Close Brothers

Close Brothers Group plc
10 Crown Place
London EC2A 4FT

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

Registered in England No. 520241

Preliminary results for the year ended 31 July 2019

24 September 2019

Highlights

- The group delivered a solid performance with continued strong returns and profitability
- We achieved higher profits in Banking while the Asset Management division and Winterflood faced more challenging conditions and overall, adjusted operating profit reduced 3% to £270.5 million
- The CET1 capital ratio increased to 13.0% and return on opening equity remained strong at 15.7%
- Banking adjusted operating profit increased 1% to £253.7 million, benefiting from our continued disciplined approach to lending and the diversity of our business portfolio. The net interest margin was broadly stable at 7.9%, the bad debt ratio remained low at 0.6% and the loan book grew by 5.7% to £7.6 billion
- Continued good momentum in the Asset Management division with strong net inflows at 9%. Adjusted operating profit of £21.8 million, down 6%, reflects lower average market levels throughout the year and continued investment to support the long-term growth potential of the business
- Winterflood delivered solid trading profitability in a difficult market environment, with only two loss days in the year. Operating profit of £20.0 million, down 29%, reflects significantly lower market activity
- The board is proposing a full year dividend per share of 66.0p, up 5%
- On a statutory basis, group operating profit before tax from continuing operations decreased 2% to £264.7 million
- As separately announced today, Preben Prebensen has decided to step down after ten years as chief executive. Preben will remain with the group for the next 12 months to ensure a successful handover

Key Financials[1]	Full year 2019	Full year 2018	Change %
Adjusted operating profit[2]	**£270.5m**	£278.6m	(3)
Operating profit before tax (continuing operations)	**£264.7m**	£271.2m	(2)
Adjusted basic earnings per share (continuing operations)	**136.7p**	140.2p	(2)
Basic earnings per share (continuing operations)	**133.5p**	136.2p	(2)
Basic earnings per share (continuing and discontinued operations)	**134.2p**	134.7p	(0)
Dividend per share	**66.0p**	63.0p	5
Return on opening equity	**15.7%**	17.0%	
Net interest margin	**7.9%**	8.0%	
Bad debt ratio	**0.6%**	0.6%	
	31 July 2019	1 August 2018	Change %
Loan book	**£7.6bn**	£7.2bn	5.7
Total client assets	**£13.3bn**	£12.2bn	9.0
CET1 capital ratio	**13.0%**	12.7%	
Total capital ratio	**15.2%**	15.0%	

1 Please refer to definitions on page 19.
2 Adjusted operating profit exclude £5.8 million (2018: £7.4 million) of amortisation of intangible assets on acquisition, and profit from discontinued operations of £0.8 million (2018: loss of £3.0 million).

Preben Prebensen, Chief Executive, said:

"I am pleased that the group has delivered a very solid performance, maintaining strong returns and profitability. The Banking division has achieved good loan book growth whilst maintaining strong margins and consistent pricing in a competitive market, and our market facing businesses have continued to deliver strong net inflows and solid trading profitability in challenging conditions. The disciplined application of our business model and investment in key strategic initiatives give us confidence that we can continue to support our customers in a wide range of market conditions.

As you will have seen from today's announcement, I have decided that the time has come to step down as chief executive in the next 12 months. It has been a privilege to lead such a special and successful organisation over the last ten years. The group is clearly well positioned for the future, with an excellent team in place, and I look forward to working closely with the Board over the next year to continue delivering on our strategy and ensure a smooth and successful transition."

Enquiries

Sophie Gillingham	Close Brothers Group plc	020 3857 6574
Camila Sugimura	Close Brothers Group plc	020 3857 6577
Eva Hatfield	Close Brothers Group plc	020 3857 6573
Matt Bullivant	Close Brothers Group plc	020 3857 6576
Andy Donald	Maitland	020 7379 5151

A presentation to analysts and investors will be held today at 9.30 am GMT at 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/PrelimResults2019/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 financial years. The related assets and liabilities are classified as held for sale on the group's balance sheet 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 2018 financial year 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 2019 financial year under IFRS 9. As permitted by 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 2018 financial year continues to be reported under IAS 39 Financial Instruments – Recognition and Measurement. The group has presented its opening balance sheet at 1 August 2018 and reported under IFRS 9 to aid comparability and consistency with the 2019 financial year closing balances (see also note 16 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

Our purpose is to help the people and businesses of Britain thrive over the long term. This ambition is key to our strategy, our culture, and how we manage our business, and we are committed to delivering long-term value for all our customers, clients and partners, and for our employees and the communities and environment in which we operate.

This commitment to all our stakeholders helps to support our common purpose, which is fundamental to our long-term success, and to delivering strong returns for our shareholders.

We delivered another set of solid results, with continued strong profitability and return on opening equity of 15.7% (2018: 17.0%). The board is proposing a full year dividend of 66.0p (2018: 63.0p) per share, up 5%, in line with our progressive dividend policy.

Adjusted operating profit decreased 3% to £270.5 million (2018: £278.6 million), with higher profits in the Banking division, while profit reduced in our market-facing businesses, Close Brothers Asset Management and Winterflood. Statutory operating profit before tax from continuing operations decreased 2% to £264.7 million (2018: £271.2 million). Adjusted basic earnings per share ("EPS") reduced 2% to 136.7p (2018: 140.2p), and statutory basic earnings per share from continuing operations also reduced 2% to 133.5p (2018: 136.2p).

Solid Profitability in the Lending Businesses

The Banking division delivered solid profitability, maintaining our disciplined approach and benefiting from our diverse portfolio of businesses, with adjusted operating profit increasing 1% to £253.7 million (2018: £251.8 million).

The net interest margin remained broadly stable on the prior year at 7.9% (2018: 8.0%), as we continue to uphold our pricing discipline despite ongoing competition across a number of our markets. The unchanged low bad debt ratio of 0.6% (2018: 0.6%) reflects a consistently strong credit performance across our lending portfolios, and the continued application of our prudent lending criteria.

Overall the loan book increased 5.7% to £7.6 billion (1 August 2018: £7.2 billion), with growth across all businesses. We achieved good growth in the Commercial portfolio across both Asset Finance and Invoice and Speciality Finance. In Retail, Premium Finance delivered good growth, benefiting from new broker wins following significant investment in this business in recent years and the Motor Finance business returned to growth for the full year. Property delivered a modest loan book growth, and we continue to extend our business into UK regional markets where we see strong demand for development of new build family homes.

We are progressing with a number of strategic investment projects to protect, improve and extend our business. During the year, we have successfully implemented a new customer deposit platform, which will enable us to provide a wider range of deposit products and further broaden our distribution channels. In Motor Finance, we have made good progress with our multi-year transformation programme, which will significantly enhance our service proposition to dealers and customers. We are also making good progress towards our Internal Ratings Based ("IRB") approach for capital application, which will enhance our risk management framework, optimise our capital requirements and increase our long-term strategic flexibility.

Solid Performance in Challenging Conditions for Asset Management and Winterflood

The Asset Management division maintained good momentum, although profits were impacted by lower average market levels throughout the year and continued investment. We achieved strong net inflows at 9% (2018: 12%) 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 £21.8 million (2018: £23.1 million), down 6% on the prior year, and an operating margin of 18% (2018: 20%).

Winterflood continued to deliver solid trading profitability in difficult market conditions, with only two loss days (2018: none). Operating profit of £20.0 million (2018: £28.1 million) reduced on a strong prior year due to lower investor risk appetite and significantly lower trading volumes.

Prudent Funding, Liquidity and Capital

The prudent management of 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 year, with the a common equity tier 1 ("CET1") capital ratio of 13.0% (1 August 2018: 12.7%) and strong leverage ratio of 11.0% (1 August 2018: 10.6%).

We have continued to actively diversify our sources of funding with the successful implementation of a new customer deposit platform, and continue to optimise our liquidity to maximise both cost efficiency and future flexibility.

CEO Succession

Today the group has separately announced that after ten years, Preben Prebensen has decided to step down as chief executive. The Board will now commence a formal search for a successor, considering both internal and external candidates, in line with our established succession process. Preben will remain with the group for the next 12 months to ensure a smooth handover.

Outlook

We are committed to maintaining the discipline of our business model, investing in key strategic initiatives and technology, and continually seeking to improve and extend our product offering.

We are closely monitoring external market and economic developments, and our diverse portfolio of businesses and strong credit quality position us well to lend consistently and profitably, and to support our customers and clients throughout the economic cycle.

The Banking division is committed to maintaining pricing and underwriting discipline, and progressing with key strategic investment initiatives.

The Asset Management division is focused on long-term growth in client assets and profits, through organic new business and selective hiring of advisers and portfolio managers.

Winterflood maintains a strong position in its markets, but as a daily trading business it remains sensitive to financial market conditions.

Overall, the group remains well positioned to support our customers and clients in a wide range of market conditions.

OVERVIEW OF FINANCIAL PERFORMANCE

Group Income Statement

Continuing operations	**2019 £ million**	2018 £ million	Change %
Adjusted operating income	**816.4**	805.8	1
Adjusted operating expenses	**(497.4)**	(480.5)	4
Impairment losses on financial assets	**(48.5)**	(46.7)	4
Adjusted operating profit	**270.5**	278.6	(3)
Banking	**253.7**	251.8	1
Commercial	**86.5**	76.1	14
Retail	**72.5**	81.1	(11)
Property	**94.7**	94.6	0
Asset Management	**21.8**	23.1	(6)
Securities	**20.0**	28.1	(29)
Group	**(25.0)**	(24.4)	2
Amortisation of intangible assets on acquisition	**(5.8)**	(7.4)	(22)
Operating profit before tax	**264.7**	271.2	(2)
Tax	**(64.4)**	(67.0)	(4)
Profit after tax: continuing operations	**200.3**	204.2	(2)
Profit/(loss) from discontinued operations, net of tax	**1.1**	(2.2)	
Loss attributable to non-controlling interests	**(0.2)**	(0.3)	
Profit attributable to shareholders: continuing and discontinued operations	**201.6**	202.3	(0)
Adjusted basic earnings per share (continuing operations)	**136.7p**	140.2p	(2)
Basic earnings per share (continuing operations)	**133.5p**	136.2p	(2)
Basic earnings per share (continuing and discontinued operations)	**134.2p**	134.7p	(0)
Dividend per share	**66.0p**	63.0p	5
Return on opening equity	**15.7%**	17.0%	

Financial Overview

The group delivered another solid performance, maintaining strong returns and profitability. Adjusted operating profit decreased 3% to £270.5 million (2018: £278.6 million), reflecting a challenging environment for our market-facing businesses and continued investment across all our businesses. Statutory operating profit before tax from continuing operations decreased 2% to £264.7 million (2018: £271.2 million). The operating margin reduced by 2% to 33% (2018: 35%).

