Financial Overview

Summary Group Income Statement[1]

	2023 £ million	2022 £ million	Change %
Operating income	**932.6**	936.1	–
Operating expenses	**(615.0)**	(598.0)	3
Impairment losses on financial assets	**(204.1)**	(103.3)	98
Adjusted operating profit	**113.5**	234.8	(52)
Banking	**120.1**	227.2	(47)
Commercial	**15.9**	91.0	(83)
Of which: Novitas	***(106.6)***	*(39.3)*	*171*
Retail	**34.7**	61.0	(43)
Property	**69.5**	75.2	(8)
Asset Management	**15.9**	21.7	(27)
Winterflood	**3.5**	14.1	(75)
Group	**(26.0)**	(28.2)	(8)
Amortisation and impairment of intangible assets on acquisition	**(1.5)**	(2.0)	(25)
Statutory operating profit before tax	**112.0**	232.8	(52)
Tax	**(30.9)**	(67.6)	(54)
Profit after tax	**81.1**	165.2	(51)
Profit attributable to shareholders	**81.1**	165.2	(51)
Adjusted basic earnings per share[2]	**55.1p**	111.5p	(51)
Basic earnings per share[2]	**54.3p**	110.4p	(51)
Ordinary dividend per share	**67.5p**	66.0p	(2)
Return on opening equity	**5.0%**	10.6%	
Return on average tangible equity	**5.9%**	12.2%	

1. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in note 3.
2. Refer to note 7 for the calculation of basic and adjusted earnings per share.

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; and any exceptional and other adjusting items which do not reflect underlying trading performance. Please refer to note 3 for further details on items excluded from the adjusted performance metrics.

Adjusted Operating Profit and Returns

Statutory operating profit before tax decreased to £112.0 million (2022: £232.8 million), primarily driven by higher impairment charges in relation to Novitas, with adjusted operating profit down 52% to £113.5 million (2022: £234.8 million). Excluding Novitas, adjusted operating profit reduced 20% to £220.1 million (2022: £274.1 million), mainly reflecting an increase in impairment charges and a reduction in income in Winterflood.

Return on average tangible equity ("RoTE") reduced to 5.9% (2022: 12.2%) with the loss after tax recorded by Novitas reducing the group's RoTE by 6.1%.

Adjusted operating profit in the Banking division reduced 47% to £120.1 million (2022: £227.2 million), primarily reflecting higher impairment charges related to Novitas. Growth in income, driven by good loan book growth and a strong net interest margin, was offset by higher costs as we continue to invest in the business and to reflect the inflationary environment. In the Asset Management division, we delivered strong net inflows, although adjusted operating profit reduced 27% to £15.9 million (2022: £21.7 million), driven by a modest decline in income, reflecting lower income from advice and other services, and higher costs, as we accelerated our new hiring strategy. Operating profit in Winterflood decreased by 75% to £3.5 million (2022: £14.1 million), with performance adversely impacted by the continued market-wide slowdown in trading activity, particularly in higher margin sectors and difficult market conditions. Group net expenses, which include interest expense from debt issued by the holding company, as well as costs related to the central functions such as finance, legal and compliance, risk and human resources, reduced to £26.0 million (2022: £28.2 million), mainly reflecting lower charges from share-based awards and a reduction in variable compensation.

Operating Income

Operating income was broadly stable at £932.6 million (2022: £936.1 million), with growth in Banking offset by lower income in Asset Management and Winterflood. Income in the Banking division increased by 3%, reflecting good loan book growth and a strong net interest margin of 7.7% (2022: 7.8%), partly offset by the run-off of Novitas and the Irish Motor Finance business. In the Asset Management division, we saw an increase in investment management income resulting from growth in AuM delivered by our bespoke investment manager hires. This was more than offset by a decrease in income from advice and other services, which reflected the impact of difficult market conditions on client assets, and managements' strategic shift to focus on higher value clients. As a result, income in the Asset Management division decreased by 2%. Income in Winterflood reduced 21%, driven by lower trading revenues reflecting the continued market-wide slowdown in activity.

Operating Expenses

Operating expenses increased 3% to £615.0 million (2022: £598.0 million) with higher staff costs and investment in Banking and CBAM more than offsetting lower variable costs in Winterflood. In the Banking division, whilst we remained focused on cost control, expenses rose 7%, mainly driven by salary increases and continued investment in strategic programmes. Costs increased 2% in Asset Management as lower variable compensation was more than offset by higher fixed staff costs in the inflationary environment, as well as reflecting the onboarding of new hires and technology spend, driven by the success of the hiring strategy and investment for future growth.

Winterflood's costs fell 11% as the slowdown in trading activity led to lower staff compensation and settlement fees. Overall, the group's expense/income ratio increased to 66% (2022: 64%), while the group's compensation ratio remained stable at 37% (2022: 37%) as the reduction in variable compensation across the group was offset by inflation-related wage increases and new hires.

Impairment Charges and IFRS 9 Provisioning

Impairment charges increased significantly to £204.1 million (2022: £103.3 million), corresponding to a bad debt ratio of 2.2% (2022: 1.2%). This increase was driven primarily by impairment charges of £116.8 million taken in relation to Novitas (2022: £60.7 million), of which £114.6 million was incurred in the first half of the year. As a result, there was an increase in overall provision coverage to 3.9% (31 July 2022: 3.1%).

Excluding Novitas, the increase in impairment charges was primarily driven by higher provisions as a result of weaker macroeconomic variables and outlook, as well as an ongoing review of provisions and coverage across our loan portfolios and an increase in Motor Finance arrears, which have stabilised since the first half. The bad debt ratio, excluding Novitas, increased to 0.9% (2022: 0.5%) and the coverage ratio increased marginally to 2.1% (31 July 2022: 1.9%).

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

Whilst we have not seen a significant impact on credit performance at this stage, we continue to monitor closely the evolving impacts of rising inflation and cost of living on our customers. We remain confident in the quality of our loan book, which is predominantly secured or structurally protected, prudently underwritten, diverse, and supported by the deep expertise of our people.

Financial Overview continued

Tax Expense

The tax expense was £30.9 million (2022: £67.6 million), which corresponds to an effective tax rate of 27.6% (2022: 29.0%).

The standard UK corporation tax rate for the financial year is 21.0% (2022: 19.0%). However, an additional headline banking surcharge of 6.3% (2022: 8.0%) applies to banking company profits as defined in legislation (and only above a threshold amount), resulting in a c.5.5% surcharge impact. The effective tax rate is above the UK corporation tax rate primarily due to the surcharge applying to most of the group's profits.

Earnings per Share

Profit attributable to shareholders reduced 51% to £81.1 million (2022: £165.2 million). As a result, adjusted basic earnings per share ("EPS") reduced to 55.1p (2022: 111.5p) and basic EPS reduced to 54.3p (2022: 110.4p). The loss after tax recorded by Novitas reduced the group's adjusted basic EPS by 56.4p.

Dividend

The board is proposing a final dividend of 45.0p per share, resulting in a full-year dividend per share of 67.5p (2022: 66.0p). Although the proposed level of dividend cover for 2023 is below our historical range, driven primarily by the adverse impact of increased provisions in relation to Novitas on our profitability, the proposed dividend reflects our underlying performance and the board's confidence in the group's outlook.

We remain committed to our dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover.

Subject to approval at the Annual General Meeting, the final dividend will be paid on 24 November 2023 to shareholders on the register at 20 October 2023.

