Close Brothers

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Registered in England No. 520241

## Half Year Results for the Six Months to 31 January 2019

12 March 2019

### Solid Performance in the First Half

- The group reported a solid performance, maintaining strong returns and profitability with a return on opening equity of 16.1%
- Banking adjusted operating profit increased 1% year on year to £131.1 million, benefiting from our continued disciplined approach and the diversity of our business portfolio
- Group adjusted operating profit of £138.8 million reduced 4% year on year, reflecting difficult market conditions for Winterflood and Asset Management
- The net interest margin remained strong at 8.1%, and the bad debt ratio remained low at 0.6%
- The loan book grew by 2.0% to £7.4 billion, up 6.3%[1] year on year, driven by good new business volumes across our Commercial and Premium Finance businesses, while our Motor Finance and Property loan books contracted slightly
- Asset Management achieved good net inflows at 7% (annualised) and adjusted operating profit of £10.8 million, down 5% year on year reflecting the impact of negative market movements
- Winterflood, the group's market-making business, delivered solid profitability in a difficult market, with operating profit of £9.3 million, down 37% year on year reflecting lower trading volumes
- The CET1 ratio increased to 13.0% and we have declared an interim dividend per share of 22.0p, up 5% year on year
- On a statutory basis, group operating profit before tax decreased 3% to £135.6 million

| Financial Highlights[2] | **First half 2019** | First half 2018 | Change % |
|---|---|---|---|
| **Adjusted operating profit[3]** | **£138.8m** | £143.9m | (4) |
| **Operating profit before tax (continuing operations)** | **£135.6m** | £140.2m | (3) |
| Adjusted basic earnings per share (continuing operations) | **69.8p** | 72.0p | (3) |
| Basic earnings per share (continuing operations) | **68.1p** | 70.0p | (3) |
| Basic earnings per share (continuing and discontinued operations) | **68.9p** | 69.2p | - |
| **Dividend per share** | **22.0p** | 21.0p | 5 |
| **Return on opening equity** | **16.1%** | 17.5% | |
| Net interest margin | **8.1%** | 8.2% | |
| Bad debt ratio | **0.6%** | 0.6% | |

| | **31 January 2019** | 1 August 2018 | Change % |
|---|---|---|---|
| Loan book | **£7.4bn** | £7.2bn | 2.0 |
| Total client assets | **£12.0bn** | £12.2bn | (2.1) |
| **Common equity tier 1 capital ratio** | **13.0%** | 12.7% | |
| **Total capital ratio** | **15.2%** | 15.0% | |

[1] The calculation of year on year loan book growth uses an opening loan book of £6.9 billion excluding the retail point of sale finance business under IAS 39, and in accordance with the requirements of IFRS 9 has not been restated.
[2] Please refer to definitions on page 18.
[3] Adjusted measures exclude £3.2 million (2018: £3.7 million) of amortisation of intangible assets on acquisition, and profit from discontinued operations of £1.2m (2018: loss of £1.2 million) net of tax.

## Preben Prebensen, Chief Executive, said:

"We delivered another solid performance in the first half, continuing to achieve strong returns while staying true to our service led business model, disciplined approach, and commitment to investing through the cycle.

The Banking division has continued its good performance year to date, and our market facing businesses have remained solidly profitable in difficult market conditions.

Longer term, we are confident that the disciplined application of our business model will continue to allow us to support our clients and customers and invest in our business, while maintaining strong returns and profitability in a wide range of market conditions."

## Enquiries

| | | |
|---|---|---|
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A presentation to analysts and investors will be held today at 9.30 am GMT at our offices at 10 Crown Place, London EC2A 4FT. A listen-only dial-in facility will be available by registering at https://webcasts.closebrothers.com/results/InterimResults2019/vip_connect

## Basis of Presentation

Results are presented both on a statutory and an adjusted basis to aid comparability between periods. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; any exceptional items, which are non-recurring and do not reflect trading performance; and discontinued operations.

Discontinued operations relate to the unsecured retail point of sale finance business, which was sold on 1 January 2019, and has been classified as a discontinued operation in the group's income statement for the 2018 and 2019 half year periods. The related assets and liabilities are classified as held for sale on the group's balance sheet as at 31 July 2018 and 1 August 2018.

To maintain consistency with the income statement and reflect the group's continuing operations, the calculation of the bad debt ratio, net interest margin and return on net loan book for the Banking division in the first half 2018 comparative period excludes the unsecured retail point of sale finance loan book from both the opening and closing loan book.

As previously communicated, the group has adopted IFRS 9 Financial Instruments with effect from 1 August 2018, and is presenting its results for the half year 2019 under IFRS 9. In accordance with the requirements of IFRS 9, comparative information has not been restated and transitional adjustments have been accounted for through retained earnings at 1 August 2018.

The comparative income statement for the half year 2018 continues to be reported under IAS 39 Financial Instruments – Recognition and Measurement. The group has presented its opening balance sheet as at 1 August 2018 and reported under IFRS 9 to aid comparability and consistency with half year 2019 closing balances (see also note 17 to the consolidated financial statements).

## About Close Brothers

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

## BUSINESS OVERVIEW

Close Brothers has delivered a solid first half, maintaining strong returns and profitability. Return on opening equity has remained strong at 16.1% (2018: 17.5%) and we are pleased to declare an interim dividend of 22.0p (2018: 21.0p) per share, up 5% year on year.

Adjusted operating profit decreased 4% to £138.8 million (2018: £143.9 million), reflecting the difficult market environment for our market facing businesses, Asset Management and Winterflood, and statutory operating profit before tax from continuing operations decreased 3% to £135.6 million (2018: £140.2 million). Adjusted basic earnings per share reduced 3% to 69.8p (2018: 72.0p), and statutory basic earnings per share from continuing operations also reduced 3% to 68.1p (2018: 70.0p).

Our proven and resilient business model enables us to support our customers and clients, invest in our business and deliver strong returns to shareholders throughout the economic cycle. As always, our focus remains on maintaining the discipline of this model and continuously investing in its long-term potential through a number of strategic infrastructure and business initiatives.

### Good Profitability in the Lending Businesses

The Banking division continued to deliver good profitability, benefiting from our disciplined approach and diverse portfolio of businesses, with adjusted operating profit increasing 1% to £131.1 million (2018: £130.1 million).

We continuously focus on maintaining our strong net interest margin and underwriting discipline in all market conditions. The net interest margin remained broadly stable on the prior year period at 8.1% (2018: 8.2%), as we continue to maintain our pricing discipline despite ongoing competition in many of our markets. The unchanged low bad debt ratio of 0.6% (2018: 0.6%) reflects consistently strong credit performance across our lending portfolios, and the continued application of our prudent lending criteria.

Overall the loan book increased 2.0% in the first half to £7.4 billion (1 August 2018: £7.2 billion). We achieved good growth in our Commercial portfolio, benefiting from continued growth in both core Asset and Invoice Finance, as well as an increasing contribution from our new civil litigation finance offering. Premium Finance also delivered good growth, benefiting from new business wins following the significant investment in this business in recent years. Within Property, we continue to extend our business into UK regional markets where we see consistently strong demand for development of new build family homes, although the overall loan book was broadly flat in the period.

The long-term resilience of our business model allows us to invest through the cycle, and we are continuing to progress a number of strategic investment programmes to protect, improve and extend our business for the long term. In the Treasury function, we have recently implemented a new deposit platform, which will enable us to provide a wider range of retail deposit products and an online offering. In Motor Finance, we have initiated a multi-year transformation programme which will significantly enhance our service proposition to dealers and customers. We are also making good progress developing the models, systems and processes required to use the Internal Ratings Based approach, and currently expect to submit our formal application to the PRA by the end of the 2019 calendar year.

### Solid Performance in Difficult Conditions for Asset Management and Winterflood

The Asset Management division continued to make good progress, although total client assets and profit were impacted by falling markets in the first half. We achieved good net inflows at 7% (annualised) of opening managed assets, reflecting the strength of our client proposition for both advice and investment management. The division delivered an adjusted operating profit of £10.8 million (2018: £11.4 million), down 5% year on year, and an operating margin of 18% (2018: 20%).

Winterflood continued to deliver solid profitability in a difficult market, although operating profit of £9.3 million (2018: £14.7 million) reduced on the prior year period due to lower investor trading activity, particularly in December. Trading remained consistently profitable, with only one loss day in the period (2018: none).

## Prudent Funding, Liquidity and Capital

The prudent management of our funding, liquidity and capital is a core part of our business model allowing us to grow, invest and pay a progressive and sustainable dividend, while meeting all regulatory requirements. Our capital ratios strengthened further in the period, with a common equity tier 1 capital ratio of 13.0% (1 August 2018: 12.7%) and leverage ratio of 11.2% (1 August 2018: 10.6%). We have also continued to actively diversify our sources of funding and optimise our liquidity, to maximise both cost efficiency and future flexibility.

## Outlook

We recognise the uncertainties in the external economic and political environment, but believe that our proven and resilient business model leaves us well placed to support our customers and deliver good returns in a wide range of market conditions.

Our Banking division remains well positioned, benefiting from the diversity of its business portfolio and strong customer focus. We remain committed to protecting margins, maintaining our prudent underwriting and continuing to invest in our businesses for the long-term.

The Asset Management division remains focused on the long-term strength of our client proposition and on growing its asset base through ongoing investment and maintaining good net inflows.

Winterflood continues to maintain its market-leading position and maximise its trading opportunities, but remains sensitive to external market conditions.

Overall, we remain well positioned for the remainder of the year.

## OVERVIEW OF FINANCIAL PERFORMANCE

### Income Statement

| | **First half 2019 £ million** | First half 2018 £ million | Change % |
|---|---|---|---|
| Adjusted operating income | **407.4** | 402.5 | 1 |
| Adjusted operating expenses | **(246.7)** | (235.8) | 5 |
| Impairment losses on financial assets | **(21.9)** | (22.8) | (4) |
| **Adjusted operating profit** | **138.8** | 143.9 | (4) |
| Banking | **131.1** | 130.1 | 1 |
| Commercial | **47.3** | 39.7 | 19 |
| Retail | **36.8** | 44.4 | (17) |
| Property | **47.0** | 46.0 | 2 |
| Asset Management | **10.8** | 11.4 | (5) |
| Securities | **9.3** | 14.7 | (37) |
| Group | **(12.4)** | (12.3) | 1 |
| Amortisation of intangible assets on acquisition | **(3.2)** | (3.7) | (14) |
| **Operating profit before tax** | **135.6** | 140.2 | (3) |
| Tax | **(33.4)** | (35.1) | (5) |
| **Profit after tax from continuing operations** | **102.2** | 105.1 | (3) |
| Profit/(loss) from discontinued operations, net of tax | **1.2** | (1.2) | |
| Loss attributable to non-controlling interests from continuing operations | **(0.1)** | (0.1) | - |
| **Profit attributable to shareholders** | **103.5** | 104.0 | - |
| | | | |
| **Adjusted basic earnings per share (continuing operations)** | **69.8p** | 72.0p | (3) |
| Basic earnings per share (continuing operations) | **68.1p** | 70.0p | (3) |
| Basic earnings per share (continuing and discontinued operations) | **68.9p** | 69.2p | - |
| Dividend per share | **22.0p** | 21.0p | 5 |
| Return on opening equity | **16.1%** | 17.5% | |

### Solid Performance in the First Half

The group delivered a solid performance in the first half. The Banking division continued to deliver good profitability, although the difficult trading environment for Asset Management and Winterflood led to a 4% decrease in group adjusted operating profit to £138.8 million (2018: £143.9 million), resulting in an operating margin of 34% (2018: 36%). Statutory operating profit before tax from continuing operations reduced 3% to £135.6 million (2018: £140.2 million). Return on opening equity (“RoE”) remained strong at 16.1% (2018: 17.5%) despite the lower profits in our market facing businesses and continued growth in the equity base.

The Banking division continued to deliver loan book growth at strong returns, with adjusted operating profit up 1% to £131.1 million (2018: £130.1 million), as a strong performance in Commercial offset lower profits in Retail. Asset Management delivered good net inflows, though adjusted operating profit reduced 5% to £10.8 million (2018: £11.4 million) year on year, as a result of negative market movements. Winterflood remained solidly profitable, although operating profit reduced 37% to £9.3 million (2018: £14.7 million) reflecting lower trading volumes. Group net expenses, which include the central functions such as finance, legal and compliance, risk and human resources, were broadly flat at £12.4 million (2018: £12.3 million).

Adjusted operating income increased 1% to £407.4 million (2018: £402.5 million), with higher income in the Banking division and Asset Management offset by reduced trading income in Winterflood. Income in Banking increased 4% reflecting loan book growth and a broadly stable net interest margin of 8.1% (2018: 8.2%), while income in Asset Management was also up 4% reflecting higher opening managed assets. In Securities income reduced 18% as a result of lower trading volumes.

Adjusted operating expenses increased 5% to £246.7 million (2018: £235.8 million), driven predominantly by continued growth and investment in the Banking division. Costs in Asset Management also increased, as a result of investment in front office hires and research capability, while expenses in Securities reduced, reflecting lower variable costs. Overall, the expense/income ratio increased to 61% (2018: 59%) while the compensation ratio reduced to 36% (2018: 37%).