The Banking division continued to perform well and slightly ahead of the prior year, delivering an adjusted operating profit of £253.7 million (2018: £251.8 million), with good income growth and continued low bad debt ratios across the businesses, offset by higher adjusted operating expenses as we increased investment in our business. The Asset Management division continued to achieve strong net inflows, although operating profit of £21.8 million (2018: £23.1 million) was down 6% on the prior year reflecting lower average market levels throughout the year and continued investment to support the long-term growth of the business. The Securities division delivered solid trading profitability despite difficult market conditions, with operating profit of £20.0 million (2018: £28.1 million), down 29% on a strong prior year. Group net expenses, which include the central functions such as finance, legal and compliance, risk and human resources, were up 2% at £25.0 million (2018: £24.4 million).

Adjusted operating income increased 1% to £816.4 million (2018: £805.8 million), as good income growth in the Banking and the Asset Management divisions was partially offset by reduced trading income in the Securities division. Income in the Banking division increased 4%, reflecting loan book growth across all

businesses and a broadly stable net interest margin of 7.9% (2018: 8.0%). Income in the Asset Management division was up 4% reflecting higher client assets and a £1.4 million gain on disposal of assets in the second half of the financial year. Income in the Securities division declined 14% as a result of significantly lower trading volumes driven by subdued investor appetite.

Adjusted operating expenses increased 4% to £497.4 million (2018: £480.5 million), with most of the increase in the Banking division, where we continue to invest in a number of strategic projects and business initiatives. While investment costs have increased, we have continued to improve operational efficiency and, as a result, the Banking expense/income ratio only increased to 50% (2018: 49%). Costs also increased in the Asset Management division, driven by continued hiring of advisers and portfolio managers and investments in technology and our research capability. Expenses in the Securities division reduced, reflecting lower variable costs. Overall, the group's expense/income ratio was marginally higher at 61% (2018: 60%) but the group's compensation ratio reduced slightly to 36% (2018: 37%).

The group's loan impairment losses are now reported under IFRS 9. The application of the new standard accelerates the recognition of impairment, principally as loans move between "stages" due to changes in their credit profile or to reflect changes in the macroeconomic outlook. In the last year, impairment losses increased 4% to £48.5 million (2018: £46.7 million under IAS 39). The bad debt ratio remained low at 0.6% (2018: 0.6%), reflecting the continued prudent application of our lending criteria and consistently strong credit performance across our lending portfolios.

The tax charge in the period was £64.4 million (2018: £67.0 million), which corresponds to an effective tax rate of 24% (2018: 25%), reflecting a one-off credit due to the release of a tax provision. Adjusted basic earnings per share ("EPS") from continuing operations decreased 2% to 136.7p (2018: 140.2p) and basic EPS from continuing operations decreased 2% to 133.5p (2018: 136.2p).

Discontinued Operations

On 1 January 2019, the group completed the sale of its unsecured retail point of sale finance business, which has been treated as a discontinued operation in the income statement for the 2018 and 2019 financial years, and as an asset held for sale on the balance sheet at 31 July 2018 and 1 August 2018. The profit from discontinued operations was £1.1 million (2018: £2.2 million loss) and included a £2.7 million profit on disposal net of tax. Basic EPS from continuing and discontinued operations was 134.2p (2018: 134.7p), broadly in line with the prior year.

Dividend

The board is proposing a final dividend per share of 44.0p (2018: 42.0p), resulting in a full-year dividend per share of 66.0p (2018: 63.0p), an increase of 5% on the prior year. This reflects our progressive dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover. Subject to shareholder approval at the Annual General Meeting, the final dividend will be paid on 26 November 2019 to shareholders on the register at 11 October 2019.

Group Balance Sheet

	31 July 2019 £ million	1 August 2018 £ million[1]
Loans and advances to customers	**7,649.6**	7,239.3
Treasury assets[2]	**1,395.4**	1,435.1
Market-making assets[3]	**666.1**	635.7
Other assets	**850.2**	896.0
Total assets	**10,561.3**	10,206.1
Deposits by customers	**5,638.4**	5,497.2
Borrowings	**2,601.0**	2,501.1
Market-making liabilities[3]	**582.4**	565.5
Other liabilities	**333.1**	338.5
Total liabilities	**9,154.9**	8,902.3
Equity	**1,406.4**	1,303.8
Total liabilities and equity	**10,561.3**	10,206.1

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

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

Other items on the balance sheet include treasury assets held for liquidity purposes, and settlement balances in our Securities division. Intangibles, property, plant and equipment, and prepayments are included as other assets. Liabilities are predominantly made up of customer deposits and both secured and unsecured borrowings to fund the loan book.

Total assets increased 3% to £10.6 billion (1 August 2018: £10.2 billion), driven by loan book growth in the year. Total liabilities were up 3% to £9.2 billion (1 August 2018: £8.9 billion) driven by an increase in borrowings and deposits to fund loan book growth. Shareholders' equity of £1.4 billion (1 August 2018: £1.3 billion) continued to build, with profit in the period partially offset by dividend payments of £95.5 million (2018: £91.0 million). The group's return on assets remained broadly stable at 1.9% (2018: 2.0%).

Group Capital

	31 July 2019 £ million	1 August 2018 £ million
Common equity tier 1 capital	**1,169.2**	1,082.2
Total capital	**1,364.6**	1,280.1
Risk weighted assets	**8,967.4**	8,542.6
Common equity tier 1 capital ratio	**13.0%**	12.7%
Total capital ratio	**15.2%**	15.0%
Leverage ratio	**11.0%**	10.6%

The group's strong capital generation has allowed us to support continued loan book growth in the year while maintaining capital ratios comfortably ahead of minimum requirements. Overall, the CET1 capital ratio increased to 13.0% (1 August 2018: 12.7%), reflecting continued profitability and slower loan book growth at this stage in the cycle. The total capital ratio increased to 15.2% (1 August 2018: 15.0%).

In the last year, we generated £87.0 million of CET1 capital, reflecting £201.6 million of profit in the year, partially offset by the regulatory deduction of dividends paid and foreseen of £98.5 million, an increase in intangibles, and other movements in reserves. As a result, CET1 capital increased 8% to £1,169.2 million (1 August 2018: £1,082.2 million).

Risk weighted assets also increased 5% to £9.0 billion (1 August 2018: £8.5 billion), primarily reflecting continued loan book growth.

The leverage ratio, which is a transparent measure of capital strength, not affected by risk weightings, remains strong at 11.0% (1 August 2018: 10.6%).

The group's capital ratios at 31 July 2019 are presented on a transitional basis after applying IFRS 9 arrangements that allow the capital impact of expected credit losses to be phased in over a five-year period, and the Capital Requirements Regulation ("CRR") transitional arrangements for grandfathered Tier 2 capital instruments. Before the transitional adjustments, the group's fully loaded CET1 and total capital ratios at 31 July 2019 were 12.6% (1 August 2018: 12.2%) and 14.5% (1 August 2018: 14.2%), respectively.

The group's capital ratios remain comfortably ahead of minimum regulatory requirements. Our minimum CET1 capital ratio requirement, effective July 2019, is 9.0%, including all applicable buffers and a 1.1% pillar 2 add-on, with a total capital requirement of 13.4%. Accordingly, we continue to have good headroom of c.400 bps in our CET1 capital ratio, and c.180 bps in the total capital ratio.

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

We are making good progress towards our IRB application, with increasing visibility and confidence as we move through our preparations. We have completed the development of our initial model suite, which is now undergoing testing and validation. We currently expect to be in a position to submit our formal application to the PRA around the 2020 financial year end.

Group Funding[1]

	31 July 2019 £ million	1 August 2018 £ million
Customer deposits	**5,638.4**	5,497.2
Secured funding	**1,404.8**	1,360.3
Unsecured funding[2]	**1,462.2**	1,421.2
Equity	**1,406.4**	1,303.8
Total available funding	**9,911.8**	9,582.5
Of which term funding (>1 year)	**5,493.4**	4,913.6
Total funding as % of loan book	**129%**	132%
Term funding as % of loan book	**72%**	68%
Average maturity of funding allocated to loan book[3]	**20 months**	23 months

1 Numbers relate to core funding and exclude working capital facilities at the business level.
2 Unsecured funding excludes £29.0 million (2018: £14.6 million) of non-facility overdrafts included in borrowings and includes £295.0 million (2018: £295.0 million) of undrawn facilities.
3 Average maturity of total funding excluding equity and funding held for liquidity purposes.

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

Total funding increased to £9.9 billion (1 August 2018: £9.6 billion) and accounted for 129% (1 August 2018: 132%) of the loan book at the balance sheet date. Our average cost of funding of 1.7% (2018: 1.6%) was marginally up on the prior year, though our effective management of funding sources kept this increase comfortably below the 25 bps increase in the Bank of England base rate in August 2018.

We maintain a diverse range of funding sources across a series of maturities, including several public debt securities at both group and operating company level as well as a number of securitisation facilities. Over the

year, we increased our volumes of customer deposits, and have continued to make use of smaller private placements.

Our range of secured funding facilities include securitisations of our Premium and Motor Finance loan books. During the year we renewed and increased our Motor Finance securitisation facility by £100 million, at lower pricing, and renewed and increased our Premium Finance securitisation facility to £500 million over a two-year period. We have made limited use of the Term Funding Scheme, which accounted for only 5% of our total funding at the year end. The first of our public Motor Finance securitisations was fully redeemed on 16 September 2019, with all public interest repaid at 31 July 2019.