Summary Group Balance Sheet

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

Total assets increased 7% to £13.6 billion (31 July 2022: £12.7 billion), reflecting growth in the loan book, higher treasury assets due to an increased cash balance, an increase in other assets as higher collateral was held due to swap movements, and a reduction in market-making assets. Total liabilities were also 8% higher at £11.9 billion (31 July 2022: £11.0 billion), driven primarily by higher customer deposits, partly offset by a reduction in market-making liabilities.

Total equity reduced 1% to £1.6 billion (31 July 2022: £1.7 billion), with profit in the year more than offset by dividend payments of £99.1 million (31 July 2022: £95.5 million). The group's return on assets decreased to 0.6% (2022: 1.3%).

Summary Group Balance Sheet

	31 July 2023 £ million	31 July 2022 £ million
Loans and advances to customers and operating lease assets[1]	**9,526.2**	9,098.9
Treasury assets[2]	**2,229.4**	1,855.1
Market-making assets[3]	**787.6**	887.2
Other assets	**1,007.1**	837.1
Total assets	**13,550.3**	12,678.3
Deposits by customers	**7,724.5**	6,770.4
Borrowings[4]	**2,839.4**	2,870.1
Market-making liabilities[3]	**700.7**	796.1
Other liabilities	**640.8**	584.2
Total liabilities	**11,905.4**	11,020.8
Equity	**1,644.9**	1,657.5
Total liabilities and equity	**13,550.3**	12,678.3

1. Includes operating lease assets of £223.4 million (31 July 2022: £185.4 million) that relate to Asset Finance and £47.8 million (31 July 2022: £54.6 million) to Invoice and Speciality Finance.
2. Treasury assets comprise cash and balances at central banks and debt securities held to support the Banking division.
3. Market-making assets and liabilities comprise settlement balances, long and short trading positions and loans to or from money brokers.
4. Borrowings comprise debt securities in issue, loans and overdrafts from banks and subordinated loan capital.

Group Capital

	31 July 2023 £ million	31 July 2022 £ million
Common equity tier 1 capital	**1,310.8**	1,396.7
Total capital	**1,510.8**	1,596.7
Risk weighted assets	**9,847.6**	9,591.3
Common equity tier 1 capital ratio (transitional)[1]	**13.3%**	14.6%
Tier 1 capital ratio (transitional)	**13.3%**	14.6%
Total capital ratio (transitional)	**15.3%**	16.6%
Leverage ratio[2]	**11.4%**	12.0%

1. The impact of Novitas on the CET1 capital ratio at 31 July 2023 was -c.115bps, of which -c.85bps relates to retained earnings, -c.40bps relates to the IFRS 9 transitional arrangements and c.10bps relates to RWAs.
2. The leverage ratio is calculated as tier 1 capital as a percentage of total balance sheet assets excluding central bank claims, adjusting for certain capital deductions, including intangible assets, and off-balance sheet exposures, in line with the UK leverage framework under the UK Capital Requirements Regulation.

Movements in Capital and Other Regulatory Metrics

The CET1 capital ratio reduced from 14.6% to 13.3%, mainly driven by loan book growth in the year (–c.80bps), a decrease in IFRS 9 transitional arrangements (–c.45bps) and deduction of dividends paid and foreseen (–c.105bps), partly offset by capital generation through profit (c.85bps) and a decrease in risk weighted assets ("RWAs") associated with derivatives and credit valuation adjustment ("CVA") (c.30bps). The impact of Novitas on the CET1 capital ratio was –c.115bps and consists of impact on retained earnings (c.85bps) and IFRS 9 transitional arrangements (c.40bps), offset by a reduction in loan book RWAs (c.10bps).

CET1 capital decreased 6% to £1,310.8 million (31 July 2022: £1,396.7 million), reflecting a decrease in the transitional IFRS 9 add-back to capital of £51.1 million, the regulatory deduction of dividends paid and foreseen of £100.5 million and an increase in the intangible assets deducted from capital of £12.1 million. This was partially offset by the capital generation through profit of £81.1 million. Total capital decreased 5% to £1,510.8 million (31 July 2022: £1,596.7 million).

RWAs increased by 3% to £9.8 billion (31 July 2022: £9.6 billion), mainly driven by growth in the Commercial and Property loan books, partly offset by a decrease in RWAs associated with derivatives and CVA following changes to the derivatives calculation to recognise netting agreements and to implement the standardised approach to counterparty credit risk.

As a result, CET1, tier 1 and total capital ratios were 13.3% (31 July 2022: 14.6%), 13.3% (31 July 2022: 14.6%) and 15.3% (31 July 2022: 16.6%), respectively.

During the 2023 financial year higher countercyclical buffer rates for our UK and Irish exposures have come into force, increasing the group's applicable countercyclical buffer by c.190bps to 1.9%. At 31 July 2023, the applicable minimum CET1, tier 1 and total capital ratio requirements, excluding any applicable Prudential Regulation Authority ("PRA") buffer, were 9.5%, 11.2% and 13.4%, respectively. Accordingly, we continue to have headroom significantly above the applicable minimum regulatory requirements of c.380bps in the CET1 capital ratio, c.210bps in the tier 1 capital ratio and c.190bps in the total capital ratio.

The group applies IFRS 9 regulatory transitional arrangements which allow banks to add back to their capital base a proportion of the IFRS 9 impairment charges during the transitional period. Our capital ratios are presented on a transitional basis after the application of these arrangements. On a fully loaded basis, without their application, the CET1, tier 1 and total capital ratios would be 13.0%, 13.0% and 15.1%, respectively.

The leverage ratio, which is a transparent measure of capital strength not affected by risk weightings, remained strong at 11.4% (31 July 2022: 12.0%).

The PRA Consultation Paper 16/22 on Basel 3.1 standards was published in November 2022, with changes expected to be implemented or phased in from 2025-2030. As highlighted at the half year 2023 results, following initial analysis, we estimate that if implemented in its current form, it would represent an increase of up to c.10% in the group's RWAs calculated under the standardised approach. This is primarily as a result of the proposed removal of the SME supporting factor and the proposed approach to the classification of Retail SMEs and associated risk weights.

We continue to make positive progress in our preparations for a transition to the Internal Ratings Based ("IRB") approach. Following the submission of our initial application to the PRA in December 2020, our application has successfully transitioned to Phase 2 of the process. Additional documentation has been submitted to the regulator and engagement continues. Our Motor Finance, Property Finance and Energy portfolios, where the use of models is most mature, were submitted with our initial application, with work on subsequent portfolios in progress.

Financial Overview continued

Capital Management Framework

The prudent management of the group's financial resources is a core part of our business model. Our primary objective is to deploy capital to support disciplined loan book growth in Banking and to make the most of strategic opportunities. These include strategic initiatives and small acquisitions in existing or adjacent markets that fit with our business model.

The board remains committed to the group's dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover.

We remain committed to optimising further our capital structure, including the issuance of debt capital market securities if appropriate, targeting a CET1 capital ratio range of 12% to 13% over the medium term. This will allow the group to maintain a buffer to minimum regulatory requirements while also retaining the flexibility to grow the business. We remain encouraged by the available opportunities to deploy capital to deliver disciplined growth, which remains one of our key strategic priorities. The board will assess the potential for further distributions to shareholders based on future opportunities.

Group Funding

Our Treasury function is focused on managing funding and liquidity to support the Banking businesses, as well as interest rate risk. This incorporates our Savings business, which provides simple and straightforward savings products to both individuals and businesses, whilst being committed to providing the highest level of customer service.