Impairment losses of £21.9 million (2018: £22.8 million) remained low with a bad debt ratio of 0.6% (2018: 0.6%), reflecting continued strong credit performance and the current benign credit environment.

The tax charge in the period was £33.4 million (2018: £35.1 million), which corresponds to a broadly unchanged effective tax rate of 25% (2018: 25%).

Overall, adjusted basic earnings per share (“EPS”) decreased 3% to 69.8p (2018: 72.0p).

Adjusted operating profit and EPS exclude amortisation of intangible assets on acquisition of £3.2 million (2018: £3.7 million). Including this, basic EPS from continuing operations decreased 3% to 68.1p (2018: 70.0p).

On 1 January 2019 the group completed the sale of the unsecured retail point of sale finance business. This business has been classified as a discontinued operation in the group’s income statement, with a profit from discontinued operations of £1.2 million (2018: loss of £1.2 million) net of tax in the first half, including an estimated profit on disposal of £2.8 million net of tax (2018: £nil). Basic earnings per share from continuing and discontinued operations was broadly flat at 68.9 pence (2018: 69.2 pence).

## Dividend

The group has a progressive dividend policy, which aims to grow the dividend year on year while maintaining a prudent level of dividend cover. The interim dividend of 22.0p (2018: 21.0p) represents an increase of 5% from the prior year, and is due to be paid on 24 April 2019 to shareholders on the register at 22 March 2019.

## Group Balance Sheet

| | **31 January 2019 £ million** | 1 August 2018 £ million[3] |
|---|---|---|
| Loans and advances to customers | **7,385.1** | 7,239.3 |
| Treasury assets[1] | **1,224.8** | 1,435.1 |
| Market-making assets[2] | **604.1** | 635.7 |
| Other assets | **804.2** | 896.0 |
| **Total assets** | **10,018.2** | 10,206.1 |
| Deposits by customers | **5,349.5** | 5,497.2 |
| Borrowings | **2,531.2** | 2,501.1 |
| Market-making liabilities[2] | **522.0** | 565.5 |
| Other liabilities | **274.5** | 338.5 |
| **Total liabilities** | **8,677.2** | 8,902.3 |
| Equity | **1,341.0** | 1,303.8 |
| **Total liabilities and equity** | **10,018.2** | 10,206.1 |

[1] Treasury assets comprise cash and balances at central banks, and debt securities held to support lending in the Banking division.
[2] Market-making assets and liabilities comprise settlement balances, long and short trading positions and loans to or from money brokers.
[3] Opening balance sheet reported under IFRS 9 – see page 10 for transitional impact.

We maintain a prudent approach to managing our financial resources, which is reflected in our strong and transparent balance sheet. Assets are made up predominantly of loans and advances to customers as well as treasury assets held for liquidity purposes, and settlement balances in our Securities division. Other assets principally comprise intangibles, property, plant and equipment, and prepayments. Liabilities are predominantly made up of customer deposits, and both secured and unsecured borrowings to fund the loan book.

Total assets decreased to £10.0 billion (1 August 2018: £10.2 billion), driven by a reduction in excess liquidity and the sale of the unsecured retail point of sale finance business. Total liabilities decreased £225.1 million to £8.7 billion (1 August 2018: £8.9 billion). Shareholders' equity of £1.3 billion (1 August 2018: £1.3 billion) continued to build, with profit in the period partially offset by dividend payments of £62.8 million. The group's return on assets remained broadly stable at 2.1% (1 August 2018: 2.0%).

## Capital Position

| | **31 January 2019 £ million** | 1 August 2018 £ million |
|---|---|---|
| Common equity tier 1 capital | **1,131.2** | 1,082.2 |
| Total capital | **1,322.8** | 1,280.1 |
| Risk weighted assets | **8,698.0** | 8,542.6 |
| | | |
| **Common equity tier 1 capital ratio** | **13.0%** | 12.7% |
| **Total capital ratio** | **15.2%** | 15.0% |
| **Leverage ratio** | **11.2%** | 10.6% |

The group aims to maintain a strong capital position, which supports our ability to lend through the cycle, invest in our business and pay a progressive dividend to shareholders while continuing to meet all regulatory requirements.

In the first half the common equity tier 1 ("CET1") capital ratio increased to 13.0% (1 August 2018: 12.7%), reflecting our continued profitability and modest loan book growth at this stage in the cycle. CET1 capital increased to £1,131.2 million (1 August 2018: £1,082.2 million), reflecting £103.5 million of profit for the period, a regulatory deduction for foreseeable dividends of £47.1 million and other movements in reserves and intangibles. Risk weighted assets increased 2% to £8.7 billion (1 August 2018: £8.5 billion), broadly reflecting the increase in the loan book.

The group's total capital ratio also increased to 15.2% (1 August 2018: 15.0%), and the leverage ratio increased further to 11.2% (1 August 2018: 10.6%) reflecting the reduction in total assets in the period.

The group's capital ratios at 31 January 2019 are presented on a transitional basis, in accordance with the IFRS 9 transitional arrangements that allow the capital impact of expected credit losses to be phased in over a five year period. Before transitional arrangements, the group's fully loaded CET1 capital ratio at 31 January 2019 was 12.5% (1 August 2018: 12.2%).

There has been no change to the group's minimum capital requirements in the period, with a minimum CET1 capital ratio of 9.0% and total capital ratio of 13.4% on a fully loaded basis, effective July 2019, including all applicable buffers and a pillar 2 add-on of 1.1% CET1 and 1.9% total capital.

Accordingly, all the group's capital ratios remain comfortably ahead of minimum regulatory requirements, and we continue to maintain good levels of headroom allowing for future growth and any regulatory changes, including the impact of IFRS 9 and the proposed Basel 3 reforms.

We are continuing to progress our plans for transitioning to an Internal Ratings Based approach, and currently expect to submit our formal application to the PRA by the end of the 2019 calendar year.

## Funding[1]

| | **31 January 2019 £ million** | 1 August 2018 £ million |
|---|---|---|
| Customer deposits | **5,349.5** | 5,497.2 |
| Secured funding | **1,394.1** | 1,360.3 |
| Unsecured funding[2] | **1,403.9** | 1,421.2 |
| Equity | **1,341.0** | 1,303.8 |
| **Total available funding** | **9,488.5** | 9,582.5 |
| Of which term funding (over one year) | **5,553.3** | 4,913.6 |
| | | |
| Total funding as % of loan book | **128%** | 132% |
| Term funding as % of loan book | **75%** | 68% |
| Average maturity of funding allocated to loan book[3] | **22 months** | 23 months |

[1] Numbers relate to core funding and exclude working capital facilities at the business level.
[2] Unsecured funding includes £295.0 million (1 August 2018: £295.0 million) of undrawn facilities.
[3] Average maturity of total funding excluding equity and funding held for liquidity purposes.

The main purpose of our treasury function is to manage funding and liquidity to support the lending businesses, and manage interest rate risk. We maintain a conservative approach, with diverse funding sources and a prudent maturity profile.

We continue to have access to a wide range of funding sources, including retail and corporate deposits, both secured and unsecured debt, and wholesale facilities. This maximises our flexibility on pricing, and means we have low reliance on any single source of funding. Retail deposits comprise 20% of our total available funding and we have made limited use of the Term Funding Scheme, which represents only 5% of our total funding with a total of £490 million drawn at the balance sheet date.

In the first half, total funding was marginally reduced to £9.5 billion (1 August 2018: £9.6 billion), representing 128% of the loan book, as loan book growth in the period was funded by a reduction in excess liquidity. The decrease was driven by lower deposits, down 3% to £5.3 billion (1 August 2018: £5.5 billion), reflecting the maturity of short term deposits. During the period we renewed and increased our Premium Finance securitisation facility to £500 million.

We have maintained a prudent funding maturity profile. At 31 January 2019, term funding with a residual maturity over one year covered 75% (1 August 2018: 68%) of the loan book, reflecting the renewal of long term facilities. The average maturity of funding allocated to the loan book at 22 months (1 August 2018: 23 months) remains significantly ahead of the loan book maturity of 14 months (1 August 2018: 14 months).

Our average cost of funding increased slightly to 1.7% (2018: 1.6%), as disciplined deposit pricing and renewal of facilities at lower cost partly offset the 25bps increase in the base rate in August 2018.

Our wide range of funding sources, strong credit ratings and access to wholesale markets increase our resilience to any change in availability or pricing, and we continue to actively diversify our funding sources. In the first half, we successfully completed the transition to a new customer deposit platform, which will allow us to build an online distribution channel and offer a wider range of savings products, which will further increase flexibility over time.

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

## Liquidity

| | **31 January 2019 £ million** | 1 August 2018 £ million |
|---|---|---|
| Bank of England deposits | **779.1** | 1,140.3 |
| Sovereign and central bank debt | **44.3** | 44.5 |
| **High quality liquid assets** | **823.4** | 1,184.8 |
| Certificates of deposit | **401.4** | 250.3 |
| **Treasury assets** | **1,224.8** | 1,435.1 |

We maintain a prudent liquidity position, and regularly assess and stress test our liquidity to ensure it is comfortably ahead of both internal risk appetite and regulatory requirements.

At the same time, we continuously optimise our liquidity position and mix to ensure it remains efficient. In the period, Treasury assets were reduced to £1.2 billion (1 August 2018: £1.4 billion), as excess liquidity was deployed into loan book growth. We also increased our holding of high quality Certificates of Deposit to £401.4 million (1 August 2018: £250.3 million), although the majority of our treasury assets continue to be in high quality liquid assets, predominantly deposits with the Bank of England.

We continue to comfortably meet the liquidity coverage ratio requirements under CRD IV, with an average ratio of 740% in the first half of the year.

## IFRS 9 Transitional Impact

The group has adopted IFRS 9 Financial Instruments with effect from 1 August 2018, and in accordance with the requirements of IFRS 9, transitional adjustments have been accounted for through retained earnings at 1 August 2018. The implementation of IFRS 9 resulted in an increase in impairment provisions of £59.0 million, a £44.9 million reduction in shareholders' equity and a £14.1 million increase in deferred tax assets at 1 August 2018.

Before transitional relief the impact upon the group's CET1 capital ratio at 1 August 2018 was a reduction of 49 bps to 12.2% on a fully-loaded basis. The group has elected to apply IFRS 9 transitional arrangements, which allow the capital impact of expected credit losses to be phased in over a five year period, and the impact of the transition to IFRS 9 on the group's capital position in the 2019 financial year is therefore minimal at 2 bps.

Further details of the impact of implementing IFRS 9 can be found in the group's IFRS 9 Transition Report publication located on the group's website at https://www.closebrothers.com/investor-relations/results-reports-and-presentations/.

## BANKING

### Key Financials

| **Continuing operations**[1] | **First half<br>2019<br>£ million** | First half<br>2018<br>£ million | Change<br>% |
|---|---|---|---|
| Adjusted operating income | **303.1** | 290.9 | 4 |
| Adjusted operating expenses | **(150.1)** | (138.0) | 9 |
| Impairment losses on financial assets | **(21.9)** | (22.8) | (4) |
| **Adjusted operating profit** | **131.1** | 130.1 | 1 |
| | | | |
| Net interest margin[2] | **8.1%** | 8.2% | |
| Expense/income ratio | **50%** | 47% | |
| Bad debt ratio[2] | **0.6%** | 0.6% | |
| Return on net loan book[2] | **3.5%** | 3.7% | |
| Return on opening equity | **18%** | 20% | |
| Average loan book and operating lease assets[3] | **7,518.5** | 7,088.1 | |

[1] Results from continuing operations exclude the unsecured retail point of sale finance business, which was classified as a discontinued operation in the group's income statement for the 2018 financial year and sold on 1 January 2019.

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

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

### Good Financial Performance Continued in the First Half

Adjusted operating profit for the Banking division was up 1% to £131.1 million (2018: £130.1 million), driven by 4% income growth to £303.1 million (2018: £290.9 million) and continued low impairments. Statutory operating profit increased 1% to £130.2 million (2018: £129.1 million).

The loan book grew 2.0% in the period, and 6.3% year on year, with a continued strong return on net loan book of 3.5% (2018: 3.7%). Return on opening equity remained strong at 18% (2018: 20%), albeit lower year on year reflecting continued growth in the equity base.

The net interest margin remained broadly stable at 8.1% (2018: 8.2%), reflecting our continued pricing discipline. Although competition remains active in many parts of our business, we continue to focus on holding our pricing across the overall portfolio.

Adjusted operating expenses at £150.1 million (2018: £138.0 million) increased 9% year on year. Over half of this increase relates to investment in our technology and business propositions, including both ongoing investment to support our operational resilience and regulatory compliance, as well as a number of current strategic initiatives. These include the development of our new deposit platform in Treasury, a significant programme to enhance our technology and service proposition in Motor Finance, and preparations for a transition to the internal ratings based approach for capital.

We remain fully committed to maintaining the necessary investment to protect, improve and extend our business for the long term, while at the same time continuously looking for ways to further optimise our cost efficiency. We have maintained tight control of our underlying business and volume driven costs, which increased broadly in line with income in the first half. Overall, the compensation ratio remained stable at 28% (2018: 28%), while the expense/income ratio increased to 50% (2018: 47%).