Deposits increased 3% overall to £5.6 billion (1 August 2018: £5.5 billion) with non-retail deposits decreasing slightly to £3.5 billion (2018: £3.6 billion) and retail deposits increasing by 12% to £2.1 billion (1 August 2018: £1.9 billion). Unsecured funding remained broadly unchanged at £1.5 billion (1 August 2018: £1.4 billion).

We have maintained a prudent maturity profile. Term funding, with a residual maturity over one year, increased to £5.5 billion (1 August 2018: £4.9 billion), reflecting the renewal of long-term facilities, and now covers 72% (1 August 2018: 68%) of the loan book. The average maturity of funding allocated to the loan book remained significantly ahead of the loan book at 20 months (1 August 2018: 23 months), while the average loan book maturity remained at 14 months (1 August 2018: 14 months).

During the year we implemented a new customer deposit platform, which will allow us to offer a wider range of deposit products to further diversify our funding as well as improve customer experience. We completed the successful migration of c.37,000 customers and £3.8 billion of deposits onto the new platform in December 2018, and have since launched new notice accounts as an additional product for our retail, pension and small and medium-sized enterprise ("SME") customers. In the 2020 financial year, we will be introducing a suite of new savings products and a new online portal.

Our strong credit ratings have been reaffirmed by both Moody's Investors Services ("Moody's") and Fitch Ratings ("Fitch") during the year. Moody's rates Close Brothers Group A3/P2 and Close Brothers Limited Aa3/P1, with stable outlook. Fitch affirmed ratings for both entities "A/F1" in August 2019, having previously revised the outlook to rating watch negative alongside UK peers in March 2019 to reflect their view of the increased risk of a disruptive "no deal" Brexit scenario.

Group Liquidity

	31 July 2019 £ million	1 August 2018 £ million
Cash and balances at central banks	**1,106.4**	1,140.3
Sovereign and central bank debt	**48.3**	44.5
Certificates of deposit	**240.7**	250.3
Treasury assets	**1,395.4**	1,435.1

The group maintains a strong liquidity position, ensuring it is comfortably ahead of both internal risk appetite and regulatory requirements. The majority of our liquidity requirements and surplus funding are held with central banks. In the year, treasury assets remained broadly stable at £1.4 billion (1 August 2018: £1.4 billion) and were predominantly held on deposit with the Bank of England, giving us continued good headroom to both internal and external liquidity requirements.

We regularly assess and stress test our liquidity requirements and continue to comfortably meet the liquidity coverage ratio requirements under the Capital Requirements Directive IV, with a 12-month average liquidity coverage ratio of 823% (2018: 1,038%).

BANKING

Key Financials

Continuing operations[1]	**2019 £ million**	2018 £ million	Change %
Adjusted operating income	**602.6**	581.0	4
Adjusted operating expenses	**(300.5)**	(282.5)	6
Impairment losses on financial assets	**(48.4)**	(46.7)	4
Adjusted operating profit	**253.7**	251.8	1
Net interest margin[2]	**7.9%**	8.0%	
Expense/income ratio	**50%**	49%	
Bad debt ratio[2]	**0.6%**	0.6%	
Return on net loan book[2]	**3.3%**	3.5%	
Return on opening equity	**17.5%**	19.5%	
Average loan book and operating lease assets[3]	**7,654.0**	7,261.1	5

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

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

3 Re-presented to exclude the unsecured retail point of sale finance loan book in both 2018 and 2019 financial years and is used to calculate net interest margin, bad debt ratio and return on net loan book.

Solid Performance while Maintaining Pricing and Underwriting Discipline

Banking adjusted operating profit was up 1% to £253.7 million (2018: £251.8 million), with solid loan book growth and broadly stable net interest margin offsetting an increase in investments. Statutory operating profit from continuing operations increased 1% to £251.8 million (2018: £249.9 million).

The loan book grew 5.7% (2018: 6.6% excluding discontinued operations), with growth across all our lending businesses, reflecting our strong customer proposition and benefiting from the diversity of our loan portfolio. The return on net loan book remained strong at 3.3% (2018: 3.5%).

Adjusted operating income was up 4% at £602.6 million (2018: £581.0 million), supported by loan book growth across the lending businesses.

The net interest margin remained strong at 7.9% (2018: 8.0%), reflecting continued pricing discipline. The slight reduction compared to the prior year reflects the combination of lower fee income and higher cost of funds.

Adjusted operating expenses increased 6% to £300.5 million (2018: £282.5 million). Over two-thirds of the increase relate to investment in strategic projects and new business initiatives, in line with our long term strategy. This includes our multi-year investment programme in Motor Finance, our new customer deposit platform and investment to support our IRB application.

The remaining cost increase largely relates to strengthening our operational resilience and core technology. Despite the increase in overall costs, we have continued with our efforts to improve operating efficiency and carefully manage non-investment spend. Staff costs, which represent the majority of the cost base, remained flat on the prior year. The expense/income ratio was marginally up to 50% (2018: 49%), while the compensation ratio reduced slightly to 28% (2018: 29%).

We have maintained strong credit quality across our businesses and the bad debt ratio remained low at 0.6% (2018: 0.6%).

Return on opening equity remained strong at 17.5% (2018: 19.5%) reflecting the ongoing strong profitability of the business, offset by continued growth in the equity base.

Loan Book Analysis

	31 July 2019 £ million	1 August 2018[1] £ million	Change %
Commercial[2]	**2,991.3**	2,747.5	8.9
Asset Finance	**1,946.4**	1,828.2	6.5
Invoice and Speciality Finance	**1,044.9**	919.3	13.7
Retail	**2,810.7**	2,670.5	5.2
Motor Finance	**1,775.6**	1,722.7	3.1
Premium Finance	**1,035.1**	947.8	9.2
Property	**1,847.6**	1,821.3	1.4
Closing loan book	**7,649.6**	7,239.3	5.7
Operating lease assets[3]	**220.4**	198.6	11.0
Closing loan book and operating lease assets	**7,870.0**	7,437.9	5.8

1 The loan book at 1 August 2018 excludes the unsecured retail point of sale finance loan book of £66.2 million, which was classified as held for sale at the balance sheet date.
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 July 2019 and comparative 1 August 2018 opening loan book figures have been re-presented accordingly.
3 Operating lease assets of £4.2 million (1 August 2018: £7.0 million) relate to Asset Finance and £216.2 million (1 August 2018: £191.6 million) to Invoice and Speciality Finance.

Loan book growth has always been an output of our business model, and we continue to prioritise our margins and credit quality. We have a diverse portfolio of businesses, which ensures that our model remains resilient through the cycle. Loan book growth was 5.7% in the year to £7.6 billion (1 August 2018: £7.2 billion), with all five businesses growing, reflecting a resilient performance in our core businesses and new product initiatives and extensions.

We achieved particularly good growth in our Commercial business lines, across both our core Asset and Invoice Finance businesses, as well as the newer Novitas business.

Premium Finance also delivered good growth in the year and Motor Finance saw a slight return to growth, benefiting from recent investment, while we continue to prioritise our strict lending criteria in the face of ongoing competition.

Property grew modestly in the year, with continued regional growth offsetting a significant level of repayments and slightly lower new business volumes in London and the South East. We continue to see strong structural demand for new build family housing, and the new business pipeline remains solid.

Banking: Commercial	**2019** **£ million**	2018 £ million	Change %
Operating income	**249.9**	225.5	11
Adjusted operating expenses	**(140.1)**	(132.2)	6
Impairment losses on financial assets	**(23.3)**	(17.2)	35
Adjusted operating profit	**86.5**	76.1	14
Net interest margin	**8.1%**	7.9%	
Expense/income ratio	**56%**	59%	
Bad debt ratio	**0.8%**	0.6%	
Average loan book and operating lease assets	**3,078.9**	2,856.4	8

The Commercial businesses provide specialist, secured lending principally to the SME market and include Asset and Invoice and Speciality Finance. The latter includes smaller specialist businesses such as Novitas, a specialist provider of finance to the legal sector, Brewery Rentals, which provides service and finance solutions for brewery equipment and containers, and Vehicle Hire, which provides heavy goods and light commercial vehicles on a predominantly long-term hire basis.

The Commercial loan book increased 9% overall to £3.0 billion (1 August 2018: £2.7 billion), with particularly strong growth in the core Asset and Invoice Finance businesses, and in Novitas. The Asset Finance loan book was up 6% in the year, benefiting from solid performance in our well-established sectors, with good growth in transport, and particularly aviation and marine, notwithstanding continued active competition from both new and existing lenders in the asset finance market. We have also made good progress in expanding our core offerings, with increased uptake of personal contract hire within Asset Finance and of our asset based lending proposition within Invoice Finance.

Adjusted operating profit of £86.5 million (2018: £76.1 million) was up 14%, driven by good income growth and continued low bad debt. Statutory operating profit increased 14% to £84.9 million (2018: £74.5 million).

Operating income of £249.9 million (2018: £225.5 million) was 11% higher than the prior year, reflecting strong growth in the loan book. We have maintained a strong net interest margin of 8.1% (2018: 7.9%), ahead of the prior year reflecting growth in higher margin business lines.

Costs grew by 6% to £140.1 million (2018: £132.2 million), significantly below the increase in operating income, and resulting in an expense/income ratio that reduced to 56% (2018: 59%).

The bad debt ratio increased to 0.8% (2018: 0.6%), reflecting very low bad debts in the prior year, and remains close to historically low levels, with good credit performance overall.

Banking: Retail

Continuing operations[1]	2019 £ million	2018 £ million	Change %
Adjusted operating income	**223.2**	225.5	(1)
Adjusted operating expenses	**(125.5)**	(119.2)	5
Impairment losses on financial assets	**(25.2)**	(25.2)	-
Adjusted operating profit	**72.5**	81.1	(11)
Net interest margin[2]	**8.1%**	8.4%	
Expense/income ratio	**56%**	53%	
Bad debt ratio[2]	**0.9%**	0.9%	
Average loan book[3]	**2,740.6**	2,676.3	2

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 and 2019 financial years.
2 The calculation of the bad debt ratio and net interest margin excludes the unsecured retail point of sale finance loan book from both the opening and closing loan book.
3 Re-presented to exclude the unsecured retail point of sale finance loan book in both the 2018 and 2019 financial years and is used to calculate net interest margin, bad debt ratio and return on net loan book.

