriately reacting to changes in the external environment.

The approach to adjustments continues to reflect the use of expert management judgement which incorporates management's experience and knowledge of customers, the areas in which they operate, and the underlying assets financed.

The need for adjustments will continue to be monitored as new information emerges which might not be recognised in existing models.

At 31 July 2024, £(1.5) million (31 July 2023: £17.0 million) of the expected credit loss provision was attributable to adjustments, which reflects a combination of positive and negative adjustments depending on the adjustment purpose or model requirement. Adjustments include £2.4 million held to reflect ongoing economic uncertainty.

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 (2023: 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 set out 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.

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Summary income statement for year ended 31 July 2024							
Net interest income/(expense)	**228.8**	**234.4**	**129.0**	**11.0**	**(0.4)**	**(11.5)**	**591.3**
Non-interest income	**100.8**	**28.0**	**3.9**	**146.8**	**73.4**	**—**	**352.9**
Operating income/(expense)	**329.6**	**262.4**	**132.9**	**157.8**	**73.0**	**(11.5)**	**944.2**
Administrative expenses	**(182.3)**	**(156.6)**	**(30.0)**	**(139.5)**	**(68.9)**	**(31.6)**	**(608.9)**
Depreciation and amortisation	**(26.1)**	**(20.7)**	**(4.9)**	**(6.1)**	**(5.9)**	**(2.2)**	**(65.9)**
Impairment losses on financial assets	**(31.7)**	**(47.2)**	**(20.0)**	**—**	**0.1**	**—**	**(98.8)**
Total operating expenses before adjusting items	**(240.1)**	**(224.5)**	**(54.9)**	**(145.6)**	**(74.7)**	**(33.8)**	**(773.6)**
Adjusted operating profit/(loss)[1]	**89.5**	**37.9**	**78.0**	**12.2**	**(1.7)**	**(45.3)**	**170.6**
Amortisation of intangible assets on acquisition	**—**	**(0.2)**	**—**	**(1.2)**	**—**	**—**	**(1.4)**
Provision in relation to the BiFD review	**(0.6)**	**(16.6)**	**—**	**—**	**—**	**—**	**(17.2)**
Restructuring costs	**(2.2)**	**(0.6)**	**(0.3)**	**—**	**—**	**—**	**(3.1)**
Complaints handling and other operational costs associated with the FCA's review of historical motor finance commission arrangements	**—**	**(6.9)**	**—**	**—**	**—**	**—**	**(6.9)**
Operating profit/(loss) before tax	**86.7**	**13.6**	**77.7**	**11.0**	**(1.7)**	**(45.3)**	**142.0**
External operating income/(expense)	**517.0**	**376.7**	**224.7**	**156.9**	**73.0**	**(404.1)**	**944.2**
Inter segment operating (expense)/ income	**(187.4)**	**(114.3)**	**(91.8)**	**0.9**	**—**	**392.6**	**—**
Segment operating income/(expense)	**329.6**	**262.4**	**132.9**	**157.8**	**73.0**	**(11.5)**	**944.2**

1. Adjusted operating profit/(loss) is stated before the following adjusting items and the associated tax effect: amortisation of intangible assets on acquisition, provision in relation to the BiFD review, restructuring costs and complaints handling and other operational costs associated with the FCA's review of historical motor finance commission arrangements. More information on the adjusting items can be found in Notes 9, 16 and 17.

The Commercial operating segment above includes Novitas, which ceased lending to new customers in July 2021 following a strategic review. Novitas recorded an operating loss of £0.1 million (2023: loss of £84.2 million), driven by impairment losses of £6.4 million (2023: £116.8 million).

Novitas' income was £11.0 million (2023: £18.9 million) and expenses were £4.8 million (2023: £8.7 million). In line with IFRS 9's requirement to recognise interest income on Stage 3 loans on a net basis, income includes the partial unwinding over time of the expected credit loss recognised in the year following the transfer of the majority of loans to Stage 3.

As set out in Note 23 "Post Balance Sheet Event", the group announced it entered into an agreement to sell CBAM, one of the group's operating segments and whose financial results are presented within this note, to Oaktree on 19 September 2024 following a comprehensive strategic review.

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group[2]	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Summary balance sheet information at 31 July 2024							
Total assets[1]	**5,101.6**	**3,041.9**	**1,955.2**	**192.0**	**825.0**	**2,965.1**	**14,080.8**
Total liabilities	**—**	**—**	**—**	**70.2**	**734.6**	**11,433.5**	**12,238.3**

1. Total assets for the Banking operating segments comprise the loan book and operating lease assets only. The Commercial operating segment includes the net loan book of Novitas of £62.4 million.
2. Balance sheet includes £2,970.1 million assets and £11,358.1 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

Equity is allocated across the group as 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 £10,098.7 million, in addition to assets and liabilities of £2,970.1 million and £11,358.1 million respectively primarily comprising treasury balances which are included within the Group column above.

	Banking	Asset Management	Securities	Group	Total
	£ million	£ million	£ million	£ million	£ million
Equity	**1,710.7**	**121.8**	**90.4**	**(80.4)**	**1,842.5**

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group	Total
Other segment information for the year ended 31 July 2024							
Employees (average number)[1]	**1,461**	**1,195**	**199**	**872**	**311**	**87**	**4,125**

1. Banking segments include a central function headcount allocation. The company's average number of employees is equivalent to the Group number.

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Summary income statement for year ended 31 July 2023							
Net interest income/(expense)	251.2	218.4	117.1	6.7	0.5	(1.3)	592.6
Non-interest income	96.6	29.7	0.8	138.1	74.8	—	340.0
Operating income/(expense)	347.8	248.1	117.9	144.8	75.3	(1.3)	932.6
Administrative expenses	(171.5)	(142.8)	(26.5)	(123.3)	(67.5)	(22.2)	(553.8)
Depreciation and amortisation	(22.9)	(21.6)	(4.4)	(5.5)	(4.3)	(2.5)	(61.2)
Impairment losses on financial assets	(137.5)	(49.0)	(17.5)	(0.1)	—	—	(204.1)
Total operating expenses before amortisation of intangible assets on acquisition	(331.9)	(213.4)	(48.4)	(128.9)	(71.8)	(24.7)	(819.1)
Adjusted operating profit/(loss)[1]	15.9	34.7	69.5	15.9	3.5	(26.0)	113.5
Amortisation of intangible assets on acquisition	—	—	—	(1.5)	—	—	(1.5)
Operating profit/(loss) before tax	15.9	34.7	69.5	14.4	3.5	(26.0)	112.0
External operating income/(expense)	451.1	308.6	170.3	144.2	75.3	(216.9)	932.6
Inter segment operating (expense)/income	(103.3)	(60.5)	(52.4)	0.6	—	215.6	—
Segment operating income/(expense)	347.8	248.1	117.9	144.8	75.3	(1.3)	932.6

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

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group[2]	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Summary balance sheet information at 31 July 2023							
Total assets[1]	4,821.3	3,001.8	1,703.1	177.9	870.5	2,975.7	13,550.3
Total liabilities	—	—	—	64.1	778.1	11,063.2	11,905.4

1. Total assets for the Banking operating segments comprise the loan book and operating lease assets only. The Commercial operating segment includes the net loan book of Novitas of £59.9 million.
2. Balance sheet includes £2,977.4 million assets and £11,151.9 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

Equity is allocated across the group as set out below. Banking division equity, which is managed as a whole rather than on a segmental basis, reflects loan book and operating lease assets of £9,526.2 million, in addition to assets and liabilities of £2,977.4 million and £11,151.9 million respectively primarily comprising treasury balances which are included within the Group column above.

	Banking	Asset Management	Securities	Group	Total
	£ million	£ million	£ million	£ million	£ million
Equity	1,351.7	113.8	92.4	87.0	1,644.9

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group	Total
Other segmental information for the year ended 31 July 2023							
Employees (average number)[1]	1,450	1,194	201	814	320	81	4,060

1. Banking segments include a central function headcount allocation. The company's average number of employees is equivalent to the Group number.

3. Taxation

	2024 £ million	2023 £ million
Tax charged/(credited) to the income statement		
Current tax:		
UK corporation tax	**40.3**	18.1
Foreign tax	**0.9**	2.3
Adjustments in respect of previous years	**(5.3)**	(8.2)
	35.9	12.2
Deferred tax:		
Deferred tax (credit)/charge for the current year	**(0.6)**	11.4
Adjustments in respect of previous years	**6.3**	7.3
	41.6	30.9
Tax on items not (credited)/charged to the income statement		
Current tax relating to:		
Share-based payments	**—**	(0.2)
Acquisitions	**(0.4)**	—
Deferred tax relating to:		
Cash flow hedging	**(8.4)**	4.9
Defined benefit pension scheme	**—**	(1.6)
Financial instruments classified as fair value through other comprehensive income	**(1.0)**	(1.1)
Share-based payments	**—**	0.3
Currency translation (losses)/gains	**(0.4)**	0.5
Acquisitions	**0.6**	—
	(9.6)	2.8
Reconciliation to tax expense		
UK corporation tax for the year at 25.0% (2023: 21.0%) on operating profit before tax	**35.5**	23.5
Effect of different tax rates in other jurisdictions	**—**	(0.3)
Disallowable items and other permanent differences	**5.1**	1.6
Banking surcharge	**—**	6.2
Deferred tax impact of decreased tax rates	**—**	0.8
Prior year tax provision	**1.0**	(0.9)
	41.6	30.9

The standard UK corporation tax rate for the financial year is 25.0% (2023: 21.0%). An additional 3.0% (2023: 6.3%) surcharge applies to banking company profits as defined in legislation, but only above a threshold amount which is not materially exceeded by the current year banking company profits. The effective tax rate of 29.3% (2023: 27.6%) is above the UK corporation tax rate primarily due to disallowable expenditure.