The bad debt ratio remained low at 0.6% (2018: 0.6%), reflecting continued strong underlying credit performance. We have not seen any significant change to the current benign credit environment in the period, which alongside our disciplined lending criteria continues to support low impairments and a broadly stable bad debt ratio.

## Loan Book Analysis

| | **31 January 2019 £ million** | 1 August 2018[1] £ million | Change % |
|---|---|---|---|
| **Commercial[2]** | **2,883.3** | 2,747.5 | 4.9 |
| Asset Finance | **1,910.5** | 1,828.2 | 4.5 |
| Invoice and Speciality Finance | **972.8** | 919.3 | 5.8 |
| **Retail** | **2,701.7** | 2,670.5 | 1.2 |
| Motor Finance | **1,692.8** | 1,722.7 | (1.7) |
| Premium Finance | **1,008.9** | 947.8 | 6.4 |
| **Property** | **1,800.1** | 1,821.3 | (1.2) |
| **Closing loan book** | **7,385.1** | 7,239.3 | 2.0 |

[1] Re-presented to exclude the unsecured retail point of sale finance business, which was classified as a discontinued operation in the group's income statement for the 2018 financial year and sold on 1 January 2019.

[2] The Asset Ireland loan book has been reclassified in the period from Asset Finance to Invoice and Speciality Finance, to align with where this business is managed. Both 31 January 2019 and comparative 1 August 2018 opening loan book figures have been re-presented accordingly.

The loan book grew 2.0% in the first half, to £7.4 billion (1 August 2018: £7.2 billion) driven by our Commercial business lines and Premium Finance, with Property remaining broadly flat. In Motor Finance, the loan book contracted modestly, reflecting our pricing and underwriting discipline in the competitive UK market.

## Banking: Commercial

| | **First half 2019 £ million** | First half 2018 £ million | Change % |
|---|---|---|---|
| Operating income | **125.3** | 110.4 | 13 |
| Adjusted operating expenses | **(70.3)** | (65.1) | 8 |
| Impairment losses on financial assets | **(7.7)** | (5.6) | 38 |
| **Adjusted operating profit** | **47.3** | 39.7 | 19 |
| | | | |
| Net interest margin | **8.3%** | 8.0% | |
| Expense/income ratio | **56%** | 59% | |
| Bad debt ratio | **0.5%** | 0.4% | |
| **Average loan book and operating leases** | **3,021.6** | 2,767.7 | 9.2 |

The Commercial businesses focus on specialist lending principally to the SME market. The Asset Finance business provides secured financing across a wide range of asset classes. Invoice and Speciality Finance includes our core invoice finance business as well as our brewery and vehicle rentals businesses; Novitas, which provides finance for legal fees; and our commercial lending activities in Ireland.

The Commercial loan book increased 4.9% to £2.9 billion (1 August 2018: £2.7 billion), with growth across both Asset Finance and Invoice and Speciality Finance. Although competition in many areas remains active, the Asset Finance book grew 4.5%, benefiting from the diversity and specialism of the business, with particularly good growth in transport and contract hire. In Invoice and Speciality Finance, we saw good loan book growth of 5.8%, with continued growth in the core invoice finance client base as well as strong growth in Novitas, driven by expansion of its new litigation finance offering.

Adjusted operating profit of £47.3 million (2018: £39.7 million) was up 19%, driven by higher income and continued low impairments. Statutory operating profit increased 20% to £46.5 million (2018: £38.8 million).

Operating income of £125.3 million (2018: £110.4 million) was 13% higher year on year, reflecting good loan book growth in the period. Our net interest margin strengthened further to 8.3% (2018: 8.0%), principally due to mix with good growth in higher margin products.

Costs were up 8% to £70.3 million (2018: £65.1 million) following growth across our Commercial business lines, but increased less than income in the period, resulting in a reduction in the expense/income ratio to 56% (2018: 59%).

The bad debt ratio remained broadly unchanged at 0.5% (2018: 0.4%), reflecting the current benign credit environment, continued low arrears and a strong collections performance.

## Banking: Retail

| **Continuing operations**[1] | **First half 2019 £ million** | First half 2018 £ million | Change % |
|---|---|---|---|
| Adjusted operating income | **113.2** | 115.6 | (2) |
| Adjusted operating expenses | **(63.0)** | (57.8) | 9 |
| Impairment losses on financial assets | **(13.4)** | (13.4) | - |
| **Adjusted operating profit** | **36.8** | 44.4 | (17) |
| | | | |
| Net interest margin | **8.4%** | 8.7% | |
| Expense/income ratio | **56%** | 50% | |
| Bad debt ratio | **1.0%** | 1.0% | |
| **Average loan book** | **2,686.1** | 2,658.7 | 1.0 |

[1] Results from continuing operations exclude the unsecured retail point of sale finance business, which was classified as a discontinued operation in the group's income statement for the 2018 financial year and sold on 1 January 2019.

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

The Retail loan book remained broadly flat at £2.7 billion (1 August 2018: £2.7 billion). In Premium Finance, we saw good growth of 6.4% to £1.0 billion (1 August 2018: £0.9 billion), as recent investment has enabled new broker wins and increased penetration of existing brokers, by simplifying the customer journey and onboarding process.

In Motor Finance, a highly competitive sector, we continue to consistently apply our model, holding margin and prioritising credit quality. The loan book continued to contract slightly, down 1.7% to £1.7 billion (1 August 2018: £1.7 billion), though we continue to see growth potential in the UK second hand car finance market. The business in the Republic of Ireland, where we operate through a local partner, remained broadly flat.

Adjusted operating income was down 2% year on year at £113.2 million (2018: £115.6 million) reflecting the slight decline in the Motor Finance loan book, with the net interest margin reducing to 8.4% (2018: 8.7%), principally due to growth in the lower margin Irish motor book, and an increased proportion of lower margin commercial loans in Premium Finance.

Adjusted operating expenses increased 9% to £63.0 million (2018: £57.8 million), reflecting the cost of onboarding new brokers in Premium Finance, and our ongoing investment in this business. In the current financial year we have also initiated a significant transformation programme in Motor Finance, which will over time enable better efficiency in operational processes, and higher service levels for our dealer partners and customers. Alongside the reduction in revenue, this resulted in an increase in the expense/income ratio to 56% (2018: 50%).

The bad debt ratio of 1.0% (2018: 1.0%) remains consistent with the last financial year. We remain comfortable with the credit quality of our loan book, which continues to perform as expected at this stage of the cycle.

Overall, adjusted operating profit for Retail was down 17% year on year to £36.8 million (2018: £44.4 million), with statutory operating profit also down 17% at £36.7 million (2018: £44.3 million).

## Banking: Property

| | **First half 2019 £ million** | First half 2018 £ million | Change % |
|---|---|---|---|
| Operating income | **64.6** | 64.9 | (0) |
| Operating expenses | **(16.8)** | (15.1) | 11 |
| Impairment losses on financial assets | **(0.8)** | (3.8) | (79) |
| **Operating profit** | **47.0** | 46.0 | 2 |
| | | | |
| Net interest margin | **7.1%** | 7.8% | |
| Expense/income ratio | **26%** | 23% | |
| Bad debt ratio | **0.1%** | 0.5% | |
| **Average loan book** | **1,810.7** | 1,661.7 | 9.0 |

The Property business is focused on specialist residential development finance to established professional developers in the UK. We concentrate on smaller developments of family housing in high-quality locations and maintain conservative underwriting criteria. We do not lend to the buy-to-let sector, or provide residential or commercial mortgages.

The Property business delivered a solid performance in the period, with an operating profit of £47.0 million (2018: £46.0 million), a marginal increase year on year. The bad debt ratio in the current period reduced to 0.1% (2018: 0.5%) reflecting continued strong credit quality, with no material new provisions in the period. The net interest margin reduced to 7.1% (2018: 7.8%) principally due to lower fee income and the impact of the higher base rate.

The loan book remained broadly flat at £1.8 billion (1 August 2018: £1.8 billion), reflecting a number of large repayments offsetting new lending in the period. We continue to see good demand for residential property development finance and the pipeline remains solid. Our focus remains on new build family homes where we see strong structural demand, and we continue to extend our offering to high-quality regional locations where we see good growth potential.

Operating expenses of £16.8 million (2018: £15.1 million) were up on the prior year period, but the expense/income ratio remained comparatively low at 26% (2018: 23%), reflecting the lower operational requirements of the business.

## ASSET MANAGEMENT

### Key Financials

| | **First half 2019 £ million** | First half 2018 £ million | Change % |
|---|---|---|---|
| Investment management | **39.6** | 35.8 | 11 |
| Advice and other services[1] | **18.7** | 20.0 | (7) |
| Other income[2] | **0.2** | 0.2 | - |
| **Operating income** | **58.5** | 56.0 | 4 |
| Adjusted operating expenses | **(47.7)** | (44.6) | 7 |
| **Adjusted operating profit** | **10.8** | 11.4 | (5) |
| | | | |
| Revenue margin (bps) | **96** | 97 | |
| Operating margin | **18%** | 20% | |
| Return on opening equity | **32%** | 33% | |

[1] Income from advice and self-directed services, excluding investment management income.
[2] Net interest income and expense, income on principal investments and other income.

### Solid Performance Supported by Good Net Inflows

Asset Management delivered good net inflows of £376 million in the first half, representing an annualised rate of 7% of opening managed assets. Adjusted operating profit of £10.8 million (2018: £11.4 million) was down 5% year on year reflecting the impact of negative market movements. Statutory operating profit decreased 2% to £8.5 million (2018: £8.7 million).

Operating income increased 4% to £58.5 million (2018: £56.0 million). This was driven by good growth in investment management fees, following the strong growth in our managed assets in the last financial year. Reduced income on advice and other services reflects lower initial fees associated with lower net inflow levels compared to the prior year. The revenue margin remained broadly flat at 96bps (2018: 97bps).

Adjusted operating expenses increased 7% to £47.7 million (2018: £44.6 million), and the expense/income ratio increased to 82% (2018: 80%), reflecting ongoing investment in front office staff and research capability, while the compensation ratio decreased slightly to 55% (2018: 57%) reflecting lower variable compensation.

We remain focused on improving operational efficiency through investment in technology, and continue to make good progress upgrading our client relationship management systems and digital functionality.

### Movement in Client Assets

| | **31 January 2019 £ million** |
|---|---|
| **Opening managed assets** | **10,378** |
| Inflows | 944 |
| Outflows | (568) |
| **Net inflows** | **376** |
| Market movements | (453) |
| **Total managed assets** | **10,301** |
| Advised only assets | 1,667 |
| **Total client assets[1]** | **11,968** |
| **Net flows as % of opening managed assets (annualised)** | **7%** |

[1] Total client assets include £4.4 billion of assets that are both advised and managed.

We achieved good net inflows of £376 million, an annualised net inflow rate of 7%, reflecting continued demand for both our integrated wealth and investment management services, and the benefit of recent hires in line with our growth strategy. However, this was more than offset by negative market movements of £453 million, and as a result managed assets decreased 1% overall to £10.3 billion (31 July 2018: £10.4 billion).

Total client assets, which also include advised assets under third-party management, reduced 2% to £12.0 billion (31 July 2018: £12.2 billion).

Our funds and segregated bespoke portfolios are designed to provide attractive risk adjusted returns for our clients, in line with their long-term goals. Over the 12 month period to 31 January 2019, 11 out of our 12 multi-asset funds outperformed their relevant peer group average. For the five year period to 31 January 2019, 11 out of our 12 multi-asset funds also outperformed their relevant sector average, with 8 out of 12 in either the first or second quartile versus their relevant peer group. All of our bespoke strategy composites outperformed their relevant peer group average over the year to 31 January 2019, and over a 5 year period, in line with our strong long-term outperformance track record for our bespoke strategies.

The continued momentum in the first half underpins the long-term growth potential of this business, and we remain committed to driving further growth through net inflows, hiring of new advisers and investment managers, and selective acquisitions.

## SECURITIES

### Key Financials

| | **First half 2019 £ million** | First half 2018 £ million | Change % |
|---|---|---|---|
| Operating income | **45.8** | 55.6 | (18) |
| Operating expenses | **(36.5)** | (40.9) | (11) |
| **Operating profit** | **9.3** | 14.7 | (37) |
| | | | |
| Bargains per day | **54k** | 70k | (24) |
| Operating margin | **20%** | 26% | |
| Return on opening equity | **19%** | 30% | |

### Solid Profitability in Difficult Trading Conditions

Winterflood remains focused on delivering high-quality execution services to stockbrokers, wealth managers and institutional investors.

The business was impacted by difficult and volatile equity market conditions and low levels of investor risk appetite throughout the first half. As a result, operating profit decreased 37% to £9.3 million (2018: £14.7 million).

Operating income reduced 18% to £45.8 million (2018: £55.6 million) reflecting lower volumes and trading income in the period. Average daily bargains decreased 24% year on year to 53,515 (2018: 70,284), reflecting low retail investor activity, particularly in AIM stocks.

We remain focused on closely managing our risk exposures, while continuing to provide liquidity and high quality execution to our clients. Despite the recent challenging market environment, trading remained profitable throughout, with only one loss day (2018: no loss days) in the period.

Operating expenses decreased 11% as a result of Winterflood's largely variable cost base. The expense/income ratio increased to 80% (2018: 74%) reflecting lower income, while the compensation ratio remained stable at 48% (2018: 48%).