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

The Retail loan book increased 5% to £2.8 billion (1 August 2018: £2.7 billion), reflecting loan book growth in both Premium Finance and Motor Finance.

Premium Finance delivered good growth of 9% to £1.0 billion (1 August 2018: £0.9 billion) driven by several new significant broker relationships in the period, with strong growth in Personal lines and continued good growth in Commercial. The Premium Finance business continues to be well positioned competitively, benefiting from the multi-year investment programme in its infrastructure over recent years to improve both broker and end customer experience.

The Motor Finance loan book increased 3% to £1.8 billion (1 August 2018: £1.7 billion). The UK book returned to growth in the period, benefiting from recent improvements in sales capability. This was supported by further growth in the Republic of Ireland, which accounts for 28% (2018: 26%) of the Motor Finance loan book, where we operate through a local partner, First Auto Finance, who provide the distribution and dealer relationships. In both the UK and Ireland, our core product remains hire-purchase contracts for second-hand vehicles, with Personal Contract Plans ("PCP") accounting for only 12% of the Motor Finance loan book at 31 July 2019.

On 1 January 2019 we completed the sale of our unsecured retail point of sale finance business, which provides finance to consumers through retailers, and had a loan book of £66.2 million classified as held for sale at 31 July 2018.

Overall, adjusted operating profit for Retail of £72.5 million (2018: £81.1 million) was down 11% on the prior year, and statutory operating profit from continuing operations reduced 11% to £72.2 million (2018: £80.8 million).

Adjusted operating income was down 1% year-on-year at £223.2 million (2018: £225.5 million) with a slight decline in net interest margin to 8.1% (2018: 8.4%), due to lower fee income in the Motor Finance business and the mix impact of growth in lower margin business in Ireland.

Adjusted operating expenses increased 5% to £125.5 million (2018: £119.2 million), and the expense/income ratio increased to 56% (2018: 53%), reflecting our ongoing investment in both Premium Finance and Motor Finance. Our investment in the infrastructure of the Premium Finance business is now delivering substantial benefits in the form of significant new broker relationships and cost savings through operational efficiencies. This has resulted in a 20% growth in the number of cases and a 34% increase in loan book since the 2016 financial year. We are making good progress with our Motor Finance transformation programme which is aimed at improving the service proposition, enhancing operational efficiency, improving our credit acceptance

process and increasing sales effectiveness. We expect to realise further benefits as this investment programme progresses.

Credit performance remains in line with our expectations at this stage of the cycle, with the bad debt ratio stable at 0.9% (2018: 0.9%), reflecting continued commitment to our strict lending criteria.

Banking: Property

	2019 **£ million**	2018 £ million	Change %
Operating income	**129.5**	130.0	(0)
Operating expenses	**(34.9)**	(31.1)	12
Impairment losses on financial assets	**0.1**	(4.3)	(102)
Operating profit	**94.7**	94.6	0
Net interest margin	**7.1%**	7.5%	
Expense/income ratio	**27%**	24%	
Bad debt ratio	**(0.0%)**	0.2%	
Average loan book	**1,834.5**	1,728.4	6

Property comprises Property Finance and Commercial Acceptances. The Property Finance business is focused on specialist residential development finance to established professional developers in the UK. Commercial Acceptances provides bridging loans and loans for refurbishment projects. We do not lend to the buy-to-let sector, or provide residential or commercial mortgages.

Property delivered 1% loan book growth, to £1.8 billion (1 August 2018: £1.8 billion), reflecting a significant level of repayments, which offset new business. We continued to increase the number of clients in the period and saw good regional growth, which offset the slower markets in London and the South East.

We continue to see good structural demand in our core market of property development finance for new build family housing. London and the South East represent c.70% of the portfolio, however there remains strong growth opportunity in regional locations around major commuting hubs. During the year we launched a new bridging finance office in Manchester and expanded our development finance offering in Northern Ireland. Our long track record, expertise and quality of service ensure the business remains resilient to competition and continues to generate high levels of repeat business.

The business delivered an operating profit of £94.7 million (2018: £94.6 million), broadly flat on the prior year. The net interest margin reduced to 7.1% (2018: 7.5%), reflecting an increase in cost of funds driven by the base rate increase in August 2018, and lower transactional fees in the latter part of the year. The business reported a bad debt ratio of (0.0%) (2018: 0.2%).

Operating expenses of £34.9 million (2018: £31.1 million) were up 12%, reflecting the increase in technology investment across the Banking division. The expense/income ratio remained low at 27% (2018: 24%), reflecting the lower operational requirements of the business with larger transaction sizes and a relatively small number of loans.

ASSET MANAGEMENT

Key Financials

	2019 £ million	2018 £ million	Change %
Investment management	**81.7**	75.2	9
Advice and other services[1]	**37.2**	39.6	(6)
Other income[2]	**1.5**	0.7	114
Operating income	**120.4**	115.5	4
Adjusted operating expenses	**(98.5)**	(92.4)	7
Impairment losses on financial assets[3]	**(0.1)**	-	
Adjusted operating profit	**21.8**	23.1	(6)
Revenue margin (bps)	**93**	98	
Operating margin	**18%**	20%	
Return on opening equity	**32.1%**	33.7%	

1 Income from advice and self-directed services, excluding investment management income.
2 Includes a £1.4 million gain on disposal of non-core assets, net interest income and expense, income on principal investments and other income.
3 Impairment losses on financial assets reflects an increase in the expected credit loss provision related to cash balances.

Continued Good Momentum

The division delivered £21.8 million (2018: £23.1 million) adjusted operating profit and an operating margin of 18% (2018: 20%). Statutory operating profit before tax was £17.9 million (2018: £17.6 million). Net inflows were £894 million (31 July 2018: £1,083 million) in the year, or 9% (2018: 12%) of opening managed assets. Including market movements, total managed assets increased 12% to £11.7 billion (2018: £10.4 billion).

Total operating income increased 4% to £120.4 million (2018: £115.5 million), driven by higher investment management income from continued growth in managed assets. The reduction in income on advice and other services reflects lower initial fees associated with new advice business levels due to weaker market sentiment, compared to the prior year. The revenue margin decreased to 93 bps (2018: 98 bps) reflecting the lower average market levels throughout the year, which affected income, and higher market and asset levels at the beginning and end of the financial year.

Adjusted operating expenses increased 7% to £98.5 million (2018: £92.4 million), and the expense/income ratio increased to 82% (2018: 80%). Growth in expenses was driven by continued investment in people and our research capability and technology to further enhance our operating efficiency. Headcount increased 5% in the period, reflecting hiring of advisers and portfolio managers, in line with our growth strategy. However, the compensation ratio reduced to 54% (2018: 55%), reflecting lower variable compensation.

Movement in Client Assets

	31 July 2019 £ million	31 July 2018 £ million
Opening managed assets	**10,378**	8,900
Inflows	**2,107**	1,961
Outflows	**(1,213)**	(878)
Net inflows	**894**	1,083
Market movements	**401**	395
Total managed assets	**11,673**	10,378
Advised only assets	**1,651**	1,841
Total client assets[1]	**13,324**	12,219
Net flows as % of opening managed assets	**9%**	12%

1 Total client assets include £5.0 billion of assets (31 July 2018: £4.2 billion) that are both advised and managed. Total client assets will reduce by c.£360 million in the first half of 2020, reflecting the agreed disposal of non-core assets.

Good Momentum in Net Inflows Across All Channels

Notwithstanding the subdued investor sentiment over the year, we achieved strong net inflows of £894 million, an annualised net inflow rate of 9%. This reflects continued good demand for both our investment management and integrated wealth services, with strong flows from our own advisers and third party independent financial advisers as well as recent portfolio manager hires. Positive market movements contributed a further £401 million to managed assets in the year. As a result, managed assets increased 12% overall to £11.7 billion (31 July 2018: £10.4 billion).

Advised assets under third party management decreased by 10% following continued transfers of assets into our management. Total client assets increased 9% overall, to £13.3 billion (31 July 2018: £12.2 billion).

In July 2019, we agreed the sale of a small portfolio of self-directed clients, whose assets are held either on third party platforms or directly with fund managers. The sale is expected to reduce total client assets by c.£360 million in the next financial year. We continue to provide self-directed services to clients via our own platform.

Strong Fund Performance over the Year

Our funds and segregated bespoke portfolios are designed to provide attractive long-term risk-adjusted returns for our clients, in line with their individual goals. Over the 12-month period to 31 July 2019 and the three-year period to 31 July 2019, nine out of our 12 multi-asset funds outperformed their relevant peer group average. All of our bespoke strategy composites outperformed their relevant peer group average over the year to 31 July 2019, and over a three and a five-year period, in line with our strong long-term outperformance track record for our bespoke strategies.

Remain Well Positioned for Future Growth

Notwithstanding the challenging external factors impacting global markets, our focus remains on providing excellent service to our clients, while looking at ways to optimise our adviser and investment manager productivity and to improve operational leverage, revenue growth and net inflows. We continue to make significant progress implementing strategic technology enhancements to improve operating efficiency, and to enhance our proposition and service to clients.

Our vertically-integrated, multi-channel business model leaves us well positioned to benefit from ongoing demand for our integrated advice and investment management services and continued industry change. We continue to see significant long-term growth potential for our business and we remain committed to growing our client base both organically and through selective hiring of advisers and investment managers or incremental acquisitions.

SECURITIES

Key Financials

	2019 £ million	2018 £ million	Change %
Operating income	**93.4**	109.1	(14)
Operating expenses	**(73.4)**	(81.0)	(9)
Operating profit	**20.0**	28.1	(29)
Bargains per day ('000)	**56**	68	(18)
Operating margin	**21%**	26%	
Return on opening equity	**20.7%**	29.1%	

Solid Trading Performance in Difficult Conditions

Winterflood delivered solid trading profitability whilst navigating difficult and volatile equity market conditions and low levels of investor risk appetite throughout the year. Operating profit decreased 29% to £20.0 million (2018: £28.1 million), and return on opening equity remained strong at 20.7% (2018: 29.1%), demonstrating the resilience of our model.