The UK government has implemented the Pillar Two global minimum tax rate of 15% and a UK domestic minimum top-up tax with effect from the group's financial year commencing 1 August 2024. The jurisdictions in relation to which Pillar Two tax liabilities are expected to potentially arise for the group are the Republic of Ireland, Jersey and Guernsey, however the impact is expected to be immaterial. The group has adopted the IAS 12 exemption from recognition and disclosure regarding the impact on deferred tax assets and liabilities arising from this legislation.

Movements in deferred tax assets and liabilities were as follows:

	Capital allowances	Pension scheme	Share-based payments and deferred compensation	Impairment losses	Cash flow hedging	Intangible assets	Other	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Group								
At 1 August 2022	25.5	(1.9)	12.9	5.8	(8.5)	(1.3)	—	32.5
(Charge)/credit to the income statement	(12.1)	—	(3.9)	0.1	—	0.4	(3.2)	(18.7)
(Charge)/credit to other comprehensive income	(0.5)	1.6	—	—	(4.9)	—	1.1	(2.7)
Charge to equity	—	—	(0.3)	—	—	—	—	(0.3)
Acquisitions	—	—	—	—	—	—	—	—
At 31 July 2023	12.9	(0.3)	8.7	5.9	(13.4)	(0.9)	(2.1)	10.8
(Charge)/credit to the income statement	(8.2)	0.1	(1.5)	0.1	—	0.3	3.5	(5.7)
Credit to other comprehensive income	0.4	—	—	—	8.4	—	1.0	9.8
Charge to equity	—	—	—	—	—	—	—	—
Acquisitions	—	—	—	—	—	(1.5)	0.9	(0.6)
At 31 July 2024	**5.1**	**(0.2)**	**7.2**	**6.0**	**(5.0)**	**(2.1)**	**3.3**	**14.3**

The group's deferred tax asset comprises £4.8 million (31 July 2023: £0.7 million) due within one year and £9.5 million (31 July 2023: £10.1 million) due after more than one year.

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

4. Earnings per Share

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

	2024	2023
Basic	**59.7p**	54.3p
Diluted	**59.5p**	54.2p
Adjusted basic[1]	**76.1p**	55.1p
Adjusted diluted[1]	**75.9p**	55.0p

1. Excludes the following adjusting items and the associated tax effect where appropriate: amortisation of intangible assets on acquisition, provision in relation to the BiFD review, restructuring costs and complaints handling and other operational costs associated with the FCA's review of historical motor finance commission arrangements.

	2024	2023
	£ million	£ million
Profit attributable to shareholders' equity	**89.3**	81.1
Adjustments:		
Amortisation of intangible assets on acquisition	**1.4**	1.5
Provision in relation to the BiFD review	**17.2**	—
Restructuring costs	**3.1**	—
Complaints handling and other operational costs associated with the FCA's review of historical motor finance commission arrangements	**6.9**	—
Tax effect of adjustments	**(4.0)**	(0.3)
Adjusted profit attributable to shareholders' equity	**113.9**	82.3

	2024	2023
	million	million
Average number of shares		
Basic weighted	**149.7**	149.4
Effect of dilutive share options and awards	**0.3**	0.2
Diluted weighted	**150.0**	149.6

5. Dividends

	2024	2023
	£ million	£ million
For each ordinary share		
Final dividend for previous financial year paid in November 2023: 45.0p (November 2022: 44.0p)	**67.1**	65.6
Interim dividend for current financial year paid in April 2024: nil (April 2023: 22.5p)	**—**	33.5
	67.1	99.1

As disclosed on 15 February 2024 in a trading update and dividend announcement, the group will not pay any dividends on its ordinary shares for the financial year ended 31 July 2024.

6. Loans and Advances to Customers

(a) Maturity and classification analysis of loans and advances to customers

The following tables set out the maturity and IFRS 9 classification analysis of loans and advances to customers. At 31 July 2024 loans and advances to customers with a maturity of two years or less was £7,733.6 million (31 July 2023: £7,158.8 million) representing 75.3% (31 July 2023: 74.3%) of total gross loans and advances to customers:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total gross loans and advances to customers £ million	Impairment provisions £ million	Total net loans and advances to customers £ million
At 31 July 2024	**88.5**	**2,888.2**	**2,654.9**	**2,102.0**	**2,399.1**	**143.9**	**10,276.6**	**(445.8)**	**9,830.8**
At 31 July 2023	76.5	2,597.8	2,636.5	1,848.0	2,337.2	139.6	9,635.6	(380.6)	9,255.0

	31 July 2024	31 July 2023
	£ million	£ million
Gross loans and advances to customers		
Held at amortised cost	**10,264.8**	9,635.6
Held at fair value through profit or loss	**11.8**	—
	10,276.6	9,635.6

(b) Loans and advances to customers held at amortised cost and impairment provisions by stage

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

		Stage 2				
	Stage 1	Less than 30 days past due	Greater than or equal to 30 days past due	Total	Stage 3	Total
	£ million	£ million	£ million	£ million	£ million	£ million
At 31 July 2024						
Gross loans and advances to customers held at amortised cost						
Commercial	**3,877.8**	**801.5**	**33.1**	**834.6**	**400.2**	**5,112.6**
Of which: Commercial excluding Novitas	3,877.8	800.5	33.1	833.6	118.1	4,829.5
Of which: Novitas	—	1.0	—	1.0	282.1	283.1
Retail	**2,815.7**	**221.2**	**9.9**	**231.1**	**90.0**	**3,136.8**
Property	**1,717.0**	**9.8**	**53.3**	**63.1**	**235.3**	**2,015.4**
	8,410.5	**1,032.5**	**96.3**	**1,128.8**	**725.5**	**10,264.8**
Impairment provisions						
Commercial	**20.9**	**9.6**	**4.2**	**13.8**	**256.0**	**290.7**
Of which: Commercial excluding Novitas	20.9	8.6	4.2	12.8	36.3	70.0
Of which: Novitas	—	1.0	—	1.0	219.7	220.7
Retail	**27.7**	**14.8**	**2.2**	**17.0**	**50.2**	**94.9**
Property	**3.6**	**0.2**	**0.3**	**0.5**	**56.1**	**60.2**
	52.2	**24.6**	**6.7**	**31.3**	**362.3**	**445.8**
Provision coverage ratio						
Commercial	**0.5%**	**1.2%**	**12.7%**	**1.7%**	**64.0%**	**5.7%**
Within which: Commercial excluding Novitas	0.5%	1.1%	12.7%	1.5%	30.7%	1.4%
Within which: Novitas	—	100.0%	—	100.0%	77.9%	78.0%
Retail	**1.0%**	**6.7%**	**22.2%**	**7.4%**	**55.8%**	**3.0%**
Property	**0.2%**	**2.0%**	**0.6%**	**0.8%**	**23.8%**	**3.0%**
	0.6%	**2.4%**	**7.0%**	**2.8%**	**49.9%**	**4.3%**

	Stage 1	Stage 2			Stage 3	Total
		Less than 30 days past due	Greater than or equal to 30 days past due	Total		
	£ million	£ million	£ million	£ million	£ million	£ million
At 31 July 2023						
Gross loans and advances to customers held at amortised cost						
Commercial	3,686.1	750.9	23.2	774.1	339.4	4,799.6
Of which: Commercial excluding Novitas	3,685.1	749.6	23.2	772.8	97.7	4,555.6
Of which: Novitas	1.0	1.3	—	1.3	241.7	244.0
Retail	2,839.1	159.1	18.4	177.5	74.6	3,091.2
Property	1,465.0	85.7	24.7	110.4	169.4	1,744.8
	7,990.2	995.7	66.3	1,062.0	583.4	9,635.6
Impairment provisions						
Commercial	25.1	13.9	2.4	16.3	208.1	249.5
Of which: Commercial excluding Novitas	24.9	13.6	2.4	16.0	24.5	65.4
Of which: Novitas	0.2	0.3	—	0.3	183.6	184.1
Retail	27.9	11.6	2.6	14.2	47.3	89.4
Property	5.1	1.4	0.3	1.7	34.9	41.7
	58.1	26.9	5.3	32.2	290.3	380.6
Provision coverage ratio						
Commercial	0.7%	1.9%	10.3%	2.1%	61.3%	5.2%
Within which: Commercial excluding Novitas	0.7%	1.8%	10.3%	2.1%	25.1%	1.4%
Within which: Novitas	20.0%	23.1%	—%	23.1%	76.0%	75.5%
Retail	1.0%	7.3%	14.1%	8.0%	63.4%	2.9%
Property	0.3%	1.6%	1.2%	1.5%	20.6%	2.4%
	0.7%	2.7%	8.0%	3.0%	49.8%	3.9%

In Commercial, the impairment coverage ratio increased to 5.7% (31 July 2023: 5.2%), reflecting the impacts of Novitas Stage 3 interest accrual in line with the requirement under IFRS 9 to recognise interest on a net basis.