As the first half results demonstrate, Winterflood remains well positioned to continue trading profitably and provide continuous liquidity to its customers in a wide range of market conditions. We are continuing to extend our offering to institutional clients, and through Winterflood Business Services develop our outsourced dealing and custody services for asset managers in the UK.

## DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Operating margin**: Adjusted operating profit divided by adjusted operating income

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

**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 after tax and non-controlling interests divided by opening equity, excluding non-controlling interests

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

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

## PRINCIPAL RISKS AND UNCERTAINTIES

The group faces a number of risks in the normal course of business. The key elements to the way we manage risk are as follows:

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

A detailed description of the principal risks and our approach to managing and mitigating these risks is disclosed on pages 20 to 23 of the Annual Report 2018 which can be accessed via the Investor Relations home page on the group's website at www.closebrothers.com.

While there have been no significant changes to our risk management approach in the period we continue to closely monitor the economic environment in the context of the UK's planned departure from the EU. The principal risks faced by the group are summarised below.

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

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

**Legal and regulatory** – changes to existing legal, regulatory and tax environments, or failure to comply with existing requirements could adversely impact the group's performance, as well as capital, liquidity and the markets in which we operate. For example, we are currently monitoring the potential for regulatory change in the Motor Finance market following publication of the FCA's final report on 4 March 2019. Failing to treat customers fairly also has the potential to damage the group's reputation and may lead to legal or regulatory sanctions including litigation and customer redress.

**Technology and operational resilience** – providing robust, contemporary and secure technology is fundamental to enabling the group to provide a high quality customer experience, respond and adapt to emerging opportunities and risks, protect client and company data and counter the evolving cyber threat. Failure to keep up with changing customer expectations or provide reliable, secure IT services has the potential to impact group performance.

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

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

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

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

## DIRECTORS’ RESPONSIBILITY STATEMENT

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

- the condensed set of consolidated financial statements has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”;
- the half yearly report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7R (indication of important events during the first six months of the financial year and description of principal risks and uncertainties for the remaining six months of the financial year); and
- the half yearly report 2019 includes a fair review of the information required by Disclosure and Transparency Rule 4.2.8R (disclosure of related parties transactions that have taken place during the first six months of the current financial year and that have materially affected the financial position or performance of the company, and any changes in the related parties transactions described in the last Annual Report that could do so).

The Directors of Close Brothers Group plc as at the date of this report are as listed on pages 58 and 59 of the company’s Annual Report 2018, subject to the following changes: Jonathan Howell ceased to be a director on 15 November 2018; Mike Morgan was appointed as a director and Group Finance Director with effect from 15 November 2018; and Peter Duffy was appointed as an independent non-executive director with effect from 1 January 2019. A list of current Directors is maintained on the company’s website www.closebrothers.com.

On behalf of the board

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

12 March 2019

# INDEPENDENT REVIEW REPORT

## Report on the condensed half yearly financial statements

### Our conclusion

We have reviewed Close Brothers Group plc's condensed half yearly financial statements in the half yearly report of Close Brothers Group plc for the 6 month period ended 31 January 2019. Based on our review, nothing has come to our attention that causes us to believe that the condensed half yearly financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, ‘Interim Financial Reporting’, as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom’s Financial Conduct Authority.

### What we have reviewed

The condensed half yearly financial statements comprise:

- the consolidated balance sheet at 31 January 2019;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated cash flow statement for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the condensed half yearly financial statements.

The condensed half yearly financial statements included in the half yearly report have been prepared in accordance with International Accounting Standard 34, ‘Interim Financial Reporting’, as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom’s Financial Conduct Authority.

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

## Responsibilities for the condensed half yearly financial statements and the review

### Our responsibilities and those of the directors

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

Our responsibility is to express a conclusion on the condensed half yearly financial statements in the half yearly report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom’s Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What a review of condensed half yearly financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, ‘Review of Interim Financial Information Performed by the Independent Auditor of the Entity’ issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the half yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed half yearly financial statements.

**PricewaterhouseCoopers LLP**
Chartered Accountants
London
12 March 2019

## CONSOLIDATED INCOME STATEMENT
for the six months ended 31 January 2019

| | | Six months ended 31 January | | Year ended 31 July |
|---|---|---|---|---|
| | | **2019** | 2018[1] | 2018 |
| | | **Unaudited** | Unaudited | Audited |
| | Note | **£ million** | £ million | £ million |
| Interest income | | **314.5** | 298.7 | 601.0 |
| Interest expense | | **(64.7)** | (55.7) | (114.9) |
| Net interest income | | **249.8** | 243.0 | 486.1 |
| Fee and commission income | | **113.5** | 106.1 | 213.3 |
| Fee and commission expense | | **(6.1)** | (7.6) | (13.7) |
| Gains less losses arising from dealing in securities | | **39.7** | 51.8 | 100.1 |
| Other income | | **36.9** | 31.4 | 65.1 |
| Depreciation of operating lease assets and other direct costs | | **(26.4)** | (22.2) | (45.1) |
| Non-interest income | | **157.6** | 159.5 | 319.7 |
| Operating income | 2 | **407.4** | 402.5 | 805.8 |
| Administrative expenses | | **(246.7)** | (235.8) | (480.5) |
| Impairment losses on financial assets | | **(21.9)** | (22.8) | (46.7) |
| Total operating expenses before amortisation of intangible assets on acquisition | | **(268.6)** | (258.6) | (527.2) |
| **Operating profit before amortisation of intangible assets on acquisition** | | **138.8** | 143.9 | 278.6 |
| Amortisation of intangible assets on acquisition | | **(3.2)** | (3.7) | (7.4) |
| **Operating profit before tax** | | **135.6** | 140.2 | 271.2 |
| Tax | 3 | **(33.4)** | (35.1) | (67.0) |
| Profit after tax from continuing operations | | **102.2** | 105.1 | 204.2 |
| Profit/(loss) from discontinued operations, net of tax | 4 | **1.2** | (1.2) | (2.2) |
| Profit after tax | | **103.4** | 103.9 | 202.0 |
| Loss attributable to non-controlling interests from continuing operations | | **(0.1)** | (0.1) | (0.3) |
| Profit attributable to shareholders | | **103.5** | 104.0 | 202.3 |
| From continuing operations | | | | |
| **Basic earnings per share** | 5 | **68.1p** | 70.0p | 136.2p |
| Diluted earnings per share | 5 | **67.5p** | 69.5p | 135.3p |
| From continuing and discontinued operations | | | | |
| **Basic earnings per share** | 5 | **68.9p** | 69.2p | 134.7p |
| Diluted earnings per share | 5 | **68.3p** | 68.7p | 133.8p |
| **Ordinary dividend per share** | 6 | **22.0p** | 21.0p | 63.0p |

[1] Restated – see notes 1 and 4.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 31 January 2019

| | Six months ended 31 January | | Year ended 31 July |
|---|---|---|---|
| | **2019** | 2018 | 2018 |
| | **Unaudited** | Unaudited | Audited |
| | **£ million** | £ million | £ million |
| Profit after tax | **103.4** | 103.9 | 202.0 |
| **Other comprehensive (expense)/income that may be reclassified to income statement from continuing operations** | | | |
| Currency translation (losses)/gains | **(0.4)** | 0.1 | 0.3 |
| (Losses)/gains on cash flow hedging | **(1.8)** | 3.7 | 4.4 |
| Gains/(losses) on financial instruments classified as available for sale: | | | |
| Sovereign and central bank debt | **-** | - | 0.6 |
| Contingent consideration | **-** | (0.3) | (0.3) |
| Losses on financial instruments classified at fair value through other comprehensive income: | | | |
| Sovereign and central bank debt | **(0.6)** | - | - |
| Tax relating to items that may be reclassified | **0.6** | (0.9) | (1.3) |
| | **(2.2)** | 2.6 | 3.7 |
| **Other comprehensive income/(expense) that will not be reclassified to income statement from continuing operations** | | | |
| Defined benefit pension scheme gains | **0.2** | 1.1 | 1.7 |
| Tax relating to items that will not be reclassified | **-** | (0.2) | (0.4) |
| | **0.2** | 0.9 | 1.3 |
| **Other comprehensive (expense)/income for the period, net of tax from continuing operations** | **(2.0)** | 3.5 | 5.0 |
| **Total comprehensive income** | **101.4** | 107.4 | 207.0 |
| **Attributable to:** | | | |
| Non-controlling interests | **(0.1)** | (0.1) | (0.3) |
| Shareholders | **101.5** | 107.5 | 207.3 |
| | **101.4** | 107.4 | 207.0 |

## CONSOLIDATED BALANCE SHEET
at 31 January 2019

| | | **31 January** | 1 August | 31 July |
|---|---|---|---|---|
| | | **2019** | 2018[1] | 2018 |
| | | **Unaudited** | Unaudited | Audited |
| | Note | **£ million** | £ million | £ million |
| **Assets** | | | | |
| Cash and balances at central banks | | **779.1** | 1,140.3 | 1,140.4 |
| Settlement balances | | **501.5** | 512.1 | 512.2 |
| Loans and advances to banks | | **101.3** | 140.1 | 140.2 |
| Loans and advances to customers | 7 | **7,385.1** | 7,239.3 | 7,297.5 |
| Debt securities | 8 | **470.7** | 320.4 | 320.6 |
| Equity shares | 9 | **28.0** | 32.1 | 32.1 |
| Loans to money brokers against stock advanced | | **50.1** | 66.4 | 66.4 |
| Derivative financial instruments | | **17.9** | 16.6 | 16.6 |
| Intangible assets | | **208.7** | 201.3 | 201.3 |
| Property, plant and equipment | | **237.9** | 226.1 | 226.1 |
| Deferred tax assets | | **55.1** | 57.1 | 43.0 |
| Prepayments, accrued income and other assets | | **182.8** | 186.8 | 187.1 |
| Assets classified as held for sale | 4 | **-** | 67.5 | 67.5 |
| **Total assets** | | **10,018.2** | 10,206.1 | 10,251.0 |
| **Liabilities** | | | | |
| Settlement balances and short positions | 10 | **506.4** | 543.1 | 543.1 |
| Deposits by banks | 11 | **54.2** | 55.2 | 55.2 |
| Deposits by customers | 11 | **5,349.5** | 5,497.2 | 5,497.2 |
| Loans and overdrafts from banks | 11 | **518.3** | 509.8 | 509.8 |
| Debt securities in issue | 11 | **1,793.8** | 1,773.4 | 1,773.4 |
| Loans from money brokers against stock advanced | | **15.6** | 22.4 | 22.4 |
| Derivative financial instruments | | **12.1** | 15.7 | 15.7 |
| Current tax liabilities | | **20.2** | 17.4 | 17.4 |
| Accruals, deferred income and other liabilities | | **188.0** | 249.6 | 249.6 |
| Subordinated loan capital | 11 | **219.1** | 217.9 | 217.9 |
| Liabilities classified as held for sale | 4 | **-** | 0.6 | 0.6 |
| **Total liabilities** | | **8,677.2** | 8,902.3 | 8,902.3 |
| **Equity** | | | | |
| Called up share capital | | **38.0** | 38.0 | 38.0 |
| Retained earnings | | **1,324.2** | 1,282.8 | 1,327.7 |
| Other reserves | | **(20.3)** | (16.2) | (16.2) |
| **Total shareholders' equity** | | **1,341.9** | 1,304.6 | 1,349.5 |
| **Non-controlling interests** | | **(0.9)** | (0.8) | (0.8) |
| **Total equity** | | **1,341.0** | 1,303.8 | 1,348.7 |
| **Total liabilities and equity** | | **10,018.2** | 10,206.1 | 10,251.0 |

[1] See notes 1 and 17.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 31 January 2019

| | | | | Other reserves | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Called up share capital £ million | Share premium account £ million | Retained earnings £ million | Available for sale reserve £ million | FVOCI reserve £ million | Share-based payments reserve £ million | Exchange movements reserve £ million | Cash flow hedging reserve £ million | Total attributable to equity holders £ million | Non-controlling interests £ million | Total equity £ million |
| At 1 August 2017 (audited) | 38.0 | 307.8 | 906.6 | 0.7 | - | (11.9) | (1.5) | (3.2) | 1,236.5 | (0.5) | 1,236.0 |
| Profit/(loss) for the period | - | - | 104.0 | - | - | - | - | - | 104.0 | (0.1) | 103.9 |
| Other comprehensive income/(expense) for the period | - | - | 0.9 | (0.2) | - | - | 0.1 | 2.7 | 3.5 | - | 3.5 |
| Total comprehensive income/(expense) for the period | - | - | 104.9 | (0.2) | - | - | 0.1 | 2.7 | 107.5 | (0.1) | 107.4 |
| Dividends paid | - | - | (59.7) | - | - | - | - | - | (59.7) | - | (59.7) |
| Shares purchased | - | - | - | - | - | (15.9) | - | - | (15.9) | - | (15.9) |
| Shares released | - | - | - | - | - | 11.2 | - | - | 11.2 | - | 11.2 |
| Other movements | - | - | 0.3 | - | - | (2.3) | - | - | (2.0) | - | (2.0) |
| Share premium cancellation | - | (307.8) | 307.8 | - | - | - | - | - | - | - | - |
| Income tax | - | - | 0.2 | - | - | - | - | - | 0.2 | - | 0.2 |
| At 31 January 2018 (unaudited) | 38.0 | - | 1,260.1 | 0.5 | - | (18.9) | (1.4) | (0.5) | 1,277.8 | (0.6) | 1,277.2 |
| Profit/(loss) for the period | - | - | 98.3 | - | - | - | - | - | 98.3 | (0.2) | 98.1 |
| Other comprehensive income for the period | - | - | 0.4 | 0.3 | - | - | 0.2 | 0.6 | 1.5 | - | 1.5 |
| Total comprehensive income/(expense) for the period | - | - | 98.7 | 0.3 | - | - | 0.2 | 0.6 | 99.8 | (0.2) | 99.6 |
| Dividends paid | - | - | (31.3) | - | - | - | - | - | (31.3) | - | (31.3) |
| Shares purchased | - | - | - | - | - | (0.1) | - | - | (0.1) | - | (0.1) |
| Shares released | - | - | - | - | - | 1.3 | - | - | 1.3 | - | 1.3 |
| Other movements | - | - | (0.3) | - | - | 1.8 | - | - | 1.5 | - | 1.5 |
| Share premium cancellation | - | - | - | - | - | - | - | - | - | - | - |
| Income tax | - | - | 0.5 | - | - | - | - | - | 0.5 | - | 0.5 |
| At 31 July 2018 (audited) | 38.0 | - | 1,327.7 | 0.8 | - | (15.9) | (1.2) | 0.1 | 1,349.5 | (0.8) | 1,348.7 |