The volatile backdrop over the year, resulting in the failure of several domestic US banks and the sale of Credit Suisse, with a consequential impact on the availability of wholesale funding markets for significant periods, did not adversely affect the group due to our diverse funding sources, enabling us to adapt our position to changing market conditions and demand.

Our conservative approach to funding is based on the principle of "borrow long, lend short", with a spread of maturities over the medium and longer term, comfortably ahead of a shorter average loan book maturity. Our funding draws on a wide range of wholesale and deposit markets including several public debt securities at both group and operating company level, as well as public and private secured funding programmes and a diverse mix of customer deposits.

We increased total funding in the year by 7% to £12.4 billion (31 July 2022: £11.6 billion) which accounted for 130% (31 July 2022: 127%) of the loan book at the balance sheet date. Although the average cost of funding in Banking increased to 3.2% (2022: 1.2%) due to rapidly rising interest rates, we took actions to mitigate this pressure by optimising the group's liability mix based on funding needs, customer demand and market pricing. While we are well positioned to continue benefiting from our diverse funding base, we expect cost of funds to further increase in the next financial year as a result of higher interest rates and customer deposit pricing pressure, particularly in notice accounts.

Customer deposits increased 14% to £7.7 billion (31 July 2022: £6.8 billion) with non-retail deposits decreasing 5% to £3.5 billion (31 July 2022: £3.7 billion) and retail deposits increasing by 35% to £4.2 billion (31 July 2022: £3.1 billion), as we actively sought to grow our retail deposit base and optimise our funding mix in light of market conditions. Our retail deposits are predominantly term, with approximately 85% protected by the Financial Services Compensation Scheme. We remain focused on delivering fair outcomes for our customers and are on track for the implementation of the FCA's Consumer Duty, with our focus now on continuing to embed our compliance.

We continue to realise benefits from the investment made in the customer deposit platform. In May 2023, we expanded our product offering with the introduction of easy access accounts, complementing our fixed rate cash ISA and notice

Group Funding[1]

	31 July 2023 £ million	31 July 2022 £ million
Customer deposits	**7,724.5**	6,770.4
Secured funding	**1,676.6**	1,598.7
Unsecured funding[2]	**1,308.6**	1,544.3
Equity	**1,644.9**	1,657.5
Total available funding[3]	**12,354.6**	11,570.9
Total funding as % of loan book[4]	**130%**	127%
Average maturity of funding allocated to loan book[5]	**21 months**	21 months

1. Numbers relate to core funding and exclude working capital facilities at the business level.
2. Unsecured funding excludes £44.3 million (31 July 2022: £22.1 million) of non-facility overdrafts included in borrowings and includes £190.0 million (31 July 2022: £295.0 million) of undrawn facilities.
3. Includes £250 million of funds raised via a senior unsecured bond with a five-year tenor by Close Brothers Group plc, the group's holding company, in June 2023, with proceeds currently held for general corporate purposes.
4. Total funding as a % of loan book includes £271.2 million (31 July 2022: £240.0 million) of operating lease assets in the loan book figure, as per the definition of "total funding as a % of loan book including operating lease assets" revised in the 2022 financial year.
5. Average maturity of total available funding, excluding equity and funding held for liquidity purposes.

account range. We are focused on identifying opportunities to continue to expand our product range, which will support us in growing and diversifying our retail deposit base and further optimise our cost of funding and maturity profile.

Secured funding increased 5% to £1.7 billion (31 July 2022: £1.6 billion) as we renewed and extended our Premium Finance warehouse securitisation to £650 million (31 July 2022: £500 million). We maintained our current drawings under the Term Funding Scheme for Small and Medium-sized Enterprises ("TFSME") at £600 million (31 July 2022: £600 million). Over the next 12 months, £228 million of TFSME will mature, which we expect to replace in line with our diverse funding profile, dependent on market conditions and demand.

Unsecured funding, which includes senior unsecured and subordinated bonds and undrawn committed revolving facilities, reduced to £1.3 billion (31 July 2022: £1.5 billion) as we adapted our funding mix in light of market conditions. In June 2023, Close Brothers Group plc successfully issued a £250 million senior unsecured bond at an interest rate of 7.75% with the net proceeds to be used for general corporate purposes.

We have maintained a prudent maturity profile. The average maturity of funding allocated to the loan book was 21 months (31 July 2022: 21 months), ahead of the average loan book maturity at 16 months (31 July 2022: 17 months). This is in line with our "borrow long, lend short" principle, reflecting the timing and mix of funding raised over the year.

Our credit ratings remain strong, reflecting the group's profitability, capital position, diversified business model and consistent risk appetite. Moody's Investors Services ("Moody's") reaffirmed their rating for Close Brothers Group as "A2/P1" and Close Brothers Limited as "Aa3/P1", whilst upgrading the outlook from "negative" to "stable" for both in November 2022. Fitch Ratings ("Fitch") reaffirmed their rating for both Close Brothers Group and Close Brothers Limited as ''A-/F2'', whilst downgrading the outlook from ''stable'' to "negative" in March 2023.

Group Liquidity

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

We continued to maintain higher liquidity relative to the pre-Covid-19 position to provide additional flexibility given the uncertain UK economic outlook, whilst enabling us to maximise any opportunities available. Over the year, treasury assets increased 20% to £2.2 billion (31 July 2022: £1.9 billion) and were predominantly held on deposit with the Bank of England.

We regularly assess and stress test the group's liquidity requirements and continue to meet the liquidity coverage ratio regulatory requirements, with a 12-month average LCR to 31 July 2023 of 1,143% (31 July 2022: 924%). In addition to internal measures, we monitor funding risk based on the UK Capital Requirements Regulation ("CRR") rules for the net stable funding ratio ("NSFR") which became effective on 1 January 2022. The four-quarter average NSFR to 31 July 2023 was 126.0% (point in time at 31 July 2022: 118.3%).

Group Liquidity

	31 July 2023 £ million	31 July 2022 £ million
Cash and balances at central banks	**1,937.0**	1,254.7
Sovereign and central bank debt[1]	**186.1**	415.4
Covered bonds[1]	**106.3**	–
Certificates of deposit	**–**	185.0
Treasury assets	**2,229.4**	1,855.1

1. There was £nil encumbered sovereign debt, central bank debt and covered bonds at 31 July 2023 (31 July 2022: £216.9 million).

Financial Overview continued

Banking

Key Financials[1]

	2023 £ million	2022 £ million	Change %
Operating income	**713.8**	693.1	3
Adjusted operating expenses	**(389.7)**	(362.6)	7
Impairment losses on financial assets	**(204.0)**	(103.3)	97
Adjusted operating profit	**120.1**	227.2	(47)
Adjusted operating profit, pre provisions	**324.1**	330.5	(2)
Net interest margin	**7.7%**	7.8%	
Expense/income ratio	**54.6%**	52.3%	
Bad debt ratio	**2.2%**	1.2%	
Return on net loan book	**1.3%**	2.6%	
Return on opening equity	**6.6%**	12.5%	
Closing loan book and operating lease assets	**9,526.2**	9,098.9	5

Key Financials (Excluding Novitas)

	2023 £ million	2022 £ million	Change %
Operating income	**694.9**	657.1	6
Adjusted operating expenses	**(381.0)**	(348.0)	9
Impairment losses on financial assets	**(87.2)**	(42.6)	105
Adjusted operating profit	**226.7**	266.5	(15)
Adjusted operating profit, pre provisions	**313.9**	309.1	2
Net interest margin	**7.6%**	7.5%	
Expense/income ratio	**54.8%**	53.0%	
Bad debt ratio	**0.9%**	0.5%	
Closing loan book and operating lease assets	**9,466.3**	8,939.5	6

1. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between statutory and adjusted measures can be found in note 3.