Excluding Novitas, the Commercial provision coverage ratio remained stable at 1.4% (31 July 2023: 1.4%) as strong Stage 1 new business levels offset the impacts of migrations into Stages 2 and 3 during the financial year.

In Retail, the provision coverage ratio increased to 3.0% (31 July 2023: 2.9%), reflecting resilient portfolio performance in light of sustained macroeconomic uncertainty and heightened levels of arrears and forbearance in the Motor Finance business as a result of persistent cost of living pressures on customers.

In Property, the provision coverage ratio increased to 3.0% (31 July 2023: 2.4%), as a result of migrations to Stage 3 and increased individual provisions for some existing impaired accounts during the financial year.

(c) Adjustments

By their nature, limitations in the group's expected credit loss models or input data may be identified through ongoing model monitoring and validation of models. In certain circumstances, management make appropriate adjustments to model-calculated expected credit losses. Adjustments have been identified as a key source of estimation uncertainty as set out in Note 1.

(d) Reconciliation of loans and advances to customers held at amortised cost and impairment provisions

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

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

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

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

ECL model methodologies may be updated or enhanced from time to time and the impacts of such changes are presented on a separate line. During the year, a number of enhancements were made to the models in the Premium business. The enhancements were made to address known model limitations and to ensure modelled provisions better reflect future loss emergence.

Enhancements to our model suite are a contributory factor to ECL movements and such factors have been taken into consideration when assessing any required adjustments to modelled output and ensuring appropriate provision coverage levels.

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

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	£ million	**£ million**	**£ million**	**£ million**
Gross loans and advances to customers held at amortised cost				
At 1 August 2023	**7,990.2**	**1,062.0**	**583.4**	**9,635.6**
New financial assets originated	**6,695.5**	**—**	**—**	**6,695.5**
Transfers to Stage 1	**138.2**	**(205.2)**	**(7.6)**	**(74.6)**
Transfers to Stage 2	**(1,165.5)**	**904.8**	**(8.4)**	**(269.1)**
Transfers to Stage 3	**(310.2)**	**(130.8)**	**329.1**	**(111.9)**
Net transfer between stages and repayments[1]	**(1,337.5)**	**568.8**	**313.1**	**(455.6)**
Repayments while stage remained unchanged and final repayments	**(4,936.3)**	**(501.2)**	**(114.4)**	**(5,551.9)**
Changes to model methodologies	**—**	**—**	**—**	**—**
Write offs	**(1.4)**	**(0.8)**	**(56.6)**	**(58.8)**
At 31 July 2024	**8,410.5**	**1,128.8**	**725.5**	**10,264.8**

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

	Stage 1	Stage 2	Stage 3[1]	Total
	£ million	£ million	£ million	£ million
Gross loans and advances to customers held at amortised cost				
At 1 August 2022	7,627.0	1,158.9	358.6	9,144.5
New financial assets originated	6,604.0	—	—	6,604.0
Transfers to Stage 1	276.2	(373.2)	(6.8)	(103.8)
Transfers to Stage 2	(1,068.6)	878.6	(16.1)	(206.1)
Transfers to Stage 3	(303.6)	(194.4)	421.5	(76.5)
Net transfer between stages and repayments[2]	(1,096.0)	311.0	398.6	(386.4)
Repayments while stage remained unchanged and final repayments	(5,118.8)	(403.5)	(100.4)	(5,622.7)
Changes to model methodologies	(25.6)	(4.0)	29.6	—
Write offs	(0.4)	(0.4)	(103.0)	(103.8)
At 31 July 2023	7,990.2	1,062.0	583.4	9,635.6

1. A significant proportion of the Stage 3 movements is driven by Novitas with £174.4 million of transfers to Stage 3 and £37.4 million of write-offs. In addition, £49.2 million of Novitas movements are included within 'Repayments while stage remained unchanged and final repayments', comprising largely of accrued interest. The accrued interest is partly offset by ECL increases included within the adjacent ECL reconciliation, in line with IFRS 9's requirement to recognise interest income on Stage 3 loans on a net basis.
2. Repayments relate only to financial assets which transferred between stages during the year. Other repayments are shown in the line below.

The gross carrying amount before modification of loans and advances to customers which were modified during the year while in Stage 2 or 3 was £283.1 million (2023: £152.3 million). No gain or loss (2023: £nil) was recognised as a result of these modifications. The gross carrying amount at 31 July 2024 of modified loans and advances to customers which transferred from Stage 2 or 3 to Stage 1 during the year was £38.7 million (31 July 2023: £14.8 million).

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers held at amortised cost				
At 1 August 2023	**58.1**	**32.2**	**290.3**	**380.6**
New financial assets originated	**51.7**	**—**	**—**	**51.7**
Transfers to Stage 1	**0.6**	**(3.9)**	**(0.7)**	**(4.0)**
Transfers to Stage 2	**(13.4)**	**31.4**	**(1.1)**	**16.9**
Transfers to Stage 3	**(5.9)**	**(12.0)**	**98.7**	**80.8**
Net remeasurement of expected credit losses arising from transfer of stages and repayments[1]	**(18.7)**	**15.5**	**96.9**	**93.7**
Repayments and ECL movements while stage remained unchanged and final repayments	**(37.7)**	**(15.6)**	**26.6**	**(26.7)**
Changes to model methodologies	**—**	**—**	**—**	**—**
Charge to the income statement	**(4.7)**	**(0.1)**	**123.5**	**118.7**
Write offs	**(1.2)**	**(0.8)**	**(51.5)**	**(53.5)**
At 31 July 2024	**52.2**	**31.3**	**362.3**	**445.8**

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

	Stage 1 £ million	Stage 2 £ million	Stage 3[1] £ million	Total £ million
Impairment provisions on loans and advances to customers held at amortised cost				
At 1 August 2022	50.3	78.3	157.0	285.6
New financial assets originated	46.7	—	—	46.7
Transfers to Stage 1	1.2	(7.7)	(1.0)	(7.5)
Transfers to Stage 2	(8.7)	27.7	(5.7)	13.3
Transfers to Stage 3	(11.2)	(53.3)	227.2	162.7
Net remeasurement of expected credit losses arising from transfer of stages and repayments[2]	(18.7)	(33.3)	220.5	168.5
Repayments and ECL movements while stage remained unchanged and final repayments	(17.8)	(10.7)	(20.0)	(48.5)
Changes to model methodologies	(2.2)	(1.9)	2.3	(1.8)
Charge to the income statement	8.0	(45.9)	202.8	164.9
Write offs	(0.2)	(0.2)	(69.5)	(69.9)
At 31 July 2023	58.1	32.2	290.3	380.6

1. A significant proportion of the Stage 3 movements is driven by Novitas with £147.6 million of transfers to Stage 3 and £11.9 million of write-offs.
2. Repayments relate only to financial assets which transferred between stages during the year. Other repayments are shown in the line below.

	2024 £ million	2023 £ million
Impairment losses relating to loans and advances to customers held at amortised cost:		
Charge to income statement arising from movement in impairment provisions	**118.7**	164.9
Amounts written off directly to income statement and other costs, net of discount unwind on Stage 3 loans to interest income, and recoveries	**(21.7)**	39.4
	97.0	204.3
Impairment losses/(gains) relating to other financial assets	**1.8**	(0.2)
Impairment losses on financial assets recognised in income statement	**98.8**	204.1

Impairment losses on financial assets of £98.8 million (2023: £204.1 million) include £6.4 million in relation to Novitas (2023: £116.8 million).The Novitas impairment relates to an extension of the time to recovery assumptions from insurers and reflects management's latest assessment including the current timeline of litigation proceedings.

The contractual amount outstanding at 31 July 2024 on financial assets that were written off during the period and are still subject to recovery activity is £22.1 million (31 July 2023: £32.3 million).

(e) Finance lease and hire purchase agreement receivables

	31 July 2024 £ million	31 July 2023 £ million
Net loans and advances to customers comprise		
Hire purchase agreement receivables	**3,749.8**	3,671.3
Finance lease receivables	**896.7**	803.9
Other loans and advances	**5,184.3**	4,779.8
At 31 July	**9,830.8**	9,255.0

The following table shows a reconciliation between gross investment in finance lease and hire purchase agreement receivables included in the net loans and advances to customers table above to present value of minimum lease and hire purchase payments.

	31 July 2024 £ million	31 July 2023[1] £ million
Gross investment in finance leases and hire purchase agreement receivables due:		
One year or within one year	**1,987.6**	1,849.3
>One to two years	**1,573.2**	1,493.7
>Two to three years	**1,168.2**	1,175.8
>Three to four years	**692.0**	652.5
>Four to five years	**222.6**	205.3
More than five years	**46.4**	43.1
	5,690.0	5,419.7
Unearned finance income	**(904.5)**	(820.7)
Present value of minimum lease and hire purchase agreement payments	**4,785.5**	4,599.0
Of which due:		
One year or within one year	**1,671.1**	1,567.2
>One to two years	**1,326.6**	1,268.8
>Two to three years	**982.6**	999.1
>Three to four years	**579.4**	553.1
>Four to five years	**185.9**	173.8
More than five years	**39.9**	37.0
	4,785.5	4,599.0

1. Restated following a classification misstatement in the prior year maturity profiles with no change in the total amounts. Please see below for further information.