## **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY** continued
for the six months ended 31 January 2019

| | | | | Other reserves | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Called up share capital £ million | Share premium account £ million | Retained earnings £ million | Available for sale reserve £ million | FVOCI reserve £ million | Share-based payments reserve £ million | Exchange movements reserve £ million | Cash flow hedging reserve £ million | Total attributable to equity holders £ million | Non-controlling interests £ million | Total equity £ million |
| At 31 July 2018 (audited) | 38.0 | - | 1,327.7 | 0.8 | - | (15.9) | (1.2) | 0.1 | 1,349.5 | (0.8) | 1,348.7 |
| IFRS 9 transition (note 17) | - | - | (44.9) | (0.8) | 0.8 | - | - | - | (44.9) | - | (44.9) |
| At 1 August 2018 (unaudited) | 38.0 | - | 1,282.8 | - | 0.8 | (15.9) | (1.2) | 0.1 | 1,304.6 | (0.8) | 1,303.8 |
| Profit/(loss) for the period | - | - | 103.5 | - | - | - | - | - | 103.5 | (0.1) | 103.4 |
| Other comprehensive income/(expense) for the period | - | - | 0.2 | - | (0.4) | - | (0.4) | (1.4) | (2.0) | - | (2.0) |
| Total comprehensive income/(expense) for the period | - | - | 103.7 | - | (0.4) | - | (0.4) | (1.4) | 101.5 | (0.1) | 101.4 |
| Dividends paid | - | - | (62.8) | - | - | - | - | - | (62.8) | - | (62.8) |
| Shares purchased | - | - | - | - | - | (11.0) | - | - | (11.0) | - | (11.0) |
| Shares released | - | - | - | - | - | 9.3 | - | - | 9.3 | - | 9.3 |
| Other movements | - | - | 0.9 | - | - | (0.2) | - | - | 0.7 | - | 0.7 |
| Share premium cancellation | - | - | - | - | - | - | - | - | - | - | - |
| Income tax | - | - | (0.4) | - | - | - | - | - | (0.4) | - | (0.4) |
| **At 31 January 2019 (unaudited)** | **38.0** | **-** | **1,324.2** | **-** | **0.4** | **(17.8)** | **(1.6)** | **(1.3)** | **1,341.9** | **(0.9)** | **1,341.0** |

## CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 31 January 2019

| | Note | Six months ended 31 January | | Year ended 31 July |
|---|---|---|---|---|
| | | **2019** | 2018 | 2018 |
| | | **Unaudited** | Unaudited | Audited |
| | | **£ million** | £ million | £ million |
| **Net cash (outflow)/inflow from operating activities** | 15(a) | **(387.9)** | 149.8 | 306.0 |
| **Net cash (outflow)/inflow from investing activities** | | | | |
| Purchase of: | | | | |
| Property, plant and equipment | | **(1.6)** | (8.5) | (11.4) |
| Intangible assets | | **(18.0)** | (19.0) | (33.0) |
| Subsidiaries and non-controlling interest | 15(b) | **-** | (0.9) | (1.2) |
| Sale of: | | | | |
| Discontinued operations and subsidiary | 15(c) | **86.1** | 0.7 | 0.9 |
| | | **66.5** | (27.7) | (44.7) |
| **Net cash (outflow)/inflow before financing activities** | | **(321.4)** | 122.1 | 261.3 |
| **Financing activities** | | | | |
| Purchase of own shares for employee share award schemes | | **(11.0)** | (15.9) | (16.0) |
| Equity dividends paid | | **(62.8)** | (59.7) | (91.0) |
| Interest paid on subordinated loan capital and debt financing | | **(7.1)** | (5.4) | (10.8) |
| Issuance of group bond, net of transaction costs | | **-** | - | 248.6 |
| Net (decrease)/increase in cash | | **(402.3)** | 41.1 | 392.1 |
| Cash and cash equivalents at beginning of period | | **1,251.7** | 859.6 | 859.6 |
| **Cash and cash equivalents at end of period** | 15(d) | **849.4** | 900.7 | 1,251.7 |

# THE NOTES

## 1. Basis of preparation and accounting policies

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

The half yearly report is unaudited and does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. However, the information has been reviewed by the group's auditor, PricewaterhouseCoopers LLP, and their report appears on pages 21 and 22.

The financial information for the year ended 31 July 2018 contained within this half yearly report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of those statutory accounts has been delivered to the Registrar of Companies. PricewaterhouseCoopers LLP has reported on those accounts. The report of the auditor on those statutory accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

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

The accounting policies applied are consistent with those set out on pages 115 to 119 of the Annual Report 2018 except in relation to the adoption of IFRS 9 Financial Instruments effective from 1 August 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. There are significant changes in the accounting for financial instruments, particularly with regards to impairment. The main differences between IFRS 9 and IAS 39 are summarised on pages 115 to 116 of the Annual Report 2018.

In accordance with the requirements of IFRS 9, comparative information has not been restated and transitional adjustments have been accounted for through retained earnings at 1 August 2018, the date of initial application. IFRS 9 includes an accounting policy choice to continue to apply hedge accounting under IAS 39 and the group elected to apply this accounting policy choice for the foreseeable future.

The impact of the transition to IFRS 9 is set out below and in note 17. Further detail can be found in the group's 'IFRS 9 Transition Report' published on 7 November 2018 and is available on the following webpage: https://www.closebrothers.com/investor-relations/investor-information/results-reports-and-presentations.

The group also adopted IFRS 15 Revenue from Contracts with Customers effective from 1 August 2018. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and does not apply to financial instruments, lease contracts or insurance contracts which fall under the scope of other IFRSs. The standard introduces a new revenue recognition model which features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognised. The group's existing accounting policies comply with the requirements of the standard. The standard has no impact on the group's financial statements.

Comparative information for the six months ended 31 January 2018 have been restated for discontinued operations as set out in note 4. Fee and commission expense in the consolidated income statement for the six months ended 31 January 2018 has been restated to exclude other direct costs of £6.7 million, which are now presented alongside depreciation of operating lease assets.

The consolidated balance sheet and notes 7 and 12 include 1 August 2018 balances to aid comparability following the adoption of IFRS 9. In addition, the consolidated balance sheet and related notes no longer include comparative information for the prior half year.

**Changes in accounting policy**
The accounting policies set out in sections (i) and (j) in note 1 of the Annual Report 2018 have been replaced by those below from 1 August 2018 following the adoption of IFRS 9.

Financial assets and liabilities
Classification and measurement
Financial assets are classified at initial recognition on the basis of the business model within which they are managed and their contractual cash flow characteristics. The classification categories are amortised cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit or loss (“FVTPL”).

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Initial recognition is at fair value plus directly attributable transaction costs. Interest income is accounted for using the effective interest rate method.

Financial assets that are held to collect contractual cash flows and for subsequent sale, where the assets’ cash flows represent solely payments of principal and interest, are classified at fair value through other comprehensive income. Directly attributable transaction costs are added to the initial fair value. Gains and losses arising from changes in fair value except when due to credit risk are recognised in other comprehensive income until the financial asset is either sold or matures, at which time the cumulative gain or loss is recognised in the income statement. Gains and losses arising from changes in fair value due to credit risk are recognised in the income statement.

Financial assets are classified at fair value through profit or loss where they do not meet the criteria to be measured at amortised cost or fair value through other comprehensive income or where they are designated at fair value through profit or loss to reduce an accounting mismatch. Financial assets at fair value through profit or loss are recognised at fair value. Transaction costs are not added to or deducted from the initial fair value, they are immediately recognised in profit or loss on initial recognition. Gains and losses that subsequently arise on changes in fair value are recognised in the income statement.

Financial liabilities are classified at initial recognition at amortised cost except for the following which are classified at fair value through profit or loss: derivatives; financial liabilities held for trading; and financial liabilities designated at fair value through profit or loss to eliminate an accounting mismatch.

Financial liabilities at amortised cost are measured at fair value less directly attributable transaction costs on initial recognition. Interest expense is accounted for using the effective interest rate method. Financial liabilities at fair value through profit or loss are measured at fair value on initial recognition. Transaction costs are not added to or deducted from the initial fair value, they are immediately recognised in profit or loss on initial recognition. Subsequent changes in fair value are recognised in the income statement except for financial liabilities designated at fair value through profit or loss, changes in fair value attributable to changes in credit risk are recognised in other comprehensive income.

The fair values of quoted financial assets or financial liabilities in active markets are based on bid or offer prices. If the market for a financial asset or financial liability is not active, or they relate to unlisted securities, the group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Derecognition
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred the assets continue to be recognised to the extent of the group’s continuing involvement. Financial liabilities are derecognised when they are extinguished.

Expected credit losses
Expected credit losses are recognised for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at fair value through other comprehensive income, loan commitments and financial guarantee contracts. The impairment charge in the income statement includes the change in expected credit losses.

At initial recognition, a provision is recognised for 12 months of expected credit losses. These financial assets are considered to be in Stage 1. When a significant increase in credit risk since initial recognition occurs, a provision is made for the lifetime expected credit losses. These financial assets are considered to be in Stage 2. When objective evidence exists that a financial asset is credit impaired, with a 90 days past due back stop, the financial asset is considered to be in Stage 3. A financial asset will remain classified as Stage 2 until the credit risk has improved such that it no longer represents a significant increase since origination and will be returned to Stage 1. Loans and advances to customers are written off against the related provisions when there are no reasonable expectations of recovery.

The calculation of expected credit losses for loans and advances to customers is based on the probability of default ("PD"), adjusted to reflect a range of forward-looking macroeconomic scenarios, the estimated exposure at default ("EAD") and the estimated loss given default ("LGD"), which represents the expected losses on the EAD after taking into account cash recoveries including the value of collateral held. EAD and LGD are adjusted to account for the impact of discounting using the effective interest.

**Critical accounting estimates and judgements**
The preparation of the half yearly report requires management to make estimates and assumptions that affect the reported income and expense, assets and liabilities and disclosure of contingencies at the date of the half yearly report. Although these estimates and assumptions are based on the management's best judgement at that date, actual results may differ from these estimates. There have been no significant changes in the basis upon which estimates have been determined compared to that applied at 31 July 2018 other than in relation to the implementation of IFRS 9, which are set out below.

Significant increase in credit risk
The assessment of whether a significant increase in credit risk has occurred requires judgement. The assessment is unbiased, probability weighted and uses forward-looking information. The group uses a multifactor approach based on quantitative measures and qualitative indicators to help make such an assessment. Quantitative measures include changes in PD or credit score since origination and qualitative indicators include forbearance and watch list processes. As a backstop, all financial assets that are 30 days past due are considered to have experienced a significant increase in credit risk.

Definition of default
The definition of default is a judgement. Loans and advances to customers are considered defaulted when the borrower is in breach of contract, is bankrupt, or experiences other significant financial difficulties which are expected to have a detrimental impact on their ability to pay interest or principal on the loan.

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

Economic scenarios are assigned a probability weighting using a combination of quantitative analysis and expert judgement. Six different projected economic scenarios are currently considered to cover a range of possible outcomes, reflecting upside and downside relative to the baseline and forecast economic conditions. Weighted assumptions are aligned to the forward-looking outlook. The impact varies across the group's lending businesses because of the sensitivity of each portfolio to specific macroeconomic variables.