Continued Demand and Loan Book Growth, as we Maintained our Pricing Discipline and Margin in an Uncertain Market Environment

This year has seen a heightened level of uncertainty in the market backdrop from a combination of factors, including the ongoing conflict in Ukraine, UK inflation reaching its highest level in more than 40 years and the Bank of England base rate rising to 5% in June 2023, which have all created challenges for our individual and SME customers. The deterioration in the external environment has also adversely impacted the economic variables our businesses are sensitive to, which has been reflected in higher forward-looking impairment provisions. Notwithstanding the economic uncertainty, we continued to support our customers and lend throughout the cycle on responsible terms, consistently applying our prudent underwriting and pricing discipline. We are confident that we have the right model to thrive in this environment and are confident in the opportunity it creates for us to lean in and support consumers and SME businesses.

Banking adjusted operating profit reduced 47% to £120.1 million (2022: £227.2 million), primarily reflecting higher impairment charges related to Novitas. On a pre-provision basis, adjusted operating profit reduced 2% to £324.1 million (2022: £330.5 million) as growth in income, driven by good loan book growth and a strong net interest margin, was offset by an increase in costs. Statutory operating profit decreased to £120.1 million (2022: £227.1 million).

Excluding Novitas, Banking adjusted operating profit decreased 15% to £226.7 million (2022: £266.5 million), primarily driven by higher impairment charges to reflect the uncertain macroeconomic outlook and increased costs, which more than offset income growth.

The loan book increased 5% over the year to £9.5 billion (31 July 2022: £9.1 billion), driven by strong demand in our Commercial businesses and high drawdowns in Property, partly offset by the reduction in the Novitas net loan book. Growth in our Premium Finance and UK Motor Finance books was more than offset by the run-off of the Republic of Ireland Motor Finance loan book. We saw an acceleration of growth in the second half of the year to 5%, following a 1% decline in the loan book in the first half of 2023.

Excluding our businesses in run-off, Novitas and the Republic of Ireland Motor Finance, the loan book grew 8% to £9.3 billion (31 July 2022: £8.6 billion).

Operating income increased 3% to £713.8 million (2022: £693.1 million), reflecting the loan book growth and strong net interest margin, partially offset by the run-off of Novitas and the Irish Motor Finance business. Excluding Novitas, operating income grew 6%.

The net interest margin decreased marginally to 7.7% (2022: 7.8%) principally due to reduced income from Novitas. Excluding Novitas, the net interest margin was stable at 7.6% (2022: 7.5%), reflecting both pricing discipline on new lending and actions taken to optimise the group's liability mix and funding costs in a rising rate environment. We are well positioned to maintain a strong net interest margin and pass on increases in cost of funds as we remain focused on asset pricing.

Adjusted operating expenses increased 7% to £389.7 million (2022: £362.6 million) as we continued to invest in strategic programmes. 57% (£15.4 million) of the increase related to higher staff costs, driven mainly by inflation-related salary rises and growth-driven hires. This was partly offset by lower performance-linked compensation due to the reduction in profit for the year. The expense/income ratio increased to 55% (2022: 52%) and the compensation ratio increased marginally to 30% (2022: 29%).

Business-as-usual ("BAU") costs rose 6% to £303.1 million (2022: £284.8 million), with over half of the increase driven by salary increases, as well as an uplift in property running costs to reflect the current inflationary environment[1]. Costs related to Novitas reduced to £8.7 million (2022: £14.6 million) as we continue to wind down the business.

Investment costs rose 23% to £77.9 million (2022: £63.2 million), of which £40.0 million (2022: £29.4 million) was driven mainly by spend on our strategic cost management initiatives, growth initiatives and operational resilience. Depreciation charges related to our investment projects rose to £37.9 million (2022: £33.8 million).

We see investment through the cycle as vital in protecting our model, enhancing efficiency and future-proofing our income generation capabilities. Our investments in cyber and data centres are part of a programme to continually enhance our business and operational resilience.

We have implemented a programme directly aligned to the requirements of the FCA's Consumer Duty, with workstreams including fair value assessments, enhanced product reviews and enhancing customer communications. Our focus is now on continuing to embed our compliance and implementing Consumer Duty changes for books of business not open to new customers.

Across our businesses, we have been investing in our digital capabilities to support our relationship-based model and make our experts even more valuable. Our Asset Finance transformation programme will introduce a single platform, adding new functionality, improved customer insights and increased efficiency. In Motor Finance we have seen a significant increase in new business proposals through our digital channels and in Premium Finance, we are using technology to reduce the time taken to make credit underwriting decisions for large business applications and have introduced a digital payment link for customers in arrears. Our previous investment in our Customer Deposit platform has enabled us to grow our Savings proposition, introduce new offerings and increase customer numbers, whilst achieving good customer satisfaction scores.

We have intensified our focus on cost efficiency, particularly in light of recent inflationary pressures. We have a number of strategic cost management initiatives in progress, which aim to create capacity to accommodate growth, inflation and investment to support our business, and are evaluating additional opportunities for efficiency. Our multi-year technology transformation programme focused on strategic IT services is well under way. As part of this, we are moving to a new operating model, making use of third-party providers to reduce our cost base and create efficiencies. The programme will enhance the service we provide to our customers and increase our operational resilience and flexibility. Our Retail simplification programme is focused on transforming operations and reducing the cost of running the business, whilst enhancing the operational risk and control environment. The programme also aims to increase broker, customer and colleague satisfaction and loyalty. A new customer relationship platform has been introduced in Premium Finance, as well as case management and automation tools, which are driving a reduction in case handling and credit decisioning times.

Whilst we remain focused on achieving positive operating leverage over the medium term, we expect costs for the 2024 financial year to increase between c.8-10%, primarily as a result of higher average salary awards at the end of the 2023 financial year and a normalisation of performance-linked compensation. As we progress our strategic cost management initiatives, investment costs and related depreciation are expected to increase and will be partly offset by efficiency savings.

1. Related ongoing costs resulting from investment projects are recategorised from investment costs to BAU costs after one year. For comparison purposes, £6.5 million has been recategorised from investment costs to BAU costs in the 2022 financial year to adjust for investment projects' ongoing costs that commenced prior to the 2023 financial year.

Financial Overview continued

Banking

In the 2025 financial year, we expect cost growth to more closely align with income growth, reflecting volume and activity-related expenses, a projected stabilisation of inflationary pressures, as well as further benefits from efficiency gains resulting from our strategic cost management initiatives. Investment spend is expected to stabilise, with depreciation costs related to our existing investment programmes peaking in the 2025 financial year.

Impairment charges increased significantly to £204.0 million (2022: £103.3 million), corresponding to a bad debt ratio of 2.2% (2022: 1.2%). This was driven primarily by increased provisions in relation to Novitas of £116.8 million (2022: £60.7 million), of which £114.6 million was incurred in the first half of the year.