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £7,898.6 million (2023: £7,167.5 million). The average effective interest rate on finance leases approximates to 12.2% (2023: 11.0%). The present value of minimum lease and hire purchase agreement payments reflects the fair value of finance lease and hire purchase agreement receivables before deduction of impairment provisions.

The prior year figures in the table above for finance lease and hire purchase agreement receivables have been restated following a classification misstatement. The gross investment in finance leases and hire purchase agreement receivables due in '>one to two years' have decreased by £509.1 million, while '>two to three years', '>three to four years', '>four to five years' and 'more than five years' have increased by £203.3 million, £214.0 million, £89.8 million and £2.0 million respectively with no change in the total amounts. The present value of minimum lease and hire purchase agreement payments due in '>one to two years' have decreased by £422.9 million, while '>two to three years', '>three to four years', '>four to five years' and 'more than five years' have increased by £168.9 million, £177.8 million, £74.6 million and £1.6 million respectively with no change in the total amounts.

7. Debt Securities

	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Total
	£ million	£ million	£ million	£ million
Sovereign and central bank debt	—	383.7	—	383.7
Supranational, sub-sovereigns and agency ("SSA") bonds	—	145.5	—	145.5
Covered bonds	—	187.7	—	187.7
Long trading positions in debt securities	16.0	—	—	16.0
Other debt securities	0.8	—	6.8	7.6
At 31 July 2024	**16.8**	**716.9**	**6.8**	**740.5**

	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Total
	£ million	£ million	£ million	£ million
Sovereign and central bank debt	—	186.1	—	186.1
SSA bonds	—	—	—	—
Covered bonds	—	106.3	—	106.3
Long trading positions in debt securities	15.2	—	—	15.2
Other debt securities	—	—	—	—
At 31 July 2023	15.2	292.4	—	307.6

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

	2024	2023
	£ million	£ million
Sovereign and central bank debt at 1 August	**186.1**	415.4
Additions	**194.2**	269.7
Redemptions	**—**	(459.2)
Currency translation differences	**(1.5)**	(0.3)
Movement in value	**4.9**	(39.5)
Sovereign and central bank debt at 31 July	**383.7**	186.1

Movements on the book value of SSA bonds comprise:

	2024	2023
	£ million	£ million
SSA bonds at 1 August	**—**	—
Additions	**155.4**	—
Redemptions	**(15.2)**	—
Currency translation differences	**(0.3)**	—
Movement in value	**5.6**	—
SSA bonds at 31 July	**145.5**	—

Movements on the book value of covered bonds comprise:

	2024 £ million	2023 £ million
Covered bonds 1 August	**106.3**	—
Additions	**139.7**	105.4
Redemptions/disposals	**(59.0)**	—
Currency translation differences	**(0.3)**	—
Movement in value	**1.0**	0.9
Covered bonds at 31 July	**187.7**	106.3

8. Equity Shares

	31 July 2024 £ million	31 July 2023 £ million
Long trading positions	**25.8**	27.8
Other equity shares	**1.6**	1.5
	27.4	29.3

9. Intangible Assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Total £ million
Cost				
At 1 August 2022	142.6	299.5	51.0	493.1
Additions	—	50.5	—	50.5
Disposals	(0.1)	(16.8)	(0.6)	(17.5)
At 31 July 2023	142.5	333.2	50.4	526.1
Additions	8.3	28.1	7.3	43.7
Disposals	—	(12.6)	(0.3)	(12.9)
At 31 July 2024	**150.8**	**348.7**	**57.4**	**556.9**
Amortisation				
At 1 August 2022	47.9	147.4	45.8	241.1
Amortisation charge for the year	—	36.1	1.5	37.6
Disposals	—	(15.7)	(0.6)	(16.3)
At 31 July 2023	47.9	167.8	46.7	262.4
Amortisation charge for the year	—	38.9	1.4	40.3
Disposals	—	(11.4)	(0.4)	(11.8)
At 31 July 2024	**47.9**	**195.3**	**47.7**	**290.9**
Net book value at 31 July 2024	**102.9**	**153.4**	**9.7**	**266.0**
Net book value at 31 July 2023	94.6	165.4	3.7	263.7
Net book value at 1 August 2022	94.7	152.1	5.2	252.0

Goodwill additions of £8.3 million (2023: £nil) and intangible assets on acquisition additions of £7.3 million (2023: £nil) relate to the group's acquisition of the 100% shareholdings of Bluestone Motor Finance (Ireland) DAC ("Bluestone") (goodwill of £4.7 million and intangible assets on acquisition of £3.6 million) and Bottriell Adams LLP ("Bottriell Adams") (goodwill of £3.7 million and intangible assets on acquisition of £3.7 million).

Bluestone, a provider of motor finance in Ireland, was acquired for cash consideration of €17.2 million on 31 October 2023. Net assets of €7.8 million were acquired, largely comprising loans and advances to customers, cash, debt securities and borrowings. Bluestone is a well-established brand in Ireland with industry-leading technology and an established network of over 650 dealer partners and an experienced sales and underwriting team. This acquisition will allow the Motor Finance business to rebuild its presence in Ireland. These factors and the expected synergies are reflected in the goodwill and intangible assets on acquisition recognised by the group. Following the acquisition, Bluestone has been rebranded to Close Brothers Motor Finance ("CBMF").

Bottriell Adams, an IFA business based in Dorset, was acquired for total consideration of £6.6 million comprising an initial cash payment on acquisition and contingent consideration. The acquisition was completed in March 2024. Bottriell Adams, with approximately £240 million of client assets on acquisition, allows the Asset Management division to extend its regional presence in the South West. The customer relationships are reflected in the £3.7 million of intangible assets on acquisition.

Software includes assets under development of £35.4 million (31 July 2023: £88.8 million).

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

In the 2024 financial year, £1.4 million (2023: £1.5 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £38.9 million (2023: £36.1 million) of the amortisation charge is included in administrative expenses shown in the consolidated income statement.

Impairment tests for goodwill

Overview

At 31 July 2024, goodwill has been allocated to nine (31 July 2023: eight) individual cash generating units ("CGUs"). Seven (31 July 2023: six) are within the Banking division with an additional CGU this year following the acquisition of Close Brothers Finance DAC, one is the Asset Management division and the remaining one is Winterflood in the Securities division.

Goodwill is allocated to the CGU in which the historical acquisition occurred and hence the goodwill originated. Further information on the performance of each division can be found in Note 2 'Segmental Analysis'. Goodwill impairment reviews are carried out annually by assessing the recoverable amount of the group's CGUs, which is the higher of fair value less costs to sell and value in use. The recoverable amounts for all CGUs were measured based on value in use.

Methodology

A value in use calculation uses discounted cash flow forecasts based on the most recent three-year plans to determine the recoverable amount of each CGU. The most relevant assumptions underlying management's three-year plans, which are based on past experience and forecast market conditions, are expected loan book growth rates, net return on loan book and future capital requirements in the Banking CGUs, expected total client asset growth rate and revenue margin in the Asset Management CGU and expected trading levels in the Winterflood CGU. While these assumptions are relevant to management's plans, they may not all be key assumptions in the goodwill impairment test.

In addition, while CGUs are not individually regulated, for the purposes of an impairment assessment, theoretical capital requirements have been taken into consideration in calculating a CGU's value in use and carrying value to ensure that capital constraints on free cash flows are appropriately reflected and the carrying value is on a comparable basis.

Beyond the group's three-year planning horizon, estimates of future cash flows in the fourth and fifth years are made by management with due consideration given to the relevant assumptions set out above. After the fifth year, a terminal value is calculated using an annual growth rate of 2%, which is consistent with the UK government's long-term inflation target.

The cash flows are discounted using a pre-tax estimated weighted average cost of capital. The methodology used to derive the discount rates was further updated during the year with valuation experts engaged where appropriate and refinements to the beta and size premium assumptions in the cost of capital calculation.

Beta is a measure of systematic risk and a lower beta has been applied to the Banking CGUs this year following a review by valuation experts. In addition, an appropriate size premium has been consistently applied to all CGUs based on the size of the group and not the size of the individual CGUs for the first time this year. The size premium represents an estimate of the additional risk premium required by investors where typically a smaller size would require a larger premium.

The discount rates used differ across the CGUs, reflecting the nature of the CGUs' business and the current market returns appropriate to the CGU that investors would require for a similar asset. The discount rates for the Banking and Winterflood CGUs have decreased while CBAM has increased this year following the aforementioned methodology refinements.

Assessment

At 31 July 2024, the results of the review indicate there is no goodwill impairment. The inputs used in the value in use calculations are sensitive primarily to changes in the assumptions for future cash flows, which include consideration for future capital requirements and discount rates. Having performed stress tested value in use calculations, the group believes that any reasonably possible change in the key assumptions which have been used would not lead to the carrying value of any CGU to exceed its recoverable amount except Winterflood and Motor Finance.