Operating income reduced 14% to £93.4 million (2018: £109.1 million), reflecting lower trading income in the period. Average daily bargains decreased 18% year-on-year to 55,518 (2018: 67,520), reflecting low trading activity across all segments. Market conditions were difficult throughout the year and particularly in the fourth quarter of 2018, with a significant drop in UK market levels which impacted investor trading activity both on the retail and institutional sides.

Despite the difficult market environment, trading remained profitable, with only two loss days (2018: no loss days). This reflects the expertise of our traders and our continued focus on the risk management of our trading positions.

Operating expenses decreased 9% as a result of Winterflood's largely variable cost base. The expense/income ratio increased to 79% (2018: 74%) reflecting lower income in the period, with lower variable costs not fully offsetting the reduction in income. The compensation ratio remained broadly stable at 48% (2018: 47%).

Winterflood remains an established leader in market-making, providing continuous liquidity and high-quality execution to its clients. The business has made good progress over the year developing wider relationships with institutional clients, as unbundling of execution and research post MiFID II continues to create opportunities for Winterflood. In August 2019, an affiliate licensed broker dealer was established in the US, allowing Winterflood to trade directly with the US counterparties. We also continue to develop Winterflood Business Services, which achieved monthly break-even in the final quarter. This business provides outsourced dealing and custody services for asset managers and platforms in the UK and now has £3.7 billion of assets under administration.

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

DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Gross carrying amount: Loan book before expected credit loss provision

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

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

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

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

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

Loan to value ratio: For a secured loan, the loan balance as a percentage of the total value of the asset

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

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

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

Operating margin: Adjusted operating profit divided by adjusted operating income

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

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

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

Return on opening equity: Adjusted 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. Average total client assets calculated as a two-point average

Risk weighted assets: A measure of the amount of a bank's assets, adjusted for risk. It is used in determining the capital requirement for a financial institution

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

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

CONSOLIDATED INCOME STATEMENT
for the year ended 31 July 2019

	Note	**2019 £ million**	2018 £ million
Interest income		**635.6**	601.0
Interest expense		**(129.9)**	(114.9)
Net interest income		**505.7**	486.1
Fee and commission income		**224.9**	213.3
Fee and commission expense		**(19.2)**	(13.7)
Gains less losses arising from dealing in securities		**81.3**	100.1
Other income		**77.4**	65.1
Depreciation of operating lease assets and other direct costs	11	**(53.7)**	(45.1)
Non-interest income		**310.7**	319.7
Operating income		**816.4**	805.8
Administrative expenses		**(497.4)**	(480.5)
Impairment losses on financial assets	7	**(48.5)**	(46.7)
Total operating expenses before amortisation of intangible assets on acquisition		**(545.9)**	(527.2)
Operating profit before amortisation of intangible assets on acquisition		**270.5**	278.6
Amortisation of intangible assets on acquisition	10	**(5.8)**	(7.4)
Operating profit before tax		**264.7**	271.2
Tax	3	**(64.4)**	(67.0)
Profit after tax from continuing operations		**200.3**	204.2
Profit/(loss) from discontinued operations, net of tax		**1.1**	(2.2)
Profit after tax		**201.4**	202.0
Loss attributable to non-controlling interests from continuing operations		**(0.2)**	(0.3)
Profit attributable to shareholders		**201.6**	202.3
From continuing operations			
Basic earnings per share	5	**133.5p**	136.2p
Diluted earnings per share	5	**132.5p**	135.3p
From continuing and discontinued operations			
Basic earnings per share	5	**134.2p**	134.7p
Diluted earnings per share	5	**133.2p**	133.8p
Interim dividend per share paid	6	**22.0p**	21.0p
Final dividend per share	6	**44.0p**	42.0p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 July 2019

	2019 £ million	2018 £ million
Profit after tax	**201.4**	202.0
Other comprehensive income/(expense) that may be reclassified to income statement from continuing operations		
Currency translation gains	**0.4**	0.3
(Losses)/gains on cash flow hedging	**(6.0)**	4.4
Gains/(losses) on financial instruments classified as available for sale:		
Sovereign and central bank debt	**-**	0.6
Contingent consideration	**-**	(0.3)
Losses on financial instruments classified at fair value through other comprehensive income		
Sovereign and central bank debt	**(0.1)**	-
Tax relating to items that may be reclassified	**1.1**	(1.3)
	(4.6)	3.7
Other comprehensive income/(expense) that will not be reclassified to income statement from continuing operations		
Defined benefit pension scheme gains	**1.9**	1.7
Tax relating to items that will not be reclassified	**(0.4)**	(0.4)
	1.5	1.3
Other comprehensive (expense)/income, net of tax from continuing operations	**(3.1)**	5.0
Total comprehensive income	**198.3**	207.0
Attributable to		
Non-controlling interests	**(0.2)**	(0.3)
Shareholders	**198.5**	207.3
	198.3	207.0

CONSOLIDATED BALANCE SHEET
at 31 July 2019

	Note	**31 July 2019 £ million**	1 August 2018[1] £ million	31 July 2018 £ million
Assets				
Cash and balances at central banks		**1,106.4**	1,140.3	1,140.4
Settlement balances		**562.9**	512.1	512.2
Loans and advances to banks		**108.9**	140.1	140.2
Loans and advances to customers	7	**7,649.6**	7,239.3	7,297.5
Debt securities	8	**314.4**	320.4	320.6
Equity shares	9	**36.3**	32.1	32.1
Loans to money brokers against stock advanced		**42.5**	66.4	66.4
Derivative financial instruments		**30.1**	16.6	16.6
Intangible assets	10	**219.4**	201.3	201.3
Property, plant and equipment	11	**248.2**	226.1	226.1
Deferred tax assets		**52.2**	57.1	43.0
Prepayments, accrued income and other assets		**190.4**	186.8	187.1
Assets classified as held for sale	4	**-**	67.5	67.5
Total assets		**10,561.3**	10,206.1	10,251.0
Liabilities				
Settlement balances and short positions	12	**568.1**	543.1	543.1
Deposits by banks	13	**58.0**	55.2	55.2
Deposits by customers	13	**5,638.4**	5,497.2	5,497.2
Loans and overdrafts from banks	13	**519.3**	509.8	509.8
Debt securities in issue	13	**1,860.1**	1,773.4	1,773.4
Loans from money brokers against stock advanced		**14.3**	22.4	22.4
Derivative financial instruments		**20.6**	15.7	15.7
Current tax liabilities		**21.2**	17.4	17.4
Accruals, deferred income and other liabilities		**233.3**	249.6	249.6
Subordinated loan capital		**221.6**	217.9	217.9
Liabilities classified as held for sale	4	**-**	0.6	0.6
Total liabilities		**9,154.9**	8,902.3	8,902.3
Equity				
Called up share capital		**38.0**	38.0	38.0
Retained earnings		**1,392.5**	1,282.8	1,327.7
Other reserves		**(23.1)**	(16.2)	(16.2)
Total shareholders' equity		**1,407.4**	1,304.6	1,349.5
Non-controlling interests		**(1.0)**	(0.8)	(0.8)
Total equity		**1,406.4**	1,303.8	1,348.7
Total liabilities and equity		**10,561.3**	10,206.1	10,251.0

1 See notes 1 and 16

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 July 2019

	Called up share capital £ million	Share premium account £ million	Retained earnings £ million	Other reserves: Available for sale movements reserve £ million	Other reserves: FVOCI reserve £ million	Other reserves: Share-based payments reserve £ million	Other reserves: Exchange movements reserve £ million	Other reserves: Cash flow hedging reserve £ million	Total attributable to equity holders £ million	Non-controlling interests £ million	Total equity £ million
At 1 August 2017	38.0	307.8	906.6	0.7	-	(11.9)	(1.5)	(3.2)	1,236.5	(0.5)	1,236.0
Profit/(loss) for the year	-	-	202.3	-	-	-	-	-	202.3	(0.3)	202.0
Other comprehensive income	-	-	1.3	0.1	-	-	0.3	3.3	5.0	-	5.0
Total comprehensive income/(expense) for the year	-	-	203.6	0.1	-	-	0.3	3.3	207.3	(0.3)	207.0
Dividends paid	-	-	(91.0)	-	-	-	-	-	(91.0)	-	(91.0)
Shares purchased	-	-	-	-	-	(16.0)	-	-	(16.0)	-	(16.0)
Shares released	-	-	-	-	-	12.5	-	-	12.5	-	12.5
Other movements	-	-	-	-	-	(0.5)	-	-	(0.5)	-	(0.5)
Share premium cancellation	-	(307.8)	307.8	-	-	-	-	-	-	-	-
Income tax	-	-	0.7	-	-	-	-	-	0.7	-	0.7
At 31 July 2018	38.0	-	1,327.7	0.8	-	(15.9)	(1.2)	0.1	1,349.5	(0.8)	1,348.7
IFRS 9 transition (note 16)	-	-	(44.9)	(0.8)	0.8	-	-	-	(44.9)	-	(44.9)
At 1 August 2018	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 year	-	-	201.6	-	-	-	-	-	201.6	(0.2)	201.4
Other comprehensive income/(expense)	-	-	1.5	-	(0.1)	-	-	(4.5)	(3.1)	-	(3.1)
Total comprehensive income/(expense) for the year	-	-	203.1	-	(0.1)	-	-	(4.5)	198.5	(0.2)	198.3
Dividends paid (note 6)	-	-	(95.5)	-	-	-	-	-	(95.5)	-	(95.5)
Shares purchased	-	-	-	-	-	(11.0)	-	-	(11.0)	-	(11.0)
Shares released	-	-	-	-	-	10.9	-	-	10.9	-	10.9
Other movements	-	-	2.8	-	-	(2.2)	-	-	0.6	-	0.6
Share premium cancellation	-	-	-	-	-	-	-	-	-	-	-
Income tax	-	-	(0.7)	-	-	-	-	-	(0.7)	-	(0.7)
At 31 July 2019	**38.0**	**-**	**1,392.5**	**-**	**0.7**	**(18.2)**	**(1.2)**	**(4.4)**	**1,407.4**	**(1.0)**	**1,406.4**

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 July 2019

	Note	**2019 £ million**	2018 £ million
Net cash inflow from operating activities	15(a)	**20.4**	306.0
Net cash (outflow)/inflow from investing activities			
Purchase of:			
Property, plant and equipment		**(4.9)**	(11.4)
Intangible assets – software		**(42.2)**	(33.0)
Subsidiaries and non-controlling interest	15(b)	**(3.6)**	(1.2)
Sale of:			
Discontinued operations and subsidiaries	15(c)	**87.6**	0.9
		36.9	(44.7)
Net cash inflow before financing activities		**57.3**	261.3
Financing activities			
Purchase of own shares for employee share award schemes		**(11.0)**	(16.0)
Equity dividends paid		**(95.5)**	(91.0)
Interest paid on subordinated loan capital and debt financing		**(14.2)**	(10.8)
Issuance of group bonds, net of transaction costs		**-**	248.6
Net (decrease)/increase in cash		**(63.4)**	392.1
Cash and cash equivalents at beginning of year		**1,251.7**	859.6
Cash and cash equivalents at end of year	15(d)	**1,188.3**	1,251.7

THE NOTES

1. Basis of preparation and accounting policies

The financial information contained in this announcement does not constitute the statutory accounts for the years ended 31 July 2019 or 31 July 2018 within the meaning of section 435 of the Companies Act 2006, but is derived from those accounts. The accounting policies used are consistent with those set out in the Annual Report 2018 with the exception of policies impacted by the transition to IFRS 9 Financial Instruments.