The table below shows the key UK economic assumptions within each of the scenarios, and the weighting applied to each at 31 January 2019. The numbers shown are an average over the five-year period from 2018 to 2022. The range of scenarios and weightings applied are selected to cover a broad range of potential outcomes, reflecting the current political and macro-economic uncertainty in the UK.

| | **Baseline** | **Upside (exceptionally strong)** | **Upside (strong)** | **Downside (mild)** | **Downside (moderate)** | **Downside (protracted)** |
|---|---|---|---|---|---|---|
| UK gross domestic product growth | 1.5% | 2.5% | 2.2% | 1.2% | 0.7% | 0.2% |
| UK unemployment rate | 4.6% | 3.3% | 3.7% | 5.2% | 6.1% | 6.8% |
| House price index growth | 2.0% | 5.1% | 4.1% | 1.0% | (1.1%) | (3.0%) |
| Bank of England base rate | 1.2% | 1.5% | 1.3% | 0.5% | 0.2% | 0.1% |
| **Weighting at 31 January 2019** | **40%** | **0%** | **5%** | **40%** | **10%** | **5%** |

## 2. Segmental analysis

The directors manage the group by class of business and we present the segmental analysis on that basis. The group's activities are presented in five (2018: five) operating segments: Commercial, Retail, Property, Asset Management and Securities.

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

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

## Summary Income Statement for the six months ended 31 January 2019

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

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

## Balance Sheet Information at 31 January 2019

| | Banking | | | | | | |
|---|---|---|---|---|---|---|---|
| | Commercial<br>£ million | Retail<br>£ million | Property<br>£ million | Asset Management<br>£ million | Securities<br>£ million | Group[2]<br>£ million | Total<br>£ million |
| Total assets[1] | **3,097.2** | **2,701.7** | **1,800.1** | **102.1** | **654.9** | **1,662.2** | **10,018.2** |
| Total liabilities | **-** | **-** | **-** | **46.6** | **583.9** | **8,046.7** | **8,677.2** |

[1] Total assets for the Banking operating segments comprise the loan book and operating lease assets only.

[2] Balance sheet includes £1,660.0 million assets and £8,108.2 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note on page 32.

Equity is allocated across the group as shown below. Banking division equity, which is managed as a whole rather than on a segmental basis, reflects loan book and operating lease assets of £7,599.0 million, in addition to assets and liabilities of £1,660.0 million and £8,108.2 million respectively primarily comprising treasury balances which are included within the Group column above.

| | **Banking total £ million** | **Asset Management £ million** | **Securities £ million** | **Group £ million** | **Total £ million** |
|---|---|---|---|---|---|
| Equity | **1,150.8** | **55.5** | **71.0** | **63.7** | **1,341.0** |

Summary Income Statement for the six months ended 31 January 2018[1]

| | Banking | | | | | | |
|---|---|---|---|---|---|---|---|
| | Commercial £ million | Retail £ million | Property £ million | Asset Management £ million | Securities £ million | Group £ million | Total £ million |
| Net interest income/(expense) | 77.1 | 101.3 | 64.9 | - | (0.4) | 0.1 | 243.0 |
| Non-interest income | 33.3 | 14.3 | - | 56.0 | 56.0 | (0.1) | 159.5 |
| Operating income | 110.4 | 115.6 | 64.9 | 56.0 | 55.6 | - | 402.5 |
| Administrative expenses | (61.8) | (53.2) | (13.3) | (43.7) | (40.0) | (12.3) | (224.3) |
| Depreciation and amortisation | (3.3) | (4.6) | (1.8) | (0.9) | (0.9) | - | (11.5) |
| Impairment losses on loans and advances | (5.6) | (13.4) | (3.8) | - | - | - | (22.8) |
| Total operating expenses | (70.7) | (71.2) | (18.9) | (44.6) | (40.9) | (12.3) | (258.6) |
| **Adjusted operating profit/(loss)[2]** | 39.7 | 44.4 | 46.0 | 11.4 | 14.7 | (12.3) | 143.9 |
| Amortisation of intangible assets on acquisition | (0.9) | (0.1) | - | (2.7) | - | - | (3.7) |
| **Operating profit/(loss) before tax from continuing operations** | 38.8 | 44.3 | 46.0 | 8.7 | 14.7 | (12.3) | 140.2 |
| **Loss before tax from discontinued operations** | - | (1.6) | - | - | - | - | (1.6) |
| **Profit/(loss) before tax** | 38.8 | 42.7 | 46.0 | 8.7 | 14.7 | (12.3) | 138.6 |
| External operating income/(expense) | 132.2 | 135.1 | 76.3 | 56.1 | 55.6 | (52.8) | 402.5 |
| Inter segment operating income/(expense) | (21.8) | (19.5) | (11.4) | (0.1) | - | 52.8 | - |
| Segment operating income | 110.4 | 115.6 | 64.9 | 56.0 | 55.6 | - | 402.5 |

[1] Restated – see note 4.

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

Summary Income Statement for the year ended 31 July 2018

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

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

Balance Sheet Information at 31 July 2018

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

[1] Total assets for the Banking operating segments comprise the loan book and operating lease assets only.

[2] Balance sheet includes £1,915.0 million assets and £8,278.6 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note on page 32.

| | Banking total<br>£ million | Asset Management<br>£ million | Securities<br>£ million | Group<br>£ million | Total<br>£ million |
|---|---|---|---|---|---|
| Equity[1] | 1,132.7 | 55.5 | 71.1 | 89.4 | 1,348.7 |

[1] Equity of the Banking division reflects loan book and operating lease assets of £7,496.3 million, in addition to assets and liabilities of £1,915.0 million and £8,278.6 million respectively primarily comprising treasury balances which are included within the Group column above.

## 3. Taxation

| | Six months ended 31 January | | Year ended 31 July |
|---|---|---|---|
| | **2019** | 2018[1] | 2018 |
| | **£ million** | £ million | £ million |
| **Tax charged/(credited) to the income statement** | | | |
| Current tax: | | | |
| UK corporation tax | **30.4** | 33.2 | 64.7 |
| Foreign tax | **0.9** | 1.0 | 1.5 |
| Adjustments in respect of previous periods | **-** | - | (2.3) |
| | **31.3** | 34.2 | 63.9 |
| Deferred tax: | | | |
| Deferred tax charge for the current period | **2.1** | 0.9 | 1.1 |
| Adjustments in respect of previous periods | **-** | - | 2.0 |
| | **33.4** | 35.1 | 67.0 |
| **Tax on items not (credited)/charged to the income statement** | | | |
| Current tax relating to: | | | |
| Share-based payments | **(0.1)** | (0.1) | (0.3) |
| Deferred tax relating to: | | | |
| Cash flow hedging | **(0.4)** | 1.0 | 1.1 |
| Defined benefit pension scheme | **-** | 0.2 | 0.4 |
| Financial instruments classified as available for sale | **-** | (0.1) | 0.2 |
| Financial instruments classified at fair value through other comprehensive income | **(0.2)** | - | - |
| Share-based payments | **0.5** | (0.1) | (0.4) |
| | **(0.2)** | 0.9 | 1.0 |
| **Reconciliation to tax expense** | | | |
| UK corporation tax for the period at 19.0% (2018: 19.0%) on operating profit | **25.8** | 26.6 | 51.5 |
| Effect of different tax rates in other jurisdictions | **(0.1)** | (0.1) | (0.2) |
| Disallowable items and other permanent differences | **0.6** | 0.6 | 1.1 |
| Banking surcharge | **7.1** | 7.9 | 15.1 |
| Deferred tax impact of decreased/(increased) tax rates | **-** | 0.1 | (0.2) |
| Prior period tax provision | **-** | - | (0.3) |
| | **33.4** | 35.1 | 67.0 |

[1] Restated – see note 4.

The effective tax rate for the period is 24.6% (six months ended 31 January 2018: 25.0%; year ended 31 July 2018: 24.7%), representing the best estimate of the annual effective tax rate expected for the full year.

The standard UK corporation tax rate for the financial year is 19.0% (six months ended 31 January 2018: 19.0%; year ended 31 July 2018: 19.0%). However, an additional 8% surcharge applies to banking company profits as defined in legislation. The effective tax rate is above the UK corporation tax rate primarily due to the surcharge applying to the majority of the group's profits.

## 4. Discontinued operations

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

The net assets of Close Brothers Retail Finance on 1 January 2019, the date of disposal, was £80.9 million, comprising largely of loans and advances to customers. In the 31 July 2018 consolidated balance sheet, net assets of £66.9 million relating to Close Brothers Retail Finance were presented as “held for sale”. No impairment has been recognised in relation to these net assets.

### Results of discontinued operations

| | Six months ended 31 January | | Year ended 31 July |
|---|---|---|---|
| | **2019** | 2018 | 2018 |
| | **£ million** | £ million | £ million |
| Operating income | **3.7** | 3.0 | 6.6 |
| Operating expenses | **(4.2)** | (3.6) | (7.2) |
| Impairment losses on loans and advances | **(1.6)** | (1.0) | (2.3) |
| **Operating loss before tax** | **(2.1)** | (1.6) | (2.9) |
| Tax | **0.5** | 0.4 | 0.8 |
| Impairment of plant, property and equipment and intangible assets | **-** | - | (0.1) |
| **Loss after tax** | **(1.6)** | (1.2) | (2.2) |
| Profit on disposal of discontinued operations, net of tax | **2.8** | - | - |
| **Profit/(loss) from discontinued operations** | **1.2** | (1.2) | (2.2) |

### Assets and liabilities held for sale

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

| | **31 January** | 31 July |
|---|---|---|
| | **2019** | 2018 |
| | **£ million** | £ million |
| **Balance sheet** | | |
| Intangible assets | **-** | 0.9 |
| Loans and advances to customers | **-** | 66.2 |
| Other assets | **-** | 0.4 |
| **Total assets classified as held for sale** | **-** | 67.5 |
| Other liabilities | **-** | 0.6 |
| **Total liabilities classified as held for sale** | **-** | 0.6 |

### Cash flow from discontinued operations

| | Six months ended 31 January | | Year ended 31 July |
|---|---|---|---|
| | **2019** | 2018 | 2018 |
| | **£ million** | £ million | £ million |
| Net cash flow from operating activities | **(16.1)** | (13.9) | (31.9) |
| Net cash flow from investing activities | **(0.3)** | (0.2) | (0.4) |

## 5. Earnings per share

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

| | Six months ended 31 January | | Year ended 31 July |
|---|---|---|---|
| | **2019** | 2018[1] | 2018 |
| **Continuing operations** | | | |
| Basic | **68.1p** | 70.0p | 136.2p |
| Diluted | **67.5p** | 69.5p | 135.3p |
| Adjusted basic[2] | **69.8p** | 72.0p | 140.2p |
| Adjusted diluted[2] | **69.2p** | 71.5p | 139.3p |
| | | | |
| **Continuing and discontinued operations** | | | |
| Basic | **68.9p** | 69.2p | 134.7p |
| Diluted | **68.3p** | 68.7p | 133.8p |

[1] Restated – see note 4.
[2] Excludes amortisation of intangible assets on acquisition, discontinued operations and their tax effects.

| | Six months ended 31 January | | Year ended 31 July |
|---|---|---|---|
| | **2019** | 2018[1] | 2018 |
| | **£ million** | £ million | £ million |
| **Profit attributable to shareholders** | **103.5** | 104.0 | 202.3 |
| Less profit/(loss) from discontinued operations, net of tax | **1.2** | (1.2) | (2.2) |
| **Profit attributable to shareholders on continuing operations** | **102.3** | 105.2 | 204.5 |
| Adjustments: | | | |
| Amortisation of intangible assets on acquisition | **3.2** | 3.7 | 7.4 |
| Tax effect of adjustment | **(0.6)** | (0.7) | (1.3) |
| | | | |
| **Adjusted profit attributable to shareholders on continuing operations** | **104.9** | 108.2 | 210.6 |

[1] Restated – see note 4.

| | Six months ended 31 January | | Year ended 31 July |
|---|---|---|---|
| | **2019** | 2018 | 2018 |
| | **million** | million | million |
| **Average number of shares** | | | |
| **Basic weighted** | **150.2** | 150.3 | 150.2 |
| Effect of dilutive share options and awards | **1.4** | 1.0 | 1.0 |
| | | | |
| **Diluted weighted** | **151.6** | 151.3 | 151.2 |

## 6. Dividends

| | Six months ended 31 January | | Year ended 31 July |
|---|---|---|---|
| | **2019** | 2018 | 2018 |
| | **£ million** | £ million | £ million |
| **For each ordinary share** | | | |
| Interim dividend for previous financial year paid in April 2018: 21.0p | **-** | - | 31.3 |
| Final dividend for previous financial year paid in November 2018: 42.0p (November 2017: 40.0p) | **62.8** | 59.7 | 59.7 |
| | **62.8** | 59.7 | 91.0 |

An interim dividend relating to the six months ended 31 January 2019 of 22.0p, amounting to an estimated £32.8 million, is declared. This interim dividend, which is due to be paid on 24 April 2019 to shareholders on the register at 22 March 2019, is not reflected in these condensed half yearly financial statements.