Winterflood continued to experience difficult market conditions and recorded a small loss in the year. The business has a long track record of trading profitably in a range of conditions and is well placed to take advantage when investor confidence recovers. Nevertheless, consistent with the prior year, future market conditions remain uncertain and as such the value in use calculation for this CGU has been identified as a key source of estimation uncertainty as set out in Note 1.

The Motor Finance CGU, which includes goodwill of £3.0 million and other intangible assets of £15.3 million, relates to the UK business and excludes the recent Close Brothers Finance DAC acquisition. The CGU has seen strong business volumes over the year but the market and regulatory backdrop is expected to present some challenges to the future cash flows, therefore this CGU has been identified as a key source of estimation uncertainty for the first time this year. The value in use of Motor Finance excludes any potential redress provision impact of the FCA's discretionary commission arrangements review since it is considered to be a legacy matter that relates to the excess capital of the parent and has no impact on the trading forecasts of the CGU itself.

The most significant uncertainty within the Winterflood value in use calculation relates to the expected future cash flows and when they return to normalised levels. The VIU of Winterflood is calculated to be 136% above carrying value at 31 July 2024 and for the purposes of goodwill modelling, management have projected that trading will gradually return to normalised levels over the medium term.

A 33% reduction in the year five cash flows and all subsequent years would result in a recoverable amount that is equal to the carrying value of the CGU, that is, the headroom between the two is reduced to nil. In the discounted cash flows model, delaying all cash flows by one year, which would reduce the terminal value, would reduce the VIU headroom by 58%. The discount rate is also an important driver of the value in use calculation and an absolute increase of 3.1% in the rate would also result in nil headroom.

The most significant uncertainty within the Motor Finance value in use calculation relates to the expected future cash flows, which include consideration for the CGU's forecast capital charge, and when they return to more normalised growth levels. While as noted previously the cash flows exclude any potential redress provision impact of the FCA's commissions review, the cash flows are nevertheless impacted by the overall uncertainty introduced by the FCA's review and the group's strategic and capital actions response. As described in Note 2, determining the impact on goodwill of the FCA's review and management's response is a critical accounting judgement. It also represents a key assumption for the Motor goodwill impairment assessment. Management's expectations on a return of the cash flows to more normalised growth levels are based on the review timeline set out by the FCA.

A 21% reduction in the annual cash flows included within the terminal value of the Motor CGU would result in a recoverable amount that is equal to the carrying value of the CGU. In the discounted cash flows model, delaying all cash flows by one year, which would reduce the terminal value, would result in the full impairment of the goodwill and other intangible assets totalling £18.3 million in the Motor CGU. However, this outcome reflects the CGU sensitivity and does not include all possible management actions which may affect capital and cash flow forecasts for each CGU of the Banking division if any further response were required due to delays linked to the FCA review. Separately, an absolute increase of 1.6% in the discount rate would result in nil headroom.

These scenarios for Winterflood and Motor Finance are a demonstration of sensitivity only and are not management's base case scenarios.

As set out in Note 23 “Post Balance Sheet Event”, following a comprehensive strategic review, the group announced it entered into an agreement to sell CBAM to Oaktree on 19 September 2024. The goodwill associated with the CBAM CGU is £43.5 million. This post balance sheet transaction has no impact on the conclusion of the goodwill impairment assessment and the recoverable amount of the CGU remained above its carrying value at 31 July 2024.

10. Property, Plant and Equipment

	Leasehold property £ million	Fixtures, fittings and equipment £ million	Assets held under operating leases £ million	Motor vehicles £ million	Right of use assets[1] £ million	Total £ million
Group						
Cost						
At 1 August 2022	20.9	62.6	398.2	0.2	78.5	560.4
Additions	1.0	7.5	93.1	0.2	24.7	126.5
Disposals	(0.4)	(4.6)	(42.2)	—	(9.2)	(56.4)
At 31 July 2023	21.5	65.5	449.1	0.4	94.0	630.5
Additions	1.3	12.9	64.7	—	10.0	88.9
Disposals	(0.4)	(13.3)	(71.9)	—	(11.1)	(96.7)
At 31 July 2024	**22.4**	**65.1**	**441.9**	**0.4**	**92.9**	**622.7**
Depreciation						
At 1 August 2022	13.0	36.9	158.2	0.2	29.6	237.9
Depreciation and impairment charges for the year	2.4	8.3	45.5	—	14.4	70.6
Disposals	(0.4)	(4.3)	(25.8)	—	(4.6)	(35.1)
At 31 July 2023	15.0	40.9	177.9	0.2	39.4	273.4
Depreciation and impairment charges for the year	2.3	9.1	44.4	0.1	15.5	71.4
Disposals	(0.3)	(13.4)	(48.3)	—	(9.7)	(71.7)
At 31 July 2024	**17.0**	**36.6**	**174.0**	**0.3**	**45.2**	**273.1**
Net book value at 31 July 2024	**5.4**	**28.5**	**267.9**	**0.1**	**47.7**	**349.6**
Net book value at 31 July 2023	6.5	24.6	271.2	0.2	54.6	357.1
Net book value at 1 August 2022	7.9	25.7	240.0	—	48.9	322.5

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

The net book value of assets held under operating leases includes £0.6 million (31 July 2023: £5.9 million) relating to vehicles held in inventories. There was a gain of £0.4 million from the sale of assets held under operating leases for the year ended 31 July 2024 (2023: £3.3 million).

11. Settlement Balances and Short Positions

	31 July 2024 £ million	31 July 2023 £ million
Settlement balances	**600.1**	686.0
Short positions in:		
Debt securities	**5.5**	3.5
Equity shares	**9.3**	6.4
	14.8	9.9
	614.9	695.9

12. 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	**0.9**	**53.0**	**84.5**	**—**	**—**	**—**	**138.4**
Deposits by customers	**706.6**	**2,320.7**	**3,397.9**	**1,685.2**	**583.2**	**—**	**8,693.6**
Loans and overdrafts from banks	**46.6**	**9.0**	**—**	**110.0**	**—**	**—**	**165.6**
Debt securities in issue	**—**	**21.9**	**246.6**	**799.0**	**595.3**	**323.6**	**1,986.4**
At 31 July 2024	**754.1**	**2,404.6**	**3,729.0**	**2,594.2**	**1,178.5**	**323.6**	**10,984.0**

	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	10.3	43.6	88.0	—	—	—	141.9
Deposits by customers	175.1	1,836.4	3,745.9	1,305.0	662.1	—	7,724.5
Loans and overdrafts from banks	31.8	20.1	228.0	262.0	110.0	—	651.9
Debt securities in issue	—	30.4	228.7	197.8	1,261.8	293.9	2,012.6
At 31 July 2023	217.2	1,930.5	4,290.6	1,764.8	2,033.9	293.9	10,530.9

As outlined below, at 31 July 2024 the group accessed £110.0 million (31 July 2023: £600.0 million) and £nil (31 July 2023: £5.0 million) cash under the Bank of England's Term Funding Scheme with Additional Incentives for SMEs and Indexed Long-Term Repo respectively. Cash from these schemes is included within loans and overdrafts from banks. Residual maturities of the schemes 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 2024	**—**	**0.5**	**—**	**110.0**	**—**	**—**	**110.5**
At 31 July 2023	—	7.6	228.0	262.0	110.0	—	607.6

Assets pledged and received as collateral

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

The group is a participant of the Bank of England's Term Funding Scheme with Additional Incentives for SMEs ("TFSME") and the Indexed Long-Term Repo ("ILTR").

Under these schemes, asset finance loan receivables of £404.8 million (31 July 2023: £863.4 million) and retained notes relating to Motor Finance loan receivables of £34.4 million (31 July 2023: £83.4 million) were positioned as collateral with the Bank of England, against which £110.0 million (31 July 2023: £600.0 million) of cash was drawn from the TFSME and £nil (31 July 2023: £5.0 million) from the ILTR. million) from the ILTR.

The term of the TFSME transactions is four years from the date of each drawdown but the group may choose to repay earlier at its discretion. The term of the ILTR transaction is six months and cannot be repaid earlier. The risks and rewards of the loan receivables remain with the group and continue to be recognised in loans and advances to customers on the consolidated balance sheet.

The group has securitised without recourse and restrictions £1,657.0 million (31 July 2023: £1,436.3 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £1,453.7 million (31 July 2023: £1,187.4 million). This includes the £34.4 million (31 July 2023: £83.4 million) retained notes positioned as collateral with the Bank of England. As the group has retained exposure to substantially all the credit risk and rewards of the residual benefit of the underlying assets it continues to recognise these assets in loans and advances to customers on its consolidated balance sheet.

The majority of loans and advances to customers are secured against specific assets. Consistent and prudent lending criteria are applied across the whole loan book with emphasis on the quality of the security provided.

As at 31 July 2024, Winterflood had pledged equity and debt securities of £18.3 million (31 July 2023: £5.2 million) in the normal course of business.