Additionally, a further £87.2 million of impairment charges were recognised to take into account weaker macroeconomic variables and outlook, as well as higher arrears in the Motor Finance business as a result of cost of living pressures on customers. They also reflect an ongoing review of provisions and coverage across our loan portfolios and model refinements. Excluding Novitas, the bad debt ratio increased to 0.9% (2022: 0.5%), although remains slightly below our long-term bad debt ratio of 1.2%, and the coverage ratio increased marginally to 2.1% (31 July 2022: 1.9%). There was also an increase in overall provision coverage to 3.9% (31 July 2022: 3.1%).

Whilst we have not seen a significant impact on credit performance, we continue to monitor closely the evolving impacts of rising inflation and cost of living on our customers. We remain confident in the quality of our loan book, which is predominantly secured or structurally protected, prudently underwritten, diverse, and supported by the deep expertise of our people. We expect the bad debt ratio in the 2024 financial year to remain below our long-term average, based on current market conditions.

Accelerating our Efforts to Resolve Issues Relating to Novitas

The decision to wind down Novitas, a provider of finance for the legal sector we acquired in 2017, and to withdraw from the legal services financing market, followed a strategic review in July 2021 which concluded that the business was not aligned with the Close Brothers model. Some of the key attributes of our model such as in-house lending expertise, a strong track record of performance and underlying security of the loans, have proven not to be evident in Novitas.

The business continues to work with solicitors and insurers, to support existing customers and manage the existing book to ensure good customer outcomes. As announced in January 2023, we have accelerated our efforts to resolve the issues relating to Novitas. We initiated formal legal action against one of the After the Event ("ATE") insurers regarding the potential recoverability of funds in relation to failed cases and we are considering our position in respect of other insurers. As a result, an increased provision to reflect the expectation of a longer time frame to recovery for related loans was included in the £24.8 million of provisions taken in the first five months of the 2023 financial year. We have since entered into a settlement with another smaller ATE insurer.

In the first half of the year, we also undertook a review of certain cases being funded which had limited prospects of successfully progressing through the courts. As a result of this review, an additional provision of £89.8 million was recognised, which assumed a material increase in the Probability of Default ("PD") and Loss Given Default ("LGD") assumptions and a longer time frame to recovery across the majority of the portfolio. It also assumed reassessed estimates for recoverability of interest on the relevant loans, in line with accounting requirements.

Consequently, we recognised provisions of £114.6 million in relation to Novitas in the first half. While we will continue to review provisioning levels in light of future developments, including the experienced credit performance of the book and the outcome of the group's initiated legal action, we believe the provisions adequately reflect the remaining risk of credit losses for the Novitas loan book (£59.9 million net loan book at 31 July 2023).

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

We expect net income related to Novitas to reduce from £18.9 million in 2023 to c.£9 million in 2024. Further disclosure on the impact of Novitas can be found in note 10.

Continued Focus on Delivering Disciplined Growth

We remain focused on delivering disciplined growth whilst prioritising our margins and credit quality, with our growth initiatives delivering a significant contribution of loan book growth. We continue to actively work to identify incremental and new opportunities in line with our business model and overall remain confident in the growth outlook for the loan book over both the short and medium term. We are confident that we have the right model to thrive in this environment and are confident in the opportunity it creates for us to lean in and support consumers and SME businesses.

As the UK aligns towards a net zero economy, we recognise a significant opportunity for delivering disciplined growth. Our specialist energy team has provided finance for over 1,600MW of installed generation and storage capacity to date and we continue to broaden our expertise in green and transition assets. In line with our ambition to provide funding for £1.0 billion of battery electric vehicles by the end of the 2027 financial year, we have lent £164 million over the last year.

The Asset Finance business remains well positioned to capitalise on continued demand for finance from SMEs. Our new initiatives are proving successful, with the recently hired agricultural equipment and materials handling teams both having written healthy levels of new business over the year and building strong pipelines, as we continue to expand our coverage into adjacent asset classes and markets.

In Invoice Finance, we continue to focus on taking advantage of opportunities in the asset-based lending ("ABL") space, building on the success we have seen this year with our first syndication deal and our expansion to cover larger loan sizes. We have also expanded our offering with our new bespoke lending team, which offers loan structures to SMEs requiring growth and investment capital, and closed its first deal earlier this year.

The Motor Finance transformation programme, which has now concluded, has created the digital capabilities for us to enhance our proposition for dealers, partners and customers. We are currently rolling out a new dealer partner onboarding process and our partnership with iVendi has driven an uplift in proposal volumes. Our partnership with AutoTrader, providing dealers with data and insights to effectively manage their forecourts, continues to prove successful and we are leveraging the investment made in our commercial partner programme to support additional routes to market. In addition, we have expanded our credit policy to provide broader coverage of Alternatively Fuelled Vehicles ("AFVs") as they become more prevalent in the second hand car market. In September 2023, we announced our agreement to acquire Bluestone Motor Finance (Ireland) DAC, which will provide a platform for us to build our Motor Finance business in Ireland.

In Premium Finance, we continue to focus on our digital, data and insight capabilities to enhance our offering, with our Foresight model helping to support brokers' decisioning by providing unique customer behaviour insights. We are expanding our new business capabilities through the use of a customer relationship management platform and the launch of a programme to support commercial lines brokers with the promotion and sale of premium finance.

In Property, following the successful piloting of a specialist buy-to-let extension to our existing bridging finance customers, we are continuing to offer this product and wrote a healthy level of business during the year. We are seeing good demand for initiatives including our enhanced loan-to-value product for select customers, alongside our continued focus on growing our regional loan book. We are also looking to expand further our partnership with Travis Perkins, which enables SME housebuilders to access discounted building supplies and materials directly via a credit facility. Although the economic uncertainty is expected to continue to impact activity in the property market, our pipeline of undrawn commitments remains strong.

Continued Demand Across our Banking Businesses with Good Loan Book Growth

The Commercial loan book grew 6% to £4.8 billion (31 July 2022: £4.6 billion), despite the roll-off of government supported lending under schemes such as the Coronavirus Business Interruption Loan Scheme ("CBILS"), supported by strong demand and growth initiatives. Excluding Novitas, the Commercial book increased 8% to £4.8 billion (31 July 2022: £4.4 billion). The net loan book of government supported lending over the pandemic period (covering lending under the CBILS, Coronavirus Large Business Interruption Loan Scheme and Bounce Back Loan Scheme) stood at £456 million at 31 July 2023 (31 July 2022: £748 million).

Loan Book Analysis

	31 July 2023 £ million	31 July 2022 £ million	Change %
Commercial	**4,821.3**	4,561.4	6
Commercial – Excluding Novitas	**4,761.4**	4,402.0	8
Asset Finance[1]	**3,387.1**	3,217.4	5
Invoice and Speciality Finance[1]	**1,434.2**	1,344.0	7
Invoice and Speciality Finance – Excluding Novitas[1]	**1,374.3**	1,184.6	16
Retail	**3,001.8**	3,064.0	(2)
Motor Finance[2]	**1,948.4**	2,051.2	(5)
Premium Finance	**1,053.4**	1,012.8	4
Property	**1,703.1**	1,473.5	16
Closing loan book and operating lease assets[3]	**9,526.2**	9,098.9	5
Closing loan book and operating lease assets – Excluding Novitas	**9,466.3**	8,939.5	6

1. The Asset Finance and Invoice and Speciality Finance loan books have been re-presented for 31 July 2022 to reflect the recategorisation of Close Brothers Vehicle Hire ("CBVH") from Invoice and Speciality Finance to Asset Finance.
2. The Motor Finance loan book includes £206.7 million (31 July 2022: £367.2 million) relating to the Republic of Ireland Motor Finance business, which is in run-off following the cessation of our previous partnership in the Republic of Ireland from 30 June 2022.
3. Includes operating lease assets of £223.4 million (31 July 2022: £185.4 million) that relate to Asset Finance and £47.8 million (31 July 2022: £54.6 million) to Invoice and Speciality Finance.