## 7. Loans and advances to customers

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

| | On demand<br>£ million | Within three months<br>£ million | Between three months and one year<br>£ million | Between one and two years<br>£ million | Between two and five years<br>£ million | After more than five years<br>£ million | Impairment provisions<br>£ million | Total<br>£ million |
|---|---|---|---|---|---|---|---|---|
| **At 31 January 2019** | **79.2** | **2,230.4** | **2,272.0** | **1,316.3** | **1,489.2** | **100.0** | **(102.0)** | **7,385.1** |
| At 1 August 2018 | 77.3 | 2,135.8 | 2,301.1 | 1,324.3 | 1,402.3 | 95.8 | (97.3) | 7,239.3 |
| At 31 July 2018 | 77.3 | 2,135.8 | 2,301.1 | 1,324.3 | 1,402.3 | 95.8 | (39.1) | 7,297.5 |

| | Stage 1<br>£ million | Stage 2<br>£ million | Stage 3<br>£ million | **Total**<br>**£ million** |
|---|---|---|---|---|
| **Impairment provisions on loans and advances to customers** | | | | |
| Balance at 31 July 2018 | | | | **39.1** |
| IFRS 9 transition (note 17) | | | | **58.2** |
| Balance at 1 August 2018 | 23.7 | 24.8 | 48.8 | **97.3** |
| Charge to the income statement | 1.5 | 2.2 | 15.1 | **18.8** |
| Amounts written off | (0.5) | (0.5) | (13.1) | **(14.1)** |
| **Impairment provisions at 31 January 2019** | 24.7 | 26.5 | 50.8 | **102.0** |

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

| | | **Stage 2** | | | | |
|---|---|---|---|---|---|---|
| **At 31 January 2019** | **Stage 1<br>£ million** | **Less than 30 days past due<br>£ million** | **Greater than or equal to 30 days past due<br>£ million** | **Total<br>£ million** | **Stage 3<br>£ million** | **Total<br>£ million** |
| **Gross loans and advances to customers** | | | | | | |
| Commercial | 2,529.7 | 291.2 | 25.5 | 316.7 | 86.4 | **2,932.8** |
| Retail | 2,478.4 | 233.9 | 1.7 | 235.6 | 24.8 | **2,738.8** |
| Property | 1,437.4 | 100.1 | 70.3 | 170.4 | 207.7 | **1,815.5** |
| **Total** | **6,445.5** | **625.2** | **97.5** | **722.7** | **318.9** | **7,487.1** |
| **Impairment provisions** | | | | | | |
| Commercial | 12.5 | 10.6 | 1.4 | 12.0 | 25.0 | **49.5** |
| Retail | 10.4 | 11.5 | 0.1 | 11.6 | 15.1 | **37.1** |
| Property | 1.8 | 2.7 | 0.2 | 2.9 | 10.7 | **15.4** |
| **Total** | **24.7** | **24.8** | **1.7** | **26.5** | **50.8** | **102.0** |
| **Provision coverage ratio** | | | | | | |
| Commercial | 0.5% | 3.6% | 5.5% | 3.8% | 28.9% | **1.7%** |
| Retail | 0.4% | 4.9% | 5.9% | 4.9% | 60.9% | **1.4%** |
| Property | 0.1% | 2.7% | 0.3% | 1.7% | 5.2% | **0.8%** |
| **Total** | **0.4%** | **4.0%** | **1.7%** | **3.7%** | **15.9%** | **1.4%** |

| | | Stage 2 | | | | |
|---|---|---|---|---|---|---|
| At 1 August 2018 | Stage 1<br>£ million | Less than 30 days past due<br>£ million | Greater than or equal to 30 days past due<br>£ million | Total<br>£ million | Stage 3<br>£ million | Total<br>£ million |
| Gross loans and advances to customers | | | | | | |
| Commercial | 2,452.4 | 246.1 | 16.8 | 262.9 | 81.2 | 2,796.5 |
| Retail | 2,452.1 | 224.9 | 4.3 | 229.2 | 24.0 | 2,705.3 |
| Property | 1,574.7 | 58.9 | 46.3 | 105.2 | 154.9 | 1,834.8 |
| Total | 6,479.2 | 529.9 | 67.4 | 597.3 | 260.1 | 7,336.6 |
| Impairment provisions | | | | | | |
| Commercial | 11.8 | 10.5 | 1.1 | 11.6 | 25.7 | 49.1 |
| Retail | 10.0 | 10.1 | 0.4 | 10.5 | 14.2 | 34.7 |
| Property | 1.9 | 2.4 | 0.3 | 2.7 | 8.9 | 13.5 |
| Total | 23.7 | 23.0 | 1.8 | 24.8 | 48.8 | 97.3 |
| Provision coverage ratio | | | | | | |
| Commercial | 0.5% | 4.3% | 6.5% | 4.4% | 31.7% | 1.8% |
| Retail | 0.4% | 4.5% | 9.3% | 4.6% | 59.2% | 1.3% |
| Property | 0.1% | 4.1% | 0.6% | 2.6% | 5.7% | 0.7% |
| Total | 0.4% | 4.3% | 2.7% | 4.2% | 18.8% | 1.3% |

## 8. Debt securities

| | **Fair value through profit or loss £ million** | **Fair value through other comprehensive income £ million** | **Amortised cost £ million** | **Total £ million** |
|---|---|---|---|---|
| Long trading positions in debt securities | **25.0** | **-** | **-** | **25.0** |
| Certificates of deposit | **-** | **-** | **401.4** | **401.4** |
| Sovereign and central bank debt | **-** | **44.3** | **-** | **44.3** |
| **At 31 January 2019** | **25.0** | **44.3** | **401.4** | **470.7** |

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

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

| | **Six months ended 31 January 2019 £ million** | Year ended 31 July 2018 £ million |
|---|---|---|
| Sovereign and central bank debt at beginning of period | **44.5** | 43.6 |
| Additions | **-** | - |
| Currency translation difference | **(0.8)** | - |
| Changes in fair value | **0.6** | 0.9 |
| **Sovereign and central bank debt at end of period** | **44.3** | 44.5 |

## 9. Equity shares

| | **31 January 2019 £ million** | 31 July 2018 £ million |
|---|---|---|
| Long trading positions | **27.5** | 31.6 |
| Other equity shares | **0.5** | 0.5 |
| | **28.0** | 32.1 |

## 10. Settlement balances and short positions

| | **31 January 2019 £ million** | 31 July 2018 £ million |
|---|---|---|
| Settlement balances | **480.7** | 512.5 |
| Short positions in: | | |
| Debt securities | **10.7** | 16.4 |
| Equity shares | **15.0** | 14.2 |
| | **25.7** | 30.6 |
| | **506.4** | 543.1 |

## 11. Financial liabilities

The contractual maturity of financial liabilities, which largely relate to treasury funding balances, is set out below.

| | **On demand £ million** | **Within three months £ million** | **Between three months and one year £ million** | **Between one and two years £ million** | **Between two and five years £ million** | **After more than five years £ million** | **Total £ million** |
|---|---|---|---|---|---|---|---|
| Deposits by banks | **10.3** | **13.1** | **30.8** | **-** | **-** | **-** | **54.2** |
| Deposits by customers | **85.8** | **1,038.5** | **2,632.7** | **1,175.0** | **417.5** | **-** | **5,349.5** |
| Loans and overdrafts from banks | **18.2** | **10.1** | **-** | **-** | **490.0** | **-** | **518.3** |
| Debt securities in issue | **5.3** | **48.8** | **123.8** | **684.8** | **643.6** | **287.5** | **1,793.8** |
| Subordinated loan capital[1] | **(1.4)** | **1.4** | **0.2** | **-** | **-** | **218.9** | **219.1** |
| **At 31 January 2019** | **118.2** | **1,111.9** | **2,787.5** | **1,859.8** | **1,551.1** | **506.4** | **7,934.9** |

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

| | On demand £ million | Within three months £ million | Between three months and one year £ million | Between one and two years £ million | Between two and five years £ million | After more than five years £ million | Total £ million |
|---|---|---|---|---|---|---|---|
| Deposits by banks | 7.9 | 16.1 | 31.2 | - | - | - | 55.2 |
| Deposits by customers | 86.5 | 1,275.0 | 2,570.6 | 1,142.6 | 422.5 | - | 5,497.2 |
| Loans and overdrafts from banks | 9.6 | 5.2 | - | - | 495.0 | - | 509.8 |
| Debt securities in issue | 0.6 | 23.1 | 561.3 | 190.3 | 709.9 | 288.2 | 1,773.4 |
| Subordinated loan capital[1] | (2.4) | 1.4 | 0.2 | - | - | 218.7 | 217.9 |
| At 31 July 2018 | 102.2 | 1,320.8 | 3,163.3 | 1,332.9 | 1,627.4 | 506.9 | 8,053.5 |

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

At 31 January 2019, the group was a participant of the Bank of England's Term Funding Scheme.  Under this scheme, asset finance loan receivables of £776.9 million (31 July 2018: £773.8 million) were positioned as collateral with the Bank of England, against which £490.0 million of cash (31 July 2018: £495.0 million) was drawn.  The term of these transactions is four years from the date of each drawdown but the group may choose to repay earlier at its discretion.  The risks and rewards of the loan receivables remain with the group and continue to be recognised in loans and advances to customers on the consolidated balance sheet.

The group has securitised without recourse £1,406.6 million (31 July 2018: £1,499.3 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £982.7 million (31 July 2018: £983.3 million).  This includes £78.6 million (31 July 2018: £118.1 million) asset-backed securities in issue retained for liquidity purposes.  As the group has retained exposure to substantially all the credit risks and rewards of the residual benefit of the underlying assets, it continues to recognise these assets in loans and advances to customers on the consolidated balance sheet.

## 12. Capital

The group's individual regulated entities and the group as a whole complied with all of the externally imposed capital requirements to which they were subject for the period to 31 January 2019 and the year ended 31 July 2018. The table below summarises the composition of regulatory capital and Pillar 1 risk weighted assets at those financial period ends.

| | **31 January 2019 £ million** | 1 August 2018 £ million | 31 July 2018 £ million |
|---|---|---|---|
| **Common equity tier 1 ("CET1") capital** | | | |
| Called up share capital | **38.0** | 38.0 | 38.0 |
| Retained earnings[1] | **1,324.2** | 1,282.8 | 1,327.7 |
| Other reserves recognised for CET1 capital | **20.3** | 21.3 | 21.3 |
| **Regulatory adjustments to CET1 capital** | | | |
| Intangible assets, net of associated deferred tax liabilities | **(205.2)** | (198.1) | (198.1) |
| Foreseeable dividend[2] | **(47.1)** | (62.7) | (62.7) |
| Investment in own shares | **(39.3)** | (37.6) | (37.6) |
| Pension asset, net of associated deferred tax liabilities | **(4.1)** | (4.0) | (4.0) |
| Prudent valuation adjustment | **(0.2)** | (0.2) | (0.2) |
| IFRS 9 transitional arrangements[3] | **44.6** | 42.7 | - |
| **CET1 capital** | **1,131.2** | 1,082.2 | 1,084.4 |
| **Tier 2 capital – subordinated debt** | **191.6** | 197.9 | 197.9 |
| **Total regulatory capital[4]** | **1,322.8** | 1,280.1 | 1,282.3 |
| **Risk weighted assets (notional)[4] – unaudited** | | | |
| Credit and counterparty risk | **7,764.9** | 7,600.5 | 7,605.4 |
| Operational risk[5] | **845.8** | 845.8 | 845.8 |
| Market risk[5] | **87.3** | 96.3 | 96.3 |
| | **8,698.0** | 8,542.6 | 8,547.5 |
| CET1 capital ratio[4] | **13.0%** | 12.7% | 12.7% |
| Total capital ratio[4] | **15.2%** | 15.0% | 15.0% |

[1] Retained earnings for the period ended 31 January 2019 include all profits (both verified and unverified) for the six month period.

[2] Under the Regulatory Technical Standard on own funds, a deduction has been recognised for a foreseeable dividend. In accordance with this standard, for 31 January 2019 a foreseeable dividend has been determined based on the average payout ratio over the previous three years applied to the retained earnings for the period. For 31 July 2018 a foreseeable dividend was determined as the proposed final dividend.

[3] The group has elected to apply IFRS 9 transitional arrangements for 31 January 2019, which allow the capital impact of expected credit losses to be phased in over a five-year period.

[4] Shown after applying the Capital Requirement Regulations transitional and qualifying own funds arrangements. At 31 January 2019 the fully loaded CET1 capital ratio is 12.5% and total capital ratio is 14.5% (1 August 2018: CET1 capital ratio 12.2% and total capital ratio 14.2%).

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

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

| | **31 January 2019 £ million** | 1 August 2018 £ million | 31 July 2018 £ million |
|---|---|---|---|
| Equity | **1,341.0** | 1,303.8 | 1,348.7 |
| Regulatory adjustments to CET1 capital: | | | |
| Intangible assets, net of associated deferred tax liabilities | **(205.2)** | (198.1) | (198.1) |
| Foreseeable dividend[1] | **(47.1)** | (62.7) | (62.7) |
| IFRS 9 transitional arrangements | **44.6** | 42.7 | - |
| Pension asset, net of associated deferred tax liabilities | **(4.1)** | (4.0) | (4.0) |
| Prudent valuation adjustment | **(0.2)** | (0.2) | (0.2) |
| Other reserves not recognised for CET1 capital: | | | |
| Cash flow hedging reserve | **1.3** | (0.1) | (0.1) |
| Non-controlling interests | **0.9** | 0.8 | 0.8 |
| **CET1 capital** | **1,131.2** | 1,082.2 | 1,084.4 |

[1] Under the Regulatory Technical Standard on own funds, a deduction has been recognised for a foreseeable dividend. In accordance with this standard, for 31 January 2019 a foreseeable dividend has been determined based on the average payout ratio over the previous three years applied to the retained earnings for the period. For 31 July 2018 a foreseeable dividend was determined as the proposed final dividend.