13. Other Equity Instrument

Other equity instrument comprises the group's £200.0 million Fixed Rate Reset Perpetual Subordinated Contingent Convertible Securities, or Additional Tier 1 capital ("AT1"), issued on 29 November 2023. These AT1 securities are classified as an equity instrument under IAS 32 'Financial Instruments: Presentation' with the proceeds recognised in equity net of transaction costs of £2.4 million.

These securities carry a coupon of 11.125%, payable semi-annually on 29 May and 29 November of each year and have a first reset date on 29 May 2029. The first coupon payment of £11.1 million was made on 29 May 2024. The securities include, among other things, a conversion trigger of 7.0% Common Equity Tier 1 capital ratio and are callable any time in the six-month period prior to and including the first reset date or on each reset date occurring every five years thereafter.

14. Capital - unaudited

	31 July 2024 £ million	31 July 2023 £ million
CET1 capital		
Shareholders' equity per balance sheet	**1,842.5**	1,644.9
Regulatory adjustments to equity		
Contingent convertible securities recognised as AT1 capital[1]	**(197.6)**	—
Intangible assets, net of associated deferred tax liabilities	**(264.0)**	(262.8)
Foreseeable dividend[2]	**(3.8)**	(67.0)
Cash flow hedging reserve	**(13.0)**	(34.4)
Pension asset, net of associated deferred tax liabilities	**(0.6)**	(1.0)
Prudent valuation adjustment	**(0.8)**	(0.4)
Insufficient coverage for non-performing exposures[3]	**—**	(0.4)
IFRS 9 transitional arrangements[4]	**12.1**	31.9
CET1 capital[5]	**1,374.8**	1,310.8
Additional tier 1 capital	**200.0**	—
Total tier 1 capital[5]	**1,574.8**	1,310.8
Tier 2 capital - subordinated debt	**200.0**	200.0
Total regulatory capital[5]	**1,774.8**	1,510.8
RWAs		
Credit and counterparty credit risk	**9,548.4**	8,655.4
Operational risk[5]	**1,044.5**	1,084.0
Market risk[5]	**108.3**	108.2
	10,701.2	9,847.6
CET1 capital ratio[5]	**12.8 %**	13.3 %
Tier 1 capital ratio[5]	**14.7 %**	13.3 %
Total capital ratio[5]	**16.6 %**	15.3 %

1. The contingent convertible securities are classified as an equity instrument for accounting but treated as AT1 for regulatory capital purposes, see note 13.
2. Under CRR Article 26, a deduction for a foreseeable dividend and charges has been recognised at 31 July 2024 and 31 July 2023. The deduction at 31 July 2024 reflects charges for the coupon on the group's contingent convertible securities.
3. In line with the amendment to Own Funds Part of the PRA Rulebook confirmed in PS 14/23, CET1 capital at 31 July 2024 no longer includes a regulatory deduction for insufficient coverage for non-performing exposures as this is no longer applicable (31 July 2023: £0.4 million).
4. The group has elected to apply IFRS 9 transitional arrangements for 31 July 2024, which allow the capital impact of expected credit losses to be phased in over the transitional period.
5. Shown after applying IFRS 9 transitional arrangements and the CRR transitional and qualifying own funds arrangements in force at the time. Without their application, at 31 July 2024 the CET1 capital ratio would be 12.7%, Tier 1 capital ratio 14.6% and total capital ratio 16.5% (31 July 2023: CET1 capital ratio 13.0% and total capital ratio 15.1%).

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

	2024 £ million	2023 £ million
CET1 capital at 1 August	**1,310.8**	1,396.7
Profit in the period attributable to shareholders	**100.4**	81.1
Dividends paid and foreseen	**(15.0)**	(100.5)
IFRS 9 transitional arrangements	**(19.7)**	(51.1)
Increase in intangible assets, net of associated deferred tax liabilities	**(1.2)**	(12.1)
Other movements in reserves recognised for CET1 capital	**(0.8)**	(7.3)
Other movements in adjustments from CET1 capital	**0.3**	4.0
CET1 capital at 31 July	**1,374.8**	1,310.8

15. Defined Benefit Pension Scheme

During the last financial year, the scheme entered into a buy-in transaction with an insurance company covering all members of the scheme. A buy-in is a bulk annuity policy that matches the scheme's assets and liabilities. It represents a significant de-risking of the investment portfolio and hence a significant reduction in the group's long-term exposure to pension funding risk. The pension surplus on the group's balance sheet is £0.8 million (31 July 2023: £1.3 million) relating to the cash held by the scheme, with the fair value of the insurance policy matched to the fair value of the scheme's liabilities, which remains subject to changes in actuarial valuations.

16. Other Liabilities

Review of Borrowers in Financial Difficulty

Following discussions with the FCA in relation to its market wide review of Borrowers in Financial Difficulty ("BiFD"), which assessed forbearance and related practices, the group conducted a Past Business Review of customer forbearance related to its motor finance lending. This has now concluded and a provision of £17.2 million has been recognised at 31 July 2024 in relation to this matter under the category of legal and regulatory in the table above.

As a result of this review, certain customers will be due compensation and the group is undertaking an exercise to identify and remediate these customers as appropriate. We have commenced making compensation payments to customers, with the resulting remediation programme expected to be materially complete this calendar year.

The provision comprises estimates of the expected customer compensation and the associated operational costs. The final remediation cost remains uncertain with data to identify customers who are due remediation being collated.

The £17.2 million provision is based on a probability weighting methodology taking into account assumptions such as the number of customers in scope of the exercise, the average payments due to customers, and the expected cost of remediation for the group.

The provision does not reflect underlying trading performance and therefore has been presented as a separate adjusting item and excluded from adjusted operating profit by management.

Restructuring costs

The group incurred £3.1 million of restructuring costs in the 2024 financial year which includes the recognition of an accrual primarily relating to redundancy and associated costs of £0.9 million. These costs do not reflect underlying trading performance and therefore have been presented as a separate adjusting item and excluded from adjusted operating profit by management.

17. Contingent Liabilities

Motor Finance commission arrangements

FCA review
As disclosed in previous periods, the group continues to receive a high number of complaints, many of which are now with the Financial Ombudsman Service ("FOS"), and is subject to a number of claims through the courts regarding historic Discretionary Commission Arrangements ("DCAs") with intermediaries on its Motor Finance products. This follows the FCA's Motor Market Review in 2019.

On 11 January 2024, the FOS published its first two decisions upholding customer complaints relating to DCAs against two other lenders in the market and instructed them to pay compensation to the complainants if they accepted the outcome. On the same day, recognising that these decisions were likely to significantly increase the number of complaints to motor finance providers and the FOS, risking disorderly and inconsistent outcomes as well as market instability, the FCA released policy statement PS 24/1 which introduced temporary changes to handling rules for motor finance complaints until at least September 2024.

This means that firms will not have to resolve these complaints within the normal time limits. This was to allow the FCA time to carry out diagnostic work to determine whether or not there has been widespread failure to comply with regulatory requirements which has caused customers harm and, if so, whether it needs to take any action. The FCA has indicated that such steps could include establishing an industry-wide consumer redress scheme and/or applying to the Financial Markets Test Case Scheme, to help resolve any contested legal issues of general importance.

In the FCA's 11 January 2024 announcement, it aimed to communicate a decision on next steps by 24 September 2024. Since then, the FCA further announced on 30 July 2024 that because it has taken longer to collect and review the historical data, and also due to relevant ongoing litigation, it would not be able to set out the next steps of its review by 24 September 2024 as it originally planned and it now aims to set out next steps by the end of May 2025. In addition, the FCA extended the current pause to the 8-week deadline for firms to respond to complaints involving a DCA to 4 December 2025.

Impact on Close Brothers

The group is subject to a number of claims through the courts regarding historical Motor Finance commission arrangements. One of these, initially determined in the group's favour, was appealed by the claimant and the case was heard in early July 2024 by the Court of Appeal 2024 together with two separate claims made against another lender. The Court's decision is now awaited.

As of 31 August 2024, where individual cases were adjudicated in County Court, the courts found that there was no demonstrable customer harm and hence no compensation to pay in the majority of the outcomes for Close Brothers. Nevertheless, there have been only a limited number of adjudicated cases at this stage.

There are also a number of complaints that have been referred to the FOS for a determination. To date, no final FOS decisions have been made upholding complaints against Close Brothers. On 9 May 2024, the FOS announced that it would be unlikely to be able to issue final decisions on motor commission cases for some time due to the potential impact of a judicial review proceeding started by another lender in relation to one of its January 2024 decisions and also the outstanding Court of Appeal decisions.

Consistent with our Half Year 2024 results, there remains significant uncertainty about the outcome of this matter at this early stage. The FCA has indicated there could be a range of outcomes, with one potential outcome being an industry-wide consumer redress scheme. The estimated impact of any redress scheme, if required, is highly dependent on a number of factors such as: the time period covered; the DCA models impacted (the group operated a number of different models during the period under review); appropriate reference commission rates set for any redress; and response rates to any redress scheme. As such, at this early stage, the timing, scope and quantum of any potential financial impact on the group cannot be reliably estimated at present.

Based on the status at the end of the financial year and in accordance with the relevant accounting standards, the board has concluded that no legal or constructive obligation exists and it is currently not required or appropriate to recognise a provision at 31 July 2024. It is also not practicable at this early stage to estimate or disclose any potential financial impact arising from this issue.