The financial statements are prepared on a going concern basis. Whilst the financial information has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS"), this announcement does not itself contain sufficient information to comply with IFRS. The company expects to publish full financial statements that comply with IFRS by 1 October 2019.

The financial information for the year ended 31 July 2019 has been derived from the audited financial statements of Close Brothers Group plc for that year. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the company's Annual General Meeting. The group's auditor, PricewaterhouseCoopers LLP, has reported on the 2019 accounts: their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

Changes in accounting policy

IFRS 9 replaced IAS 39 Financial Instruments: Recognition and Measurement and is effective for the group from 1 August 2018. There are significant changes in the accounting for financial instruments, particularly with regards to impairment. 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 in note 16.

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. The consolidated balance sheet and notes 7 and 14 include 1 August 2018 balances to aid comparability following the adoption of IFRS 9.

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 has no material impact on the group's accounting policies and financial statements.

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.

Modifications
The terms or cash flows of a financial asset or liability may be modified due to renegotiation or otherwise. If the terms or cash flows are substantially different to the original, then the financial asset or liability is derecognised and a new financial asset or liability is recognised at fair value. If the terms or cash flows are not substantially different to the original, then the financial asset carrying value is adjusted to reflect the present value of modified cash flows discounted at the original EIR.

Impairment of financial assets
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 and fraud costs.

At initial recognition, a provision is recognised for 12 months of expected credit losses. These financial assets are considered to be in Stage 1. If a significant increase in credit risk since initial recognition occurs, with a 30-days past due backstop, a provision is made for the lifetime expected credit losses. These financial assets are considered to be in Stage 2. 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.

When objective evidence exists that a financial asset is credit impaired, such as a credit default event has occurred or an unlikeness to pay indicator has been identified, with a 90-days past due backstop, the financial asset is considered to be in Stage 3.

Loans and advances to customers are written off against the related provisions when there are no reasonable expectations of further recovery following realisation of all associated collateral and available recovery actions

against the customer. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement.

The calculation of expected credit losses for loans and advances to customers, either on 12-month or lifetime basis, 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"). The EAD and LGD are adjusted to account for the impact of discounting using the effective interest rate. Some Stage 3 assets, mainly in the Commercial and Property segments, are subject to individual rather than collective assessment.

The PD represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months or over the remaining lifetime of the obligation. EAD is based on the amounts we expect to be owed at the time of default. LGD represents our expectation of the extent of loss on a defaulted exposure after taking into account cash recoveries including the value of collateral held.

The calculation of expected credit losses for receivables relating to operating lease assets and settlement balances is based on a simplified lifetime only expected credit loss approach.

By their nature, limitations in the Group's impairment models or input data may be identified through ongoing model monitoring and validation of models. In certain circumstances, management make appropriate adjustments to model calculated expected credit losses. These adjustments are based on management judgements, to ensure the expected credit loss provision adequately reflects the expected outcome. Management adjustments are actively monitored, reviewed and incorporated into future model development where applicable.

Critical accounting estimates and judgements

The reported results of the group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed on an ongoing basis.

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. At 31 July 2019 the group's expected credit loss provision was £104.3 million (1 August 2018: £97.3 million). The calculation of the group's expected credit loss provision under IFRS 9 requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below.

Significant increase in credit risk

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

The assessment of whether a significant increase in credit risk has occurred requires judgement. The use of different trigger points may have a material impact upon the size of the expected credit loss provision. The Group monitors the effectiveness of the multifactor approach on an ongoing basis.

Definition of default

The PD of loans and advances to customers is an important assumption to the measurement of expected credit losses and as a result the definition of default is a key 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. This includes events such as administration; insolvency; repossession of assets and voluntary termination or surrender. As a backstop, all financial assets that are 90 days past due are considered as defaulted.

Expected credit losses

The accuracy of the expected credit loss calculation would be impacted by unanticipated changes to model assumptions which differ from actual outcomes and movements in the macroeconomic scenarios or weightings.

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. The introduction of macroeconomic information introduces additional volatility to provisions but through the cycle expectations remain unchanged.

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

Weighted assumptions are aligned to the forward-looking outlook. The impact varies across the group's lending businesses because of the sensitivity of each portfolio to specific macroeconomic variables.

A committee including the group and business chief executive officer, group chief risk officer, chief credit risk officer, group finance director and head of treasury meets quarterly, to review and, if appropriate, agree changes to the economic scenarios and probability weighting assigned to the economic scenario.

The table below shows the key UK economic assumptions within each of the scenarios, and the weighting applied to each at 31 July 2019. The numbers shown are an average over the five-year period from 2019 to 2023 and are not necessarily representative of peak to trough movements. There has been no significant change to the group's baseline economic assumptions included in the IFRS 9 models over the course of the year. However, during the first half of the year the group reduced the weightings to the base case from 60% to 40% and the upside strong from 15% to 5% with a corresponding increase to the downside scenario weightings. The range of scenarios and weightings selected and applied continues to cover a broad range of potential outcomes, reflecting the current political and macroeconomic uncertainty in the UK.

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

	Baseline	Upside (exceptionally strong)	Upside (strong)	Downside (mild)	Downside (moderate)	Downside (protracted)
At 1 August 2018						
UK GDP growth	1.6%	2.6%	2.3%	1.3%	0.8%	0.3%
UK unemployment	4.9%	3.4%	3.9%	5.6%	6.6%	7.4%
House price index growth	2.1%	5.1%	4.1%	1.1%	(1.0%)	(2.7%)
Bank of England base rate	1.3%	1.7%	1.4%	0.6%	0.2%	0.1%
Weighting	**60%**	**0%**	**15%**	**20%**	**5%**	**0%**

2. Segmental analysis

The directors manage the group by class of business and present the segmental analysis on that basis. The group's activities are presented in five (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 year ended 31 July 2019

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

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

Balance sheet information at 31 July 2019

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

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Balance sheet includes £1,856.2 million assets and £8,533.6 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

Equity is allocated across the group as set out below. Banking division equity which is managed as a whole rather than on a segmental basis, reflects loan book and operating lease assets of £7,870.0 million, in addition to assets and liabilities of £1,856.2 million and £8,533.6 million respectively primarily comprising treasury balances which are included within the Group column above.

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Equity	**1,192.6**	**56.8**	**71.2**	**85.8**	**1,406.4**

Other segmental information for the year ended 31 July 2019

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group	Total
Employees (average number)[1]	**1,117**	**1,048**	**180**	**672**	**274**	**64**	**3,355**

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

Summary income statement for the year ended 31 July 2018

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ 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
Operating loss before tax from discontinued operations	-	(3.0)	-	-	-	-	(3.0)
Operating 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 (expense)/income	(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 £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ 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.

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

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

Other segmental information for the year ended 31 July 2018

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

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

3. Taxation

	2019 £ million	2018 £ million
Tax charged/(credited) to the income statement		
Current tax:		
UK corporation tax	**59.4**	64.7
Foreign tax	**1.3**	1.5
Adjustments in respect of previous years	**(0.9)**	(2.3)
	59.8	63.9
Deferred tax:		
Deferred tax charge for the current year	**3.7**	1.1
Adjustments in respect of previous years	**0.9**	2.0
	64.4	67.0
Tax on items not charged/(credited) to the income statement		
Current tax relating to:		
Share-based payments	**(0.1)**	(0.3)
Deferred tax relating to:		
Cash flow hedging	**(1.5)**	1.1
Defined benefit pension scheme	**0.4**	0.4
Financial instruments classified as available for sale	**-**	0.2
Share-based payments	**0.8**	(0.4)
Currency translation gains	**0.4**	-
Acquisitions	**0.2**	-
	0.2	1.0
Reconciliation to tax expense		
UK corporation tax for the year at 19.0% (2018: 19.0%) on operating profit	**50.3**	51.5
Effect of different tax rates in other jurisdictions	**(0.2)**	(0.2)
Disallowable items and other permanent differences	**0.3**	1.1
Banking surcharge	**14.0**	15.1
Deferred tax impact of (increased)/decreased tax rates	**-**	(0.2)
Prior year tax provision	**-**	(0.3)
	64.4	67.0

The standard UK corporation tax rate for the financial year is 19.0% (2018: 19.0%). However, an additional 8% surcharge applies to banking company profits as defined in legislation. The effective tax rate of 24.3% (2018: 24.7%) is above the UK corporation tax rate primarily due to the surcharge applying to most of the group's profits.