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

| | £ million |
|---|---|
| CET1 capital at 31 July 2018 | 1,084.4 |
| Profit in the period attributable to shareholders | 103.5 |
| Dividends paid and foreseen | (47.2) |
| Reduction in shareholders' equity from IFRS 9 | (44.9) |
| Other movements in reserves recognised for CET1 capital | (0.3) |
| IFRS 9 transitional arrangements | 44.6 |
| Increase in intangible assets, net of associated deferred tax liabilities | (7.1) |
| Other movements in deductions from CET1 capital | (1.8) |
| **CET1 capital at 31 January 2019** | **1,131.2** |

## 13. Contingent liabilities

Financial Services Compensation Scheme ("FSCS")

As disclosed in note 23 of the Annual Report 2018, the group is exposed to the FSCS which provides compensation to customers of financial institutions in the event that an institution is unable, or is likely to be unable, to pay claims against it.

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

## 14. Related party transactions

Related party transactions, including salary and benefits provided to directors and key management, did not have a material effect on the financial position or performance of the group during the period. There were no changes to the type and nature of the related party transactions disclosed in the Annual Report 2018 that could have a material effect on the financial position and performance of the group in the six months to 31 January 2019.

## 15. Consolidated cash flow statement reconciliation

| | 31 January | | 31 July |
|---|---|---|---|
| | **2019** | 2018 | 2018 |
| | **£ million** | £ million | £ million |
| **(a) Reconciliation of operating profit before tax to net cash inflow from operating activities** | | | |
| Operating profit before tax from continuing operations | **135.6** | 140.2 | 271.2 |
| Profit/(loss) before tax from discontinued operations[1] | **0.9** | (1.6) | (3.0) |
| Tax paid | **(28.1)** | (33.1) | (66.8) |
| Depreciation and amortisation | **35.7** | 30.8 | 63.9 |
| Decrease/(increase) in: | | | |
| Interest receivable and prepaid expenses | **8.1** | (11.4) | (18.4) |
| Net settlement balances and trading positions | **(21.3)** | 49.5 | 15.9 |
| Net loans to/from money broker against stock advanced | **9.5** | 5.9 | 0.3 |
| (Decrease)/increase in interest payable and accrued expenses | **(45.5)** | (31.9) | 9.4 |
| **Net cash inflow from trading activities** | **94.9** | 148.4 | 272.5 |
| (Increase)/decrease in: | | | |
| Loans and advances to banks not repayable on demand | **(2.1)** | (28.9) | 16.4 |
| Loans and advances to customers[2] | **(175.9)** | (113.7) | (449.8) |
| Assets held under operating leases | **(33.2)** | (38.7) | (68.0) |
| Certificates of deposit | **(150.9)** | (70.7) | (70.2) |
| Sovereign and central bank debt | **-** | 0.8 | (0.9) |
| Other assets less other liabilities | **3.1** | 9.5 | 14.1 |
| (Decrease)/increase in: | | | |
| Deposits by banks | **(1.0)** | (13.4) | (16.8) |
| Deposits by customers | **(147.7)** | 137.1 | 384.1 |
| Loans and overdrafts from banks | **8.5** | 45.7 | 178.9 |
| Issuance/redemption of debt securities | **16.4** | 73.7 | 45.7 |
| **Net cash (outflow)/inflow from operating activities** | **(387.9)** | 149.8 | 306.0 |
| **(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and non-controlling interests** | | | |
| Cash consideration paid | **-** | (0.9) | (1.2) |
| **(c) Analysis of net cash inflow in respect of the sale of discontinued operations and a subsidiary** | | | |
| Cash consideration received | **86.1** | 0.7 | 0.9 |

| | 31 January | | 31 July |
|---|---|---|---|
| | **2019** | 2018 | 2018 |
| | **£ million** | £ million | £ million |
| **(d) Analysis of cash and cash equivalents[3]** | | | |
| Cash and balances at central banks | **764.2** | 834.3 | 1,126.2 |
| Loans and advances to banks repayable on demand | **85.2** | 66.4 | 125.5 |
| | **849.4** | 900.7 | 1,251.7 |

[1] Restated – see note 4.

[2] Excludes IFRS 9 transitional adjustment.

[3] Excludes Bank of England cash reserve account and amounts held as collateral.

During the period ended 31 January 2019, the non-cash changes on debt financing amounted to £5.0 million (31 January 2018: £2.6 million; 31 July 2018: £9.4 million) arising largely from interest accretion.

## 16. Fair value of financial assets and liabilities

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

| | **31 January 2019** | | 31 July 2018 | |
|---|---|---|---|---|
| | **Fair value** | **Carrying value** | Fair value | Carrying value |
| | **£ million** | **£ million** | £ million | £ million |
| Subordinated loan capital | **232.0** | **219.1** | 233.7 | 217.9 |
| Debt securities in issue | **1,805.3** | **1,793.8** | 1,797.4 | 1,773.4 |

The group holds financial instruments that are measured at fair value subsequent to initial recognition. Each instrument has been categorised within one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. These levels are based on the degree to which the fair value is observable and are defined in note 28 "Financial risk management" of the Annual Report 2018. The table below shows 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 January 2019** | | | | |
| **Assets** | | | | |
| Debt securities: | | | | |
| Long trading positions in debt securities | **23.1** | **1.9** | **-** | **25.0** |
| Sovereign and central bank debt | **44.3** | **-** | **-** | **44.3** |
| Equity shares | **4.2** | **23.3** | **0.5** | **28.0** |
| Derivative financial instruments | **-** | **17.9** | **-** | **17.9** |
| Contingent consideration | **-** | **-** | **1.5** | **1.5** |
| | **71.6** | **43.1** | **2.0** | **116.7** |
| **Liabilities** | | | | |
| Short positions: | | | | |
| Debt securities | **8.5** | **2.2** | **-** | **10.7** |
| Equity shares | **6.6** | **8.4** | **-** | **15.0** |
| Derivative financial instruments | **-** | **12.1** | **-** | **12.1** |
| Contingent consideration | **-** | **-** | **6.1** | **6.1** |
| | **15.1** | **22.7** | **6.1** | **43.9** |

| | Level 1<br>£ million | Level 2<br>£ million | Level 3<br>£ million | Total<br>£ million |
|---|---|---|---|---|
| At 31 July 2018 | | | | |
| **Assets** | | | | |
| Debt securities: | | | | |
| Long trading positions in debt securities | 22.9 | 2.7 | - | 25.6 |
| Sovereign and central bank debt | 44.5 | - | - | 44.5 |
| Equity shares | 5.5 | 26.1 | 0.5 | 32.1 |
| Derivative financial instruments | - | 16.6 | - | 16.6 |
| Contingent consideration | - | - | 2.1 | 2.1 |
| | 72.9 | 45.4 | 2.6 | 120.9 |
| **Liabilities** | | | | |
| Short positions: | | | | |
| Debt securities | 14.2 | 2.2 | - | 16.4 |
| Equity shares | 4.2 | 10.0 | - | 14.2 |
| Derivative financial instruments | - | 15.7 | - | 15.7 |
| Contingent consideration | - | - | 5.4 | 5.4 |
| | 18.4 | 27.9 | 5.4 | 51.7 |

Financial instruments classified as Level 3 predominantly comprise contingent consideration payable and receivable in relation to the acquisitions and disposal of subsidiaries.

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

There were no significant transfers between Level 1, 2 and 3 during the six months ended 31 January 2019 (year ended 31 July 2018: none).

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

| | Equity shares<br>£ million | Contingent consideration<br>£ million |
|---|---|---|
| At 1 August 2017 | 0.8 | (3.9) |
| Total losses recognised in the consolidated income statement | - | (0.3) |
| Total losses recognised in other comprehensive income | - | (0.3) |
| Purchases and issues | - | - |
| Sales and settlements | (0.2) | 0.2 |
| At 31 January 2018 | 0.6 | (4.3) |
| Total gains recognised in the consolidated income statement | - | 0.9 |
| Total gains recognised in other comprehensive income | - | 0.6 |
| Purchases and issues | - | (1.2) |
| Sales and settlements | (0.1) | 0.7 |
| At 31 July 2018 | 0.5 | (3.3) |
| Total losses recognised in the consolidated income statement | - | (0.7) |
| Total gains/(losses) recognised in other comprehensive income | - | - |
| Purchases and issues | - | - |
| Sales and settlements | - | (0.6) |
| **At 31 January 2019** | **0.5** | **(4.6)** |

The losses recognised in the consolidated income statement relating to instruments held at 31 January 2019 amounted to £0.7 million (31 January 2018: £0.3 million; 31 July 2018: £nil).

## 17. Implementation of IFRS 9

The group has adopted IFRS 9 Financial Instruments with effect from 1 August 2018. In accordance with the requirements of IFRS 9, comparative information has not been restated and transitional adjustments have been accounted for through retained earnings at 1 August 2018, the date of initial application.

At 1 August 2018, retained earnings decreased by £44.9 million reflecting an increase in impairment provisions of £59.0 million partly offset by an increase in deferred tax assets of £14.1 million. £58.2 million of the increase in impairment provisions relate to loans and advances to customers while the remaining £0.8m relate to other financial assets.

This increase in impairment provisions principally reflects the additional expected credit loss on performing and underperforming loans, as well as a broader definition of default compared to IAS 39 and the addition of macroeconomic assumptions.

The following table sets out the impact of IFRS 9 on the group balance sheet at 1 August 2018.

| | Classification and measurement[1] | | IAS 39 carrying amount 31 July 2018 | IFRS 9 transitional adjustment | IFRS 9 carrying amount 1 August 2018 |
|---|---|---|---|---|---|
| | IAS 39 | IFRS 9 | £ million | £ million | £ million |
| **Assets** | | | | | |
| Cash and balances at central banks | LAR | AC | 1,140.4 | (0.1) | 1,140.3 |
| Settlement balances | LAR | AC | 512.2 | (0.1) | 512.1 |
| Loans and advances to banks | LAR | AC | 140.2 | (0.1) | 140.1 |
| Loans and advances to customers | LAR | AC | 7,297.5 | (58.2) | 7,239.3 |
| Debt securities | | | 320.6 | (0.2) | 320.4 |
| | LAR | AC | 250.5 | (0.2) | 250.3 |
| | AFS | FVOCI | 44.5 | - | 44.5 |
| | HFT | FVPL | 25.6 | - | 25.6 |
| Equity shares | | | 32.1 | - | 32.1 |
| | AFS | FVPL | 0.5 | - | 0.5 |
| | HFT | FVPL | 31.6 | - | 31.6 |
| Loans to money brokers against stock advanced | LAR | AC | 66.4 | - | 66.4 |
| Derivative financial instruments | | | 16.6 | - | 16.6 |
| | HFT | FVPL | 1.1 | - | 1.1 |
| | FV(H) | FV(H) | 15.5 | - | 15.5 |
| Intangible assets | | | 201.3 | - | 201.3 |
| Property, plant and equipment | | | 226.1 | - | 226.1 |
| Deferred tax assets | | | 43.0 | 14.1 | 57.1 |
| Prepayments, accrued income and other assets | | | 187.1 | (0.3) | 186.8 |
| Trade and other receivables | LAR | AC | 49.4 | (0.3) | 49.1 |
| | AFS | FVPL | 2.1 | - | 2.1 |
| Prepayments and accrued income | AC | AC | 135.6 | - | 135.6 |
| Assets classified as held for sale | | | 67.5 | - | 67.5 |
| **Total assets** | | | 10,251.0 | (44.9) | 10,206.1 |
| | | | | | |
| **Liabilities** | | | | | |
| Settlement balances and short positions | | | 543.1 | - | 543.1 |
| | AC | AC | 512.5 | - | 512.5 |
| | HFT | FVPL | 30.6 | - | 30.6 |
| Deposits by banks | AC | AC | 55.2 | - | 55.2 |
| Deposits by customers | AC | AC | 5,497.2 | - | 5,497.2 |
| Loans and overdrafts from banks | AC | AC | 509.8 | - | 509.8 |
| Debt securities in issue | AC | AC | 1,773.4 | - | 1,773.4 |
| Loans from money brokers against stock advanced | AC | AC | 22.4 | - | 22.4 |
| Derivative financial instruments | FVPL | FVPL | 15.7 | - | 15.7 |
| Current tax liabilities | AC | AC | 17.4 | - | 17.4 |
| Accruals, deferred income and other liabilities | | | 249.6 | - | 249.6 |
| | AC | AC | 245.4 | - | 245.4 |
| | FVPL | FVPL | 4.2 | - | 4.2 |
| Subordinated loan capital | AC | AC | 217.9 | - | 217.9 |
| Liabilities classified as held for sale | | | 0.6 | - | 0.6 |
| **Total liabilities** | | | 8,902.3 | - | 8,902.3 |
| **Total equity** | | | 1,348.7 | (44.9) | 1,303.8 |
| **Total liabilities and equity** | | | 10,251.0 | (44.9) | 10,206.1 |

[1] Abbreviations

AC – amortised cost
AFS – available for sale
FV(H) – derivatives held for hedging and carried at fair value
FVOCI – fair value through other comprehensive income

FVPL – fair value through profit or loss
HFT – held for trading
LAR – loans and receivables

## Cautionary Statement

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

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