During the 2024 financial year, the group incurred costs of £6.9 million in relation to historic motor commission arrangements. This £6.9 million covered the costs of the group dealing with complaints (including FOS fees), legal spend, and investment spend as we prepare for the outcome of the FCA review. These costs do not reflect underlying trading performance and therefore have been presented as a separate adjusting item and excluded from adjusted operating profit by management.

In the normal course of the group's business, there may be other contingent liabilities relating to complaints, legal proceedings or regulatory reviews. These cases are not currently expected to have a material impact on the group.

18. Consolidated Cash Flow Statement Reconciliation

	2024 £ million	2023 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit before tax	**142.0**	112.0
Tax paid	**(29.6)**	(7.4)
Depreciation, amortisation and impairment	**111.7**	108.2
Impairment losses on financial assets	**98.8**	204.1
Amortisation of de-designated cash flow hedges	**(27.9)**	—
Decrease/(increase) in:		
Interest receivable and prepaid expenses	**5.5**	(6.8)
Net settlement balances and trading positions	**(0.3)**	(11.4)
Net money broker loans against stock advanced	**27.0**	15.6
(Decrease)/increase in interest payable and accrued expenses	**(12.7)**	(16.5)
Net cash inflow from trading activities	**314.5**	397.8
Cash (outflow)/inflow arising from changes in:		
Loans and advances to banks not repayable on demand	**24.0**	(21.1)
Loans and advances to customers	**(699.4)**	(584.3)
Assets let under operating leases	**(41.1)**	(73.2)
Certificates of deposit	**—**	185.0
Sovereign and central bank debt	**(194.2)**	191.2
SSA bonds	**(140.2)**	—
Covered bonds	**(80.7)**	(105.4)
Deposits by banks	**(1.3)**	(22.1)
Deposits by customers	**975.1**	942.5
Loans and overdrafts from banks	**(492.2)**	29.2
Debt securities in issue (net)	**(67.6)**	14.4
Derivative financial instruments (net)	**—**	70.4
Other assets less other liabilities[1]	**21.1**	(3.0)
Net cash (outflow)/inflow from operating activities	**(382.0)**	1,021.4
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries		
Purchase of subsidiaries, net of cash acquired	**(15.4)**	(0.5)
(c) Analysis of net cash inflow in respect of the sale of subsidiaries		
Cash consideration received	**0.9**	—
(d) Analysis of cash and cash equivalents[2]		
Cash and balances at central banks	**1,584.2**	1,918.4
Loans and advances to banks	**260.3**	290.9
At 31 July	**1,844.5**	2,209.3

1. Includes a £17.2 million (2023: £nil) provision in relation to the BiFD review, a non-cash item recognised within administrative expenses.
2. Excludes £33.2 million (2023: £58.0 million) of cash reserve accounts and cash held in trust.

During the year ended 31 July 2024, the non-cash changes on debt financing amounted to £35.9 million (31 July 2023: £0.9million) arising largely from interest accretion and fair value hedging movements.

19. Fair Value of Financial Assets and Liabilities

The fair values of the group's subordinated loan capital and debt securities in issue are set out below.

	31 July 2024		31 July 2023	
	Fair value	Carrying value	Fair value	Carrying value
	£ million	£ million	£ million	£ million
Subordinated loan capital	179.4	187.2	165.8	174.9
Debt securities in issue	1,998.5	1,986.4	2,008.0	2,012.6

The fair value of gross loans and advances to customers at 31 July 2024 is estimated to be £9,806.4 million (31 July 2023: £9,046.2 million), with a carrying value of £9,830.8 million (31 July 2023: £9,255.0 million). The fair value of deposits by customers is estimated to be £8,691.8 million (31 July 2023: £7,668.7 million), with a carrying value of £8,693.6 million (31 July 2023: £7,724.5 million). These estimates are based on highly simplified assumptions and inputs and may differ to actual amounts received or paid. The differences between fair value and carrying value are not considered to be significant, and are consistent with management's expectations given the nature of the Banking business and the short average tenor of the instruments. However, the differences have decreased in comparison to the prior year in line with market interest rates.

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

The tables below show the classification of financial instruments held at fair value into the valuation hierarchy.

	Level 1	Level 2	Level 3	Total
	£ million	£ million	£ million	£ million
At 31 July 2024				
Assets				
Loans and advances to customers held at FVTPL	—	—	11.8	11.8
Debt securities:				
Sovereign and central bank debt	383.7	—	—	383.7
SSA bonds	145.5	—	—	145.5
Covered bonds	187.7	—	—	187.7
Long trading positions in debt securities	13.8	2.2	—	16.0
Equity shares	5.9	21.4	0.1	27.4
Derivative financial instruments	—	95.3	6.1	101.4
Contingent consideration	—	—	1.2	1.2
Other assets	—	—	0.8	0.8
	736.6	118.9	20.0	875.5
Liabilities				
Short positions:				
Debt securities	3.3	2.2	—	5.5
Equity shares	2.2	7.1	—	9.3
Derivative financial instruments	—	122.6	6.4	129.0
Contingent consideration	—	—	3.0	3.0
	5.5	131.9	9.4	146.8

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2023				
Assets				
Loans and advances to customers held at FVTPL	—	—	—	—
Debt securities:				
Sovereign and central bank debt	186.1	—	—	186.1
SSA bonds	—	—	—	—
Covered bonds	106.3	—	—	106.3
Long trading positions in debt securities	13.6	1.6	—	15.2
Equity shares	3.9	25.1	0.3	29.3
Derivative financial instruments	—	77.4	11.1	88.5
Contingent consideration	—	—	2.0	2.0
Other assets	—	—	—	—
	309.9	104.1	13.4	427.4
Liabilities				
Short positions:				
Debt securities	2.3	1.2	—	3.5
Equity shares	1.7	4.6	0.1	6.4
Derivative financial instruments	—	184.7	11.2	195.9
Contingent consideration	—	—	2.8	2.8
	4.0	190.5	14.1	208.6

There is no significant change to the valuation methodologies relating to Level 2 and 3 financial instruments disclosed in note 26 "Financial risk management" of the Annual Report 2023, except for the valuation of Level 3 loans and advances to customers as described below.

Instruments classified as Level 3 predominantly comprise loans and advances to customers, which is new this year, over-the-counter derivatives and contingent consideration payable and receivable in relation to the acquisition and disposal of subsidiaries.

The valuation of Level 3 derivatives is similar to Level 2 derivatives and includes the use of discounted future cash flow models, with the most significant input into these models being interest rate yield curves developed from quoted rates.

The valuation of Level 3 loans and advances to customers is determined on a discounted expected cash flow basis net of expected credit losses. The discount rate used in the valuation is the interest rate charged on the loan, which reflects an arm's length rate chargeable on similar transactions.

The valuation of Level 3 contingent consideration is determined on a discounted expected cash flow basis.

The group believes that there is no reasonably possible change to the inputs used in the valuation of these positions which would have a material effect on the group's consolidated income statement.

During the year, there were no transfers from Level 1, 2 to 3. In 2023, £1.6 million of derivative financial assets and £1.8 million of derivative financial liabilities were transferred from Level 2 to 3.

Movements in financial instruments categorised as Level 3 were:

	Loans and advances to customers held at FVTPL £ million	Derivative financial assets £ million	Derivative financial liabilities £ million	Equity shares £ million	Contingent consideration £ million	Other assets £ million	Total £ million
At 1 August 2022	—	—	—	0.2	(1.3)	—	(1.1)
Total gains/(losses) recognised in the consolidated income statement	—	9.5	(9.4)	—	(0.1)	—	—
Purchases, issues, originations and transfers in	—	1.6	(1.8)	—	0.6	—	0.4
Sales, settlements and transfers out	—	—	—	—	—	—	—
At 31 July 2023	—	11.1	(11.2)	0.2	(0.8)	—	(0.7)
Total gains/(losses) recognised in the consolidated income statement	—	(5.0)	4.8	—	0.4	—	0.2
Purchases, issues, originations and transfers in	11.8	—	—	—	(0.5)	0.8	12.1
Sales, settlements and transfers out	—	—	—	(0.1)	(0.9)	—	(1.0)
At 31 July 2024	**11.8**	**6.1**	**(6.4)**	**0.1**	**(1.8)**	**0.8**	**10.6**

The gains recognised in the consolidated income statement relating to Level 3 instruments held at 31 July 2024 amounted to £0.2 million (2023: £nil).

20. Additional Support for Customers

Forbearance

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

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

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

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

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

At 31 July 2024, the gross carrying amount of exposures with forbearance measures was £363.8 million (31 July 2023: £214.6 million). The key driver of this increase has been higher forbearance in our Asset Finance and Leasing, Motor Finance and Property Finance businesses reflecting continued macroeconomic challenges and enduring cost of living pressures on customers.

