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Registered in England No. 520241

Press Release

Preliminary results for the year ended 31 July 2017

26 September 2017

Good Performance in the Year

- The group reported a good performance for the year, with a 13% increase in adjusted[1] operating profit to £264.8 million, and an RoE[2] of 17.9%
- Banking delivered an adjusted operating profit of £243.5 million, up 9% on the prior year, with stable net interest margin and continued low impairments
- The increase in Banking profit was driven by Property Finance, with operating profit growth of 24%. Adjusted operating profit in Commercial Finance was up 4%, while Retail Finance was broadly flat
- The loan book grew by 7.0% to £6.9 billion, as we continue to apply our disciplined approach to lending in a competitive environment
- Winterflood reported operating profit of £28.1 million, almost 50% higher than the prior year, reflecting strong retail investor trading activity
- Asset Management continued to make good progress with adjusted operating profit of £17.4 million and good net inflows, at 9% of opening managed assets
- The proposed full year dividend per share of 60.0p represents growth of 5%, reflecting our progressive dividend policy

Financial Highlights[2]

	Full year 2017	Full year 2016	Change %
Adjusted operating profit	**£264.8m**	£233.6m	13
Operating profit before tax	**£258.6m**	£228.5m	13
Adjusted basic earnings per share	**131.7p**	128.4p	3
Basic earnings per share	**128.3p**	125.7p	2
Dividend per share	**60.0p**	57.0p	5
Return on opening equity	**17.9%**	18.9%	
Net interest margin	**8.1%**	8.2%	
Bad debt ratio	**0.6%**	0.6%	

	31 July 2017	31 July 2016	Change %
Loan book	**£6.9bn**	£6.4bn	7.0
Total client assets	**£11.2bn**	£9.9bn	13
Common equity tier 1 capital ratio	**12.6%[3]**	13.5%	
Total capital ratio	**15.2%**	13.8%	

1 Adjusted operating profit excludes £6.2 million (2016: £5.1 million) of amortisation of intangible assets on acquisition.
2 Please refer to definitions on page 18.
3 Includes one-off impact of increase in property risk weighted assets as announced on 5 January 2017.

Preben Prebensen, Chief Executive, said:

"I am pleased to report another good performance for the group in the 2017 financial year, with increased profits across all three divisions.

In an evolving market environment, we remain committed to our established business model, which relies on the expertise of our people to deliver consistently high levels of service, building deep and sustainable relationships with clients and intermediaries.

As a business, we remain well positioned longer-term, focusing on protecting our margins and underwriting discipline, improving our model through continued investment and extending into new products and markets.

All of this ensures we can continue to support our clients and drive long-term value for our shareholders through all stages of the financial cycle."

Enquiries

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A presentation to analysts and investors will be held today at 9.30 am GMT at our offices at 10 Crown Place, London EC2A 4FT. A listen-only dial-in facility will be available by dialling +44 20 3059 8125. A recording of this call will be available for replay for two weeks by dialling +44 121 260 4861, access code 6899188#.

Basis of Presentation

Results are presented both on a statutory and an adjusted basis to aid comparability between periods. The adjusted basis excludes exceptional items and amortisation of