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Asset Finance grew 5% as we saw strong new business volumes in our Leasing business, particularly from our Contract Hire and Energy portfolios, and good demand for our new initiatives including our agriculture offering. Invoice and Speciality Finance grew 7%, notwithstanding the reduction in the Novitas net loan book, as we saw strong new business and higher utilisation in Invoice Finance and good growth in our Irish business. The Invoice Finance business also completed its first syndication deal during the year. Excluding Novitas, the Invoice and Speciality Finance loan book increased 16%.

The Retail loan book contracted 2% to £3.0 billion (31 July 2022: £3.1 billion), driven mainly by the decline in the Republic of Ireland loan book. Motor Finance decreased 5% as the run-off of the Irish book more than offset 3% growth in the UK Motor book as we enhanced our proposition and focused on new routes to market through our commercial partners. Premium Finance grew 4% year-on-year, driven by an increase in new business volumes from individuals and larger premium sizes reflecting inflation.

The Republic of Ireland Motor Finance business accounted for 11% of the Motor Finance loan book (31 July 2022: 18%) and 2% of the Banking loan book (31 July 2022: 4%). As announced in September 2023, we have reached an agreement to acquire Bluestone Motor Finance (Ireland), with the acquisition expected to complete in the fourth quarter of calendar year 2023. This will provide a platform for us to build our Motor Finance business in Ireland, following the cessation of our previous partnership in that country last year.

The Property loan book grew 16%, despite uncertainty in the housing market, as we saw strong drawdowns from our healthy pipeline and normalising repayments from the elevated levels seen in the prior year, as the buoyant UK property market had resulted in heightened unit sales by developers. We are seeing good demand for initiatives including our specialist buy-to-let extension and our enhanced loan-to-value product for select customers, alongside our continued focus on growing our regional loan book.

Banking: Commercial[1]

	2023 £ million	2022 £ million	Change %
Operating income	**347.8**	343.4	1
Adjusted operating expenses	**(194.4)**	(180.0)	8
Impairment losses on financial assets	**(137.5)**	(72.4)	90
Adjusted operating profit	**15.9**	91.0	(83)
Adjusted operating profit, pre provisions	**153.4**	163.4	(6)
Net interest margin	**7.4%**	7.8%	
Expense/income ratio	**56%**	52%	
Bad debt ratio	**2.9%**	1.7%	
Closing loan book and operating lease assets[2]	**4,821.3**	4,561.4	6

Commercial Key Metrics Excluding Novitas[1]

	2023 £ million	2022 £ million	Change %
Operating income	**328.9**	307.4	7
Adjusted operating expenses	**(185.7)**	(165.4)	12
Impairment losses on financial assets	**(20.7)**	(11.7)	77
Adjusted operating profit	**122.5**	130.3	(6)
Adjusted operating profit, pre provisions	**143.2**	142.0	1
Net interest margin	**7.2%**	7.3%	
Expense/income ratio	**56%**	54%	
Bad debt ratio	**0.5%**	0.3%	
Closing loan book and operating lease assets[2]	**4,761.4**	4,402.0	8

1. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in note 3.
2. Operating lease assets of £223.4 million (31 July 2022: £185.4 million) relate to Asset Finance and £47.8 million (31 July 2022: £54.6 million) to Invoice and Speciality Finance.

Strong Demand in Commercial as we Continue to Support our SME Customers

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

Despite the market uncertainty, our Commercial businesses saw good customer demand over the year, with Invoice Finance experiencing strong new business levels and an uptick in utilisation. We have focused on asset pricing discipline in line with our model, actively choosing to pass through higher rates on new lending where appropriate notwithstanding the competitive market. Our new initiatives have proven successful, with our agriculture and materials handling teams writing healthy levels of new business over the year and our first syndication deal completed.

Adjusted operating profit for Commercial declined significantly to £15.9 million (2022: £91.0 million), driven primarily by a significant increase in impairment charges related to Novitas. Statutory operating profit reduced to £15.8 million (2022: £90.9 million).

On a pre-provision basis, adjusted operating profit decreased 6% to £153.4 million (2022: £163.4 million) as an increase in costs more than offset income growth.

Excluding Novitas, adjusted operating profit decreased 6% to £122.5 million (2022: £130.3 million) as income growth was more than offset by higher costs.

Operating income increased 1% to £347.8 million (2022: £343.4 million), reflecting good loan book growth and higher average volumes in Invoice and Speciality Finance. The net interest margin decreased to 7.4% (2022: 7.8%), driven mainly by the reduction in Novitas income. Excluding Novitas, the net interest margin decreased marginally to 7.2% (2022: 7.3%), primarily reflecting the timing delay in passing through higher interest rates to customers compared to increased funding costs, partly offset by increased activity-driven fees and benefits of central funding mix actions taken in light of the rising interest rate environment.

Adjusted operating expenses grew 8% to £194.4 million (2022: £180.0 million), driven by investment spend in relation to the Asset Finance transformation programme and strategic growth initiatives, as well as higher staff costs to reflect the inflationary environment. This was partly offset by lower advisory costs in relation to Novitas. The expense/income ratio increased to 56% (2022: 52%) as higher costs more than offset the growth in income.

Impairment charges rose significantly to £137.5 million (2022: £72.4 million), with £116.8 million incurred in relation to Novitas, £114.6 million of which were recognised in the first half of the year. As a result, there was an increase in provision coverage to 5.2% (31 July 2022: 4.0%).

Excluding Novitas, impairment charges increased to £20.7 million (2022: £11.7 million), corresponding to a bad debt ratio of 0.5% (2022: 0.3%). This increase primarily reflected additional provisions to take into account weaker macroeconomic variables and outlook. The coverage ratio reduced marginally to 1.4% (31 July 2022: 1.6%).

Banking: Retail

	2023 £ million	2022 £ million	Change %
Operating income	**248.1**	237.0	5
Operating expenses	**(164.4)**	(151.6)	8
Impairment losses on financial assets	**(49.0)**	(24.4)	101
Operating profit	**34.7**	61.0	(43)
Operating profit, pre provisions	**83.7**	85.4	(2)
Net interest margin	**8.2%**	7.8%	
Expense/income ratio	**66%**	64%	
Bad debt ratio	**1.6%**	0.8%	
Closing loan book[1]	**3,001.8**	3,064.0	(2)

1. The Motor Finance loan book includes £206.7 million (31 July 2022: £367.2 million) relating to the Republic of Ireland Motor Finance business, which is in run-off following the cessation of our previous partnership in the Republic of Ireland from 30 June 2022.

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Expanding Our Presence in Ireland

In September 2023, we announced that we had reached an agreement to acquire Bluestone Motor Finance (Ireland) DAC ("Bluestone Motor Finance"), with the acquisition expected to complete in the fourth quarter of calendar year 2023. Close Brothers is already a well-known and trusted brand in Ireland, having helped over 130,000 customers finance vehicles. We are confident that the acquisition presents the right opportunity to re-enter the Irish motor finance market and provide a platform for delivering disciplined growth.