Movements in deferred tax assets and liabilities were as follows:

	Capital allowances £ million	Pension scheme £ million	Share-based payments and deferred compensation £ million	Impair-ment losses £ million	Cash flow hedging £ million	Intangible assets £ million	Other £ million	Total £ million
At 1 August 2017	42.6	(0.8)	9.5	0.5	1.1	(5.4)	(0.1)	47.4
(Charge)/credit to the income statement	(4.2)	0.1	(0.3)	-	-	1.3	-	(3.1)
Charge to other comprehensive income	-	(0.4)	-	-	(1.1)	-	(0.2)	(1.7)
Credit to equity	-	-	0.4	-	-	-	-	0.4
Acquisitions	-	-	-	-	-	-	-	-
At 31 July 2018	38.4	(1.1)	9.6	0.5	-	(4.1)	(0.3)	43.0
IFRS 9 transition	-	-	-	14.1	-	-	-	14.1
At 1 August 2018	38.4	(1.1)	9.6	14.6	-	(4.1)	(0.3)	57.1
(Charge)/credit to the income statement	(3.3)	0.1	(0.5)	(1.9)	-	1.0	-	(4.6)
(Charge)/credit to other comprehensive income	(0.4)	(0.4)	-	-	1.5	-	-	0.7
Charge to equity	-	-	(0.8)	-	-	-	-	(0.8)
Acquisitions	-	-	-	-	-	(0.2)	-	(0.2)
At 31 July 2019	**34.7**	**(1.4)**	**8.3**	**12.7**	**1.5**	**(3.3)**	**(0.3)**	**52.2**

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

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

On 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 in the year.

Results of discontinued operations

	2019 **£ million**	2018 £ million
Operating income	**3.7**	6.6
Operating expenses	**(4.2)**	(7.2)
Impairment losses on loans and advances	**(1.6)**	(2.3)
Operating loss before tax	**(2.1)**	(2.9)
Tax	**0.5**	0.8
Impairment of plant, property and equipment and intangible assets	**-**	(0.1)
Loss after tax	**(1.6)**	(2.2)
Profit on disposal of discontinued operations, net of tax	**2.7**	-
Profit/(loss) from discontinued operations	**1.1**	(2.2)

Assets and liabilities held for sale

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

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

Cash flow from discontinued operations

	2019 **£ million**	2018 £ million
Net cash flow from operating activities	**(16.1)**	(31.9)
Net cash flow from investing activities	**(0.3)**	(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.

	2019	2018
Continuing operations		
Basic	**133.5p**	136.2p
Diluted	**132.5p**	135.3p
Adjusted basic[1]	**136.7p**	140.2p
Adjusted diluted[1]	**135.7p**	139.3p
Continuing and discontinued operations		
Basic	**134.2p**	134.7p
Diluted	**133.2p**	133.8p

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

	2019 £ million	2018 £ million
Profit attributable to shareholders	**201.6**	202.3
Less profit/(loss) from discontinued operations, net of tax	**1.1**	(2.2)
Profit attributable to shareholders on continuing operations	**200.5**	204.5
Adjustments:		
Amortisation of intangible assets on acquisition	**5.8**	7.4
Tax effect of adjustments	**(1.0)**	(1.3)
Adjusted profit attributable to shareholders on continuing operations	**205.3**	210.6

	2019 million	2018 million
Average number of shares		
Basic weighted	**150.2**	150.2
Effect of dilutive share options and awards	**1.1**	1.0
Diluted weighted	**151.3**	151.2

6. Dividends

	2019 £ million	2018 £ million
For each ordinary share		
Final dividend for previous financial year paid in November 2018: 42.0p (2017: 40.0p)	**62.7**	59.7
Interim dividend for current financial year paid in April 2019: 22.0p (2018: 21.0p)	**32.8**	31.3
	95.5	91.0

A final dividend relating to the year ended 31 July 2019 of 44.0p, amounting to an estimated £65.7 million, is proposed. This final dividend, which is due to be paid on 26 November 2019 to shareholders on the register at 11 October 2019, is not reflected in these financial statements.

7. Loans and advances to customers

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Impairment provisions £ million	Total £ million
At 31 July 2019	**80.7**	**2,288.8**	**2,381.0**	**1,332.0**	**1,556.3**	**115.1**	**(104.3)**	**7,649.6**
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 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 31 July 2018				39.1
IFRS 9 transition				58.2
At 1 August 2019	23.7	24.8	48.8	97.3
New financial assets originated	26.5	-	-	26.5
Transfers to Stage 1	1.0	(4.4)	(0.4)	(3.8)
Transfers to Stage 2	(6.4)	20.8	(0.2)	14.2
Transfers to Stage 3	(2.1)	(4.7)	48.2	41.4
Net remeasurement of expected credit losses arising from transfers between stages and repayments	(7.5)	11.7	47.6	51.8
Final repayments and repayments while stage remained unchanged	(17.5)	(7.5)	(11.4)	(36.4)
Changes to model methodologies	-	-	(0.3)	(0.3)
Charge to the income statement	1.5	4.2	35.9	41.6
Write offs	(0.3)	(1.9)	(32.4)	(34.6)
At 31 July 2019	**24.9**	**27.1**	**52.3**	**104.3**

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

The contractual amount outstanding at 31 July 2019 on financial assets that were written off during the period and are still subject to recovery activity is £12.7 million.

	2018 £ million
Impairment provisions on loans and advances to customers	
At 1 August	52.4
Charge for the year	46.7
Amounts written off net of recoveries	(60.0)
At 31 July	39.1

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

Loans and advances to customers in Stages 2 and 3 with a gross carrying amount of £275.0 million prior to modification were modified during the year. No material gain or loss was recognised as a result of those modifications. The gross carrying amount at 31 July 2019 of modified loans and advances to customers which transferred from Stage 2 or 3 to Stage 1 during the year was £55.4 million.

	2019 £ million	2018 £ million
Loans and advances to customers comprise		
Hire purchase agreement receivables	**2,927.6**	2,852.4
Finance lease receivables	**453.1**	447.6
Other loans and advances	**4,268.9**	3,997.5
At 31 July	**7,649.6**	7,297.5

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 July 2019	**Stage 1 £ million**	**Less than 30 days past due £ million**	**Greater than or equal to 30 days past due £ million**	**Total £ million**	**Stage 3 £ million**	**Total £ million**
Gross loans and advances to customers						
Commercial	**2,647.7**	**293.1**	**17.6**	**310.7**	**84.7**	**3,043.1**
Retail	**2,577.1**	**239.3**	**4.9**	**244.2**	**26.5**	**2,847.8**
Property	**1,639.2**	**43.2**	**105.6**	**148.8**	**75.0**	**1,863.0**
Total	**6,864.0**	**575.6**	**128.1**	**703.7**	**186.2**	**7,753.9**
Impairment provisions						
Commercial	**12.5**	**10.8**	**1.1**	**11.9**	**27.4**	**51.8**
Retail	**10.4**	**11.2**	**0.5**	**11.7**	**15.0**	**37.1**
Property	**2.0**	**1.9**	**1.6**	**3.5**	**9.9**	**15.4**
Total	**24.9**	**23.9**	**3.2**	**27.1**	**52.3**	**104.3**
Provision coverage ratio						
Commercial	**0.5%**	**3.7%**	**6.3%**	**3.8%**	**32.3%**	**1.7%**
Retail	**0.4%**	**4.7%**	**10.2%**	**4.8%**	**56.6%**	**1.3%**
Property	**0.1%**	**4.4%**	**1.5%**	**2.4%**	**13.2%**	**0.8%**
Total	**0.4%**	**4.2%**	**2.5%**	**3.9%**	**28.1%**	**1.3%**

		Stage 2				
At 1 August 2018	Stage 1 £ million	Less than 30 days past due £ million	Greater than or equal to 30 days past due £ million	Total £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers						
Commercial	2,452.4	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%

Increases in Stage 1 loans and advances to customers and expected credit loss provisions have primarily been driven by financial assets originated and further lending to customers. Total expected credit loss provisions as a percentage of loans and customers (“provision coverage ratio”) remained flat at 0.4%.

Stage 2 loans and advances to customers increased by £106.4 million to £703.7 million (1 August 2018: £597.3 million) across all segments, primarily due to significant increase in credit risk indicators and the 30 days past due backstop being triggered. Stage 2 expected credit loss provisions as a percentage of loans and advances to customers reduced marginally to 3.9% (1 August 2018: 4.2%) reflecting the change in composition of loans.

Stage 3 loans and advances to customers decreased by £73.9 million to £186.2 million (1 August 2018: £260.1 million). These movements were primarily due to the Property segment, where refinements have been made to the definition of default for the segment causing fewer loans to be categorised as Stage 3 and transferred to Stages 1 and 2 at 31 July 2019. This definition change incorporated updates to the payment allocation method used to define the days past due of a loan and the cure period used for default. This has resulted in an increase to the Stage 3 provision coverage ratio to 28.1% (1 August 2018: 18.8%).

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

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

	2019 £ million	2018 £ million
Sovereign and central bank debt at 1 August	**44.5**	43.6
Additions	**-**	-
Currency translation differences	**1.0**	-
Movement in value	**2.8**	0.9
Sovereign and central bank debt at 31 July	**48.3**	44.5

9. Equity shares

	31 July 2019 £ million	31 July 2018 £ million
Long trading positions	**35.3**	31.6
Other equity shares	**1.0**	0.5
	36.3	32.1

10. Intangible assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Total £ million
Cost				
At 1 August 2017	150.7	131.6	67.0	349.3
Additions	-	36.2	-	36.2
Disposals	-	(7.0)	-	(7.0)
At 31 July 2018	150.7	160.8	67.0	378.5
Additions	0.2	48.1	0.5	48.8
Disposals	(0.1)	(7.7)	-	(7.8)
At 31 July 2019	**150.8**	**201.2**	**67.5**	**419.5**
Amortisation and impairment				
At 1 August 2017	47.9	75.7	34.0	157.6
Amortisation charge for the year	-	16.6	7.4	24.0
Disposals	-	(4.4)	-	(4.4)
At 31 July 2018	47.9	87.9	41.4	177.2
Amortisation charge for the year	-	20.5	5.8	26.3
Disposals	-	(3.4)	-	(3.4)
At 31 July 2019	**47.9**	**105.0**	**47.2**	**200.1**
Net book value at 31 July 2019	**102.9**	**96.2**	**20.3**	**219.4**
Net book value at 31 July 2018	102.8	72.9	25.6	201.3
Net book value at 1 August 2017	102.8	55.9	33.0	191.7

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

In the 2019 financial year, £5.8 million (2018: £7.4 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £20.5 million (2018: £16.6 million) of the amortisation charge is included in administrative expenses shown in the consolidated income statement.