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

	31 July 2024	31 July 2023
Gross loans and advances to customers (£ million)	**10,276.6**	9,635.6
Forborne loans (£ million)	**363.8**	214.6
Forborne loans as a percentage of gross loans and advances to customers (%)	**3.5%**	2.2%
Provision on forborne loans (£ million)	**89.4**	56.1
Number of customers supported	**13,166**	6,996

The following is a breakdown of forborne loans by segment:

	31 July 2024 £ million	31 July 2023 £ million
Commercial business	**118.5**	38.0
Retail business	**42.8**	28.8
Property business	**202.5**	147.8
Total	**363.8**	214.6

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

	31 July 2024 Number of customers supported	31 July 2023 Number of customers supported
Commercial business	**839**	243
Retail business	**12,275**	6,700
Property business	**52**	53
Total	**13,166**	6,996

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

	31 July 2024 £ million	31 July 2023[1] £ million
Extension outside terms	**101.7**	52.6
Refinancing	**28.0**	10.4
Moratorium	**147.0**	66.1
Deferring collections/recoveries activities	**85.1**	82.9
Other modifications	**2.0**	2.5
Total	**363.8**	214.6

1 Comparatives have been updated to present deferring collections/recoveries activity category in a separate line based on categorisation as at 31 July 2024.

Government lending schemes

Over the pandemic period, following accreditation, customers were offered facilities under the UK government-introduced Coronavirus Business Interruption Loan Scheme ("CBILS"), the Coronavirus Large Business Interruption Loan Scheme ("CLBILS") and the Bounce Back Loan Scheme ("BBLS"), thereby enabling the Banking division to maximise its support to small businesses. At 31 July 2024, there are 2,887 (31 July 2023: 4,364) remaining facilities, with a residual balance of £202.3 million (31 July 2023: £456.3 million) following further repayments across the Commercial businesses.

The Banking division also received accreditation to offer products under the various Recovery Loan Schemes ("RLS"), the recent Growth Guarantee Scheme ("GGS") and schemes in the Republic of Ireland. At 31 July 2024, there are 1,321 (31 July 2023: 943) live facilities, with balances of £340.7 million (31 July 2023: £276.2 million), and a further 73 (31 July 2023: 58) approved facilities with limits of £17.7 million (31 July 2023: £14.3 million).

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

21. Interest Rate Risk

The group recognises three main sources of interest rate risk in the banking book ("IRRBB") which could adversely impact future income or the value of the balance sheet:

- repricing risk – the risk presented by assets and liabilities that reprice at different times;
- embedded optionality risk – the risk presented by contractual terms embedded into certain assets and liabilities; and
- basis risk – the risk presented by a mismatch in the reference interest rate for assets and liabilities.

IRRBB is assessed and measured on a behavioural basis by applying key behavioural and modelling assumptions including, but not limited to, those related to fixed rate loans subject to prepayment risk, the behaviour of non-maturity assets and liabilities, the treatment of own equity, and the expectation of embedded interest rate options. This assessment is performed across a range of regulatory prescribed and internal interest rate shock scenarios approved by the bank's Asset and Liability Committee.

Two measures are used for measuring IRRBB, namely Earnings at Risk ("EaR") and Economic Value ("EV"):

- EaR measures short-term impacts to earnings, highlighting any earnings sensitivity, should interest rates change unexpectedly.
- EV measures longer-term earnings sensitivity due to interest rate changes, highlighting the potential future sensitivity of earnings, and any risk to capital.

No material exposure exists in the other parts of the group, and accordingly the analysis below relates to the Banking division and company.

EaR impact

The table below sets out the assessed impact on group net interest income over a 12-month period from interest rate changes. The results shown are for an instantaneous and parallel change in interest rates at 31 July 2024:

	31 July 2024 £ million	31 July 2023 £ million
0.5% increase	**0.1**	4.5
2.5% increase	**0.5**	22.6
0.5% decrease	**(0.1)**	(4.5)
2.5% decrease	**(0.8)**	(22.8)

The group also monitors any potential earning exposure from basis mismatches between its lending and funding activities on a monthly cadence. To provide a clearer assessment of the group's exposure to interest rate changes, basis risk is excluded from the EaR numbers.

The group's EaR at 31 July 2024 reflects its policy to ensure exposure to interest rate shocks is managed within the group's risk appetites. The EaR measure is a combination of the group's repricing profile and the embedded optionality risk, which is negligible in the current interest rate environment.

The decrease in EaR reflects the bank's strategy to manage and minimise interest rate risk, to that required to operate efficiently.

EV impact

The table below sets out the assessed impact on group EV, which measures the potential change in the balance sheet value following an instantaneous and parallel change in interest rates at 31 July 2024:

	31 July 2024 £ million	31 July 2023 £ million
0.5% increase	**3.5**	4.4
2.5% increase	**17.2**	21.5
0.5% decrease	**(3.5)**	(4.4)
2.5% decrease	**(14.4)**	(21.9)

The group's EV at 31 July 2024 reflects its policy to ensure exposure to interest rate shocks is managed within the group's risk appetites. The EV measure is a combination of our repricing profile and the embedded optionality to cover interest rate floors within the bank's lending and borrowing activities.

22. Related Party Transactions

Transactions with key management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of an entity; the group's key management are the members of the group's Executive Committee, which includes all executive directors, together with its non-executive directors.

The table below details, on an aggregated basis, key management personnel emoluments:

	2024 £ million	2023 £ million
Emoluments		
Salaries and fees	**6.0**	5.7
Benefits and allowances	**0.8**	0.6
Performance related awards in respect of the current year:		
Cash	**1.7**	1.7
	8.5	8.0
Share-based awards	**0.7**	(0.9)
	9.2	7.1

Gains upon exercise of options by key management personnel, expensed to the income statement in previous years, totalled £1.8 million (2023: £1.4 million).

Key management have banking and asset management relationships with group entities which are entered into in the normal course of business. Amounts included in deposits by customers at 31 July 2024 attributable, in aggregate, to key management were £0.3 million (31 July 2023: £0.4 million).

23. Post Balance Sheet Event

Following a comprehensive strategic review, on 19 September 2024, the group announced that it entered into an agreement to sell CBAM to Oaktree for an equity value of up to £200 million. CBAM is a well-regarded UK wealth management franchise and the transaction will strengthen the group's capital base and enhance its position to navigate the current uncertain environment.

Under the terms of the transaction, the equity value of up to £200 million includes £172 million of cash to be paid at or before completion of the transaction, comprising an upfront cash consideration of £146 million payable by Oaktree to the group on completion, a dividend of approximately £26 million payable by CBAM to the group on or before completion, subject to applicable regulatory capital requirements, and £28 million of contingent deferred consideration in the form of preference shares. The group intends to retain cash received by completion, expected to amount to approximately £172 million, gross of transaction costs.

As at 31 July 2024, CBAM had balance sheet assets of £192.0 million and liabilities of £70.2 million, comprised largely of working capital and intangible assets, with a net asset value of £121.8 million. The net asset value includes goodwill of £43.5 million and £12.2 million of intangible assets, resulting in a tangible net asset value of £66.1 million. CBAM is one of the group's five operating segments with total operating income of £157.8 million and profit after tax of £7.4 million in the 2024 financial year. Further detail on CBAM can be found within Note 2 "Segmental Analysis", including CBAM's income statement for the financial years ended 31 July 2024 and 31 July 2023.

The upfront proceeds are expected to increase the group's common equity tier 1 ("CET1") capital ratio by approximately 100 basis points on a pro forma basis. This calculation assumes a reduction in credit RWAs, no immediate reduction in operational RWAs and does not include any benefit from contingent deferred consideration. This estimate is subject to change before completion and is based on upfront proceeds from the transaction of c.£172 million, CBAM's net asset value of £121.8 million and excludes the deferred consideration. Therefore, the fair value of the business remains above its carrying value.

During the 2025 financial year, and in line with IFRS 9 "Financial Instruments" and IFRS 13 "Fair Value Measurement", a full accounting assessment of the contingent deferred consideration will be undertaken. The contingent deferred consideration will be in the form of preference shares, redeemable no later than Oaktree's exit, for an amount of up to £28 million plus interest at a rate of 8 per cent. per annum, stepping up after five years to 12 per cent. The deferred consideration is subject to potential deductions, including in relation to retention of key individuals and certain potential regulatory costs and separation cost overruns.

This is a non-adjusting event under the requirements of IAS 10 "Events After the Reporting Period" and as at 31 July 2024 the business did not meet the 'held for sale' criteria under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". A sale was not assessed to be highly probable given the transaction status at that date, and therefore the held for sale criteria was not met.

The transaction is expected to complete in early 2025 calendar year. Details of the transaction can be found on the separate announcement published on 19 September 2024, available on the Investor Relations website.

Cautionary Statement

Certain statements included or incorporated by reference within this announcement may constitute "forward-looking statements" in respect of the group's operations, performance, prospects and/or financial condition. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as "anticipates", "aims", "due", "could", "may", "will", "should", "expects", "believes", "intends", "plans", "potential", "targets", "goal" or "estimates". By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions and actual results or events may differ materially from those expressed or implied by those statements. There are also a number of factors that could cause actual future operations, performance, financial conditions, results or developments to differ materially from the plans, goals and expectations expressed or implied by these forward-looking statements and forecasts. These factors include, but are not limited to, those contained in the Group's annual report (available at: https://www.closebrothers.com/investor-relations). Accordingly, no assurance can be given that any particular expectation will be met and reliance should not be placed on any forward-looking statement. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future.

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

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