Bluestone Motor Finance is an award-winning business with a specialist lending approach that aligns with the Close Brothers Motor Finance offering. It has an established distribution network of over 650 dealer partners and an experienced sales and underwriting team, focusing on the prime and specialist segments of the Irish motor finance market. Customers score the offering "Excellent" on Trustpilot. Bluestone Motor Finance has invested in its digital capabilities and its online application offering is industry-leading in Ireland.

The acquisition will enable us to share our specialist knowledge with Bluestone Motor Finance customers and dealer partners and offer an expanded product offering.

The acquisition is aligned to our commitment to Ireland as a strategic, long-term market.

Remained Focused on Prioritising our Margins and Underwriting Discipline

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

We have seen a solid performance in our Retail businesses this year despite the challenging market backdrop. In Motor Finance, we have focused on prioritising our margin and pricing discipline in line with our model, passing through higher rates on new lending. As reported at the half year 2023 results and in line with comparable trends observed across the wider industry, we have seen arrears increase and then stabilise at a higher level in our Motor Finance loan book, reflecting cost of living pressures on our customers. Nonetheless, we remain comfortable with the quality of our portfolio, underpinned by our underwriting discipline and prudent level of provisions. In Premium Finance, volumes in our consumer business have increased year-on-year, benefiting from premium inflation in the second half of the year, with growth in average loan sizes.

Operating profit for Retail reduced to £34.7 million (2022: £61.0 million), as income growth was more than offset by higher costs and increased impairment charges.

Operating income rose 5% to £248.1 million (2022: £237.0 million), driven by growth in the UK Motor Finance loan book and an increase in the net interest margin to 8.2% (2022: 7.8%) despite higher funding costs, as we continued to focus on pricing discipline and benefited from central funding mix actions taken in light of the rising interest rate environment.

Operating expenses increased 8% to £164.4 million (2022: £151.6 million), primarily driven by investment in the Retail businesses to create efficiencies whilst delivering customer and control benefits, including depreciation costs related to these investments, as well as higher staff costs, particularly in legal and compliance.

In Premium Finance, we have continued to invest in further enhancing our processes in line with regulatory requirements. As a result, the expense/income ratio increased to 66% (2022: 64%).

Following the FCA's Motor Market review in 2019, the group continues to receive a number of complaints, some of which are with the Financial Ombudsman Service, and is subject to a number of claims through the courts regarding historical commission arrangements with intermediaries on its Motor Finance products. Whilst the review of these complaints and claims is ongoing, any potential financial impact remains uncertain.

Impairment charges rose to £49.0 million (2022: £24.4 million), corresponding to a bad debt ratio of 1.6% (2022: 0.8%). This was driven by the uncertain macroeconomic outlook and increased arrears and forbearance levels in Motor Finance, as well as an ongoing review of provisions and coverage. As a result, the provision coverage ratio increased to 2.9% (31 July 2022: 2.2%).

We remain confident in the credit quality of the Retail loan book. The Motor Finance loan book is predominantly secured on second hand vehicles which are less exposed to depreciation or significant declines in value than new cars. Our core Motor Finance product remains hire-purchase contracts, with less exposure to residual value risk associated with Personal Contract Plans ("PCP"), which accounted for c.9% of the Motor Finance loan book at 31 July 2023 (c.11% at 31 July 2022). The Premium Finance loan book benefits from various forms of structural protection including premium refundability and, in most cases, broker recourse for the personal lines product.

Banking: Property

	2023 £ million	2022 £ million	Change %
Operating income	**117.9**	112.7	5
Operating expenses	**(30.9)**	(31.0)	0
Impairment losses on financial assets	**(17.5)**	(6.5)	169
Operating profit	**69.5**	75.2	(8)
Operating profit, pre provisions	**87.0**	81.7	6
Net interest margin	**7.4%**	7.6%	
Expense/income ratio	**26%**	28%	
Bad debt ratio	**1.1%**	0.4%	
Closing loan book	**1,703.1**	1,473.5	16

Strong Loan Book Growth Driven by Drawdowns from our Healthy Pipeline

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.

This year has seen a slowdown across the UK property market following a period of heightened activity, with rising interest rates negatively impacting buyer sentiment. Whilst we have seen a fall in housebuilding levels and some contraction in house prices, we have delivered a strong performance, with record drawdowns, growth in active customer numbers and our pipeline remaining healthy at over £1 billion. We have also focused on retaining our margin and pricing discipline as we adhere to our through-the-cycle lending approach.

Operating profit in Property declined 8% to £69.5 million (2022: £75.2 million), as an increase in impairment charges more than offset income growth. On a pre-provision basis, operating profit grew 6% to £87.0 million (2022: £81.7 million) as we achieved positive operating leverage in the business.

Operating income increased 5% to £117.9 million (2022: £112.7 million), driven by strong loan book growth and higher fee income. The net interest margin decreased to 7.4% (2022: 7.6%), reflecting higher cost of funds and the benefit of interest rate floors in the prior year.

Operating expenses were stable at £30.9 million (2022: £31.0 million) as we maintained our strict focus on cost discipline. As a result, the expense/income ratio reduced to 26% (2022: 28%).

Impairment charges increased to £17.5 million (2022: £6.5 million), resulting in a bad debt ratio of 1.1% (2022: 0.4%), as we recognised additional provisions to reflect weakening macroeconomic variables and outlook, in particular lower projected house prices, and an ongoing review of provisions and coverage. The provision coverage ratio remained stable at 2.4% (31 July 2022: 2.4%).

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

Financial Overview continued

Asset Management

Key Financials[1]

	2023 £ million	2022 £ million	Change %
Investment management	**113.3**	110.4	3
Advice and other services[2]	**29.9**	36.1	(17)
Other income[3]	**1.6**	1.5	7
Operating income	**144.8**	148.0	(2)
Adjusted operating expenses	**(128.8)**	(126.3)	2
Impairment losses on financial assets	**(0.1)**	–	n/a
Adjusted operating profit	**15.9**	21.7	(27)
Revenue margin (bps)	**84**	87	
Operating margin	**11%**	15%	
Return on opening equity	**15.5%**	28.6%	

1. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in note 3.
2. Income from advice and self-directed services, excluding investment management income.
3. Other income includes net interest income and expense, income on principal investments and other income.

Acceleration of Growth Strategy, Building on Long-term Track Record and Driving Strong Net Inflows

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

Adjusted operating profit in CBAM reduced 27% to £15.9 million (2022: £21.7 million), driven by a modest decline in income, reflecting lower income from advice and other services, and higher costs as we accelerated our hiring strategy. The operating margin reduced to 11% (2022: 15%). Statutory operating profit before tax was £14.4 million (2022: £19.8 million).

We saw an increase in investment management income resulting from growth in AuM delivered by our bespoke investment manager hires. This was more than offset by a decrease in income from advice and other services, which reflected the impact of difficult market conditions on client assets, and managements' strategic shift to focus on more higher value clients. As a result, income in the Asset Management division decreased by 2%. The revenue margin reduced to 84bps (2022: 87bps) due primarily to flows into lower margin investment management and non-advised products.

Adjusted operating expenses rose 2% as we exercised disciplined cost control whilst accelerating our growth strategy. We increased our rate of hiring, recruiting 15 bespoke investment managers during the year (2022: 10) and opened offices in Birmingham and Cheltenham to support new teams, whilst also implementing inflationary-driven salary increases and incurring spend on technology, which was partly offset by lower variable compensation. The expense/income ratio increased to 89% (2022: 85%), with the compensation ratio also increasing to 59% (2022: 56%). The acceleration of our hiring strategy will continue to be reflected in the cost trajectory going forward.