11. Property, plant and equipment

	Leasehold property £ million	Fixtures, fittings and equipment £ million	Assets held under operating leases £ million	Motor vehicles £ million	Total £ million
Cost					
At 1 August 2017	22.4	45.1	230.8	0.3	298.6
Additions	0.3	11.2	79.6	-	91.1
Disposals	(0.3)	(0.5)	(41.5)	(0.2)	(42.5)
At 31 July 2018	22.4	55.8	268.9	0.1	347.2
Additions	5.9	6.2	72.9	-	85.0
Disposals	(1.2)	(6.5)	(27.7)	-	(35.4)
At 31 July 2019	**27.1**	**55.5**	**314.1**	**0.1**	**396.8**
Depreciation					
At 1 August 2017	11.1	31.7	53.0	0.1	95.9
Charge for the year	2.1	6.5	31.3	-	39.9
Disposals	(0.3)	(0.2)	(14.2)	-	(14.7)
At 31 July 2018	12.9	38.0	70.1	0.1	121.1
Charge for the year	2.7	8.3	36.1	-	47.1
Disposals	(1.0)	(6.1)	(12.5)	-	(19.6)
At 31 July 2019	**14.6**	**40.2**	**93.7**	**0.1**	**148.6**
Net book value at 31 July 2019	**12.5**	**15.3**	**220.4**	**-**	**248.2**
Net book value at 31 July 2018	9.5	17.8	198.8	-	226.1
Net book value at 1 August 2017	11.3	13.4	177.8	0.2	202.7

The gain from the sale of assets held under operating leases for the year ended 31 July 2019 was £0.3 million (2018: £0.1 million gain).

12. Settlement balances and short positions

	31 July 2019 £ million	31 July 2018 £ million
Settlement balances	**547.6**	512.5
Short positions in:		
Debt securities	**9.6**	16.4
Equity shares	**10.9**	14.2
	20.5	30.6
	568.1	543.1

13. Financial liabilities

	On demand £ million	**Within three months £ million**	**Between three months and one year £ million**	**Between one and two years £ million**	**Between two and five years £ million**	**After more than five years £ million**	**Total £ million**
Deposits by banks	**12.5**	**15.7**	**29.8**	**-**	**-**	**-**	**58.0**
Deposits by customers	**78.3**	**1,232.7**	**2,817.9**	**1,157.2**	**352.3**	**-**	**5,638.4**
Loans and overdrafts from banks	**19.0**	**10.3**	**-**	**213.2**	**276.8**	**-**	**519.3**
Debt securities in issue	**20.7**	**27.4**	**143.6**	**937.8**	**459.5**	**271.1**	**1,860.1**
At 31 July 2019	**130.5**	**1,286.1**	**2,991.3**	**2,308.2**	**1,088.6**	**271.1**	**8,075.8**

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

The group has accessed £490.0 million (31 July 2018: £495.0 million) cash under the Bank of England's Term Funding Scheme. Cash from the Term Funding Scheme and repurchase agreements is included within bank loans and overdrafts. Residual maturities of the Term Funding Scheme and repurchase agreements are as follows:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
At 31 July 2019	**-**	**0.3**	**-**	**213.2**	**276.8**	**-**	**490.3**
At 31 July 2018	-	0.2	-	-	495.0	-	495.2

14. Capital

At 31 July 2019, the group's common equity tier 1 ("CET1") capital ratio was 13.0% (1 August 2018: 12.7%; 31 July 2018: 12.7%). CET1 capital increased to £1,169.2 million (1 August 2018: £1,082.2 million; 31 July 2018: £1,084.4 million) primarily due to retained profit.

Risk weighted assets calculated using the standardised approaches increased to £8,967.4 million (1 August 2018: £8,542.6 million; 31 July 2018: £8,547.5 million) as a result of growth in credit and counterparty risk associated with the loan book.

	31 July 2019 £ million	1 August 2018 £ million	31 July 2018 £ million
CET1 capital			
Called up share capital	**38.0**	38.0	38.0
Retained earnings	**1,392.5**	1,282.8	1,327.7
Other reserves recognised for CET1 capital	**19.0**	21.3	21.3
Deductions from CET1 capital			
Intangible assets, net of associated deferred tax liabilities	**(216.1)**	(198.1)	(198.1)
Foreseeable dividend[1]	**(65.7)**	(62.7)	(62.7)
Investment in own shares	**(37.7)**	(37.6)	(37.6)
Pension asset, net of associated deferred tax liabilities	**(5.3)**	(4.0)	(4.0)
Prudent valuation adjustment	**(0.1)**	(0.2)	(0.2)
IFRS 9 transitional arrangements[2]	**44.6**	42.7	-
CET1 capital	**1,169.2**	1,082.2	1,084.4
Tier 2 capital – subordinated debt	**195.4**	197.9	197.9
Total regulatory capital[3]	**1,364.6**	1,280.1	1,282.3
Risk weighted assets (notional)[3] – unaudited			
Credit and counterparty credit risk	**7,930.5**	7,600.5	7,605.4
Operational risk[4]	**884.4**	845.8	845.8
Market risk[4]	**152.5**	96.3	96.3
	8,967.4	8,542.6	8,547.5
CET1 capital ratio[3] – unaudited	**13.0%**	12.7%	12.7%
Total capital ratio[3] – unaudited	**15.2%**	15.0%	15.0%

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2019 and 31 July 2018 for a foreseeable dividend being the proposed final dividend as set out in note 6.

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

3 Shown after applying IFRS 9 transitional arrangements and the Capital Requirements Regulations transitional and qualifying own funds arrangements. At 31 July 2019 the fully loaded CET1 capital ratio is 12.6% and total capital ratio is 14.5% (1 August 2018: CET1 capital ratio 12.2% and total capital ratio 14.2%).

4 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 July 2019 £ million	1 August 2018 £ million	31 July 2018 £ million
Equity	**1,406.4**	1,303.8	1,348.7
Regulatory deductions from equity:			
Intangible assets, net of associated deferred tax liabilities	**(216.1)**	(198.1)	(198.1)
Foreseeable dividend[1]	**(65.7)**	(62.7)	(62.7)
IFRS 9 transitional arrangements	**44.6**	42.7	-
Pension asset, net of associated deferred tax liabilities	**(5.3)**	(4.0)	(4.0)
Prudent valuation adjustment	**(0.1)**	(0.2)	(0.2)
Other reserves not recognised for CET1 capital:			
Cash flow hedging reserve	**4.4**	(0.1)	(0.1)
Non-controlling interests	**1.0**	0.8	0.8
CET1 capital	**1,169.2**	1,082.2	1,084.4

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2019 and 31 July 2018 for a foreseeable dividend being the proposed final dividend as set out in note 6.

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

	£ million
CET1 capital at 31 July 2018	1,084.4
Profit in the period attributable to shareholders	201.6
Dividends paid and foreseen	(98.5)
Reduction in shareholders' equity from IFRS 9	(44.9)
IFRS 9 transitional arrangements	44.6
Increase in intangible assets, net of associated deferred tax liabilities	(18.0)
Other movements in reserves recognised for CET1 capital	1.3
Other movements in deductions from CET1 capital	(1.3)
CET1 capital at 31 July 2019	**1,169.2**

15. Consolidated cash flow statement reconciliation

	31 July 2019 £ million	31 July 2018 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit before tax from continuing operations	**264.7**	271.2
Profit/(loss) before tax from discontinued operations	**0.8**	(3.0)
Tax paid	**(55.6)**	(66.8)
Depreciation and amortisation	**73.5**	63.9
(Increase)/decrease in:		
Interest receivable and prepaid expenses	**(4.8)**	(18.4)
Net settlement balances and trading positions	**(29.2)**	15.9
Net loans from money brokers against stock advanced	**15.8**	0.3
Interest payable and accrued expenses	**(3.5)**	9.4
Net cash inflow from trading activities	**261.7**	272.5
Decrease/(increase) in:		
Loans and advances to banks not repayable on demand	**1.9**	16.4
Loans and advances to customers	**(416.6)**	(449.8)
Assets let under operating leases	**(62.7)**	(68.0)
Certificates of deposit	**9.8**	(70.2)
Sovereign and central bank debt	**-**	(0.9)
Other assets less other liabilities	**9.1**	14.1
Increase/(decrease) in:		
Deposits by banks	**2.8**	(16.8)
Deposits by customers	**141.2**	384.1
Loans and overdrafts from banks	**9.5**	178.9
Issuance/redemption of debt securities, net of transaction costs	**63.7**	45.7
Net cash inflow from operating activities	**20.4**	306.0
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and non-controlling interests		
Cash consideration paid	**(3.6)**	(1.2)
(c) Analysis of net cash inflow in respect of the sale of discontinued operations and subsidiaries		
Cash consideration received	**87.6**	0.9
	87.6	0.9
(d) Analysis of cash and cash equivalents[1]		
Cash and balances at central banks	**1,094.9**	1,126.2
Loans and advances to banks	**93.4**	125.5
	1,188.3	1,251.7

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

During the year ended 31 July 2019, the non-cash changes on debt financing amounted to £18.6 million (31 July 2018: £9.4 million) arising largely from interest accretions and fair value hedging movements.

16. 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 relates to loans and advances to customers while the remaining £0.8 million relates 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 forward-looking 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
	LAR	AC	49.4	(0.3)	49.1
	FVPL	FVPL	2.1	-	2.1
	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	244.2	-	244.2
	FVPL	FVPL	5.4	-	5.4
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 preliminary results announcement may constitute “forward-looking statements” in respect of the group’s operations, performance, prospects and/or financial condition. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as “anticipates”, “aims”, “due”, “could”, “may”, “will”, “should”, “expects”, “believes”, “intends”, “plans”, “potential”, “targets”, “goal” or “estimates”. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions and actual results or events may differ materially from those expressed or implied by those statements. Accordingly, no assurance can be given that any particular expectation will be met and reliance should not be placed on any forward-looking statement. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. 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 preliminary results announcement should be construed as a profit forecast. Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.

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