CBAM has achieved substantive compliance with the FCA's Consumer Duty requirements. In preparation for the implementation of the FCA's Consumer Duty, we completed a number of workstreams focused on mapping client journeys and enhancing our data collection and client communications, with Consumer Duty embedded into the CBAM strategy.

Strong Net Inflows Notwithstanding Market Uncertainty

Continued uncertainty over the economic outlook has led to volatility in returns from equity markets over the year, negatively impacting investor sentiment. Nevertheless, we saw strong net inflows of £1.3 billion (2022: £844 million) and delivered a net inflow rate of 9% (2022: 5%). Our hiring strategy is proving successful, with a strong pipeline and the new bespoke investment managers contributing significantly to the overall inflow rate. We continue to invest in supporting the long-term growth potential of CBAM through both new hires and building our acquisition pipeline.

Total managed assets grew 7% to £16.4 billion (31 July 2022: £15.3 billion), driven by strong net inflows, partly offset by negative market performance. Total client assets, which includes both advised and managed assets, increased 5% to £17.3 billion (31 July 2022: £16.6 billion).

The integration of PMN Financial Management into CBAM has outperformed initial expectations, with the business having now been fully integrated and the migration of assets expected to be completed by July 2024.

Movement in Client Assets

	31 July 2023 £ million	31 July 2022 £ million
Opening managed assets	**15,302**	15,588
Inflows	**2,729**	2,330
Outflows	**(1,411)**	(1,486)
Net inflows	**1,318**	844
Market movements	**(201)**	(1,130)
Total managed assets	**16,419**	15,302
Advised only assets	**907**	1,272
Total client assets[1]	**17,326**	16,574
Net flows as % of opening managed assets	**9%**	5%

1. Total client assets include £4.9 billion of assets (31 July 2022: £5.1 billion) that are both advised and managed.

Fund Performance

Our funds and segregated bespoke portfolios are designed to provide attractive risk-adjusted returns for our clients, consistent with their long-term goals and investment objectives. Fund performance has been mixed, reflecting volatile markets across asset classes which has been the case throughout the year. As a result, we have seen some of our funds outperform their peer group, with others underperforming, mainly reflecting their exposure to exchange rate movements.

Our Sustainable Funds and Net Zero Commitment

In March 2023, we created the Sustainable Select Fixed Income fund through merging our existing Select Fixed Income fund and Sustainable Bond fund. This new fund utilises an updated sustainable investment methodology, making use of CBAM's experience and understanding of sustainable investment strategies gained over recent years to target a reduction in CO_2 emissions intensity versus its benchmark.

Our Sustainable Select Fixed Income fund has seen good traction so far and we are exploring options for enhancing further our sustainable offering.

In line with our commitment to actively contribute towards the UK government's net zero climate goals, CBAM is a signatory of the Net Zero Asset Managers initiative and is on track to disclose its net zero targets by the end of September 2023.

Well Positioned for Future Growth

We remain confident that our vertically integrated, multi-channel business model positions us well for ongoing demand for our services and the structural growth opportunity presented by the wealth management industry.

Our focus remains on providing excellent service, building on the strength of our client relationships, whilst investing in new hires and building our pipeline of acquisitions to support the long-term growth potential of our business. While CBAM is sensitive to financial market conditions, we remain committed to driving growth both organically and through in-fill acquisitions.

Financial Overview continued

Winterflood

Key Financials

	2023 £ million	2022 £ million	Change %
Operating income	**75.3**	95.2	(21)
Operating expenses	**(71.8)**	(81.1)	(11)
Operating profit	**3.5**	14.1	(75)
Average bargains per day ('000)	**60**	81	
Operating margin	**5%**	15%	
Return on opening equity	**2.6%**	10.5%	
Loss days	**1**	8	

Performance Impacted by Continued Slowdown in Trading Activity but Well Positioned to Benefit When Market Conditions Improve

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

We have seen significant macroeconomic uncertainty over the year, with geopolitical and economic events, particularly the ongoing war in Ukraine and continual rises in the cost of debt, causing substantial market challenges. Interest rates are at their highest since the 2008 financial crisis and, collectively, this has negatively impacted investor confidence and appetite. Against this backdrop, the domestically focused UK indices have suffered sustained market declines, with the FTSE 250 and AIM All-Share index declining 5% and 17% respectively this year.

This year has seen subdued retail trading activity, particularly in higher margin sectors (AIM and Smaller Companies) as investors turned to safer and better performing sectors such as Fixed Income and Exchange-Traded Funds or withdrew from the market as they await more certainty in the macroeconomic environment. This sentiment inevitably led to reduced retail-driven trading situations and our volumes have fallen as a result. Average daily bargains reduced 26% to 60k (2022: 81k), although trading volumes remain marginally above pre-pandemic levels (2019: 56k) and we have maintained our market-leading position, trading over 280 billion shares in the year[1].

Trading income reduced to £58.6 million (2022: £80.7 million) as diversification in trading sectors and the expertise of our traders, evidenced by only one loss day (2022: eight loss days), helped mitigate the difficult market environment.

Operating income decreased to £75.3 million (2022: £95.2 million), primarily driven by lower trading revenues. All trading sectors reported a decline on the prior year except Fixed Income, which benefited from volatility in bond markets following the fallout from the UK mini-budget and changes in investor risk appetite. We also saw a reduction in fee income generated by our Investment Trusts Corporate team as corporate activity slowed market-wide as the risk-off market sentiment impacted issuance and transaction volumes, with just one IPO launched this year. Our Investment Trusts Corporate business, which is corporate broker to over 50 investment trusts, delivered revenue of £2.5 million (2022: £3.9 million), largely representing retainer fee income.

We are at the forefront of initiatives to simplify participation in equity, debt and private markets for UK retail investors through our collaborations with PrimaryBid and JP Jenkins, and our proprietary solution, Winterflood Retail Access Platform ("WRAP").

WBS has continued its positive trajectory, growing AuA to £12.9 billion (2022: £7.2 billion) despite sustained equity market declines. Net inflows were £5.5 billion (2022: £1.3 billion) following the successful completion of the planned migration of custody assets of Fidelity International in the first quarter of 2023. WBS grew income 45% to £14.8 million (2022: £10.2 million), with recurring income up 38% to £14.1 million. We are confident that WBS is well positioned for further growth, both organically and supported by a solid pipeline of clients, and expect WBS to grow AuA to over £20 billion by 2026.

Operating expenses reduced 11% to £71.8 million (2022: £81.1 million) due to decreased variable costs as the slowdown in activity led to lower staff compensation and settlement fees. The reduction in income was not fully offset by lower expenses, reflecting operational gearing in the business. Looking ahead, Winterflood's variable cost base is expected to reflect a recovery in income as investor confidence returns.

Operating profit decreased 75% to £3.5 million (2022: £14.1 million) against a backdrop of difficult conditions and sustained market declines.

Winterflood has a long track record of trading profitably through a range of conditions and we remain well positioned to retain our market position and benefit when investor appetite returns. We continue to diversify our revenue streams and explore growth opportunities to balance the cyclicality in the trading business.

1. Bloomberg data covering 1 August 2022 to 31 July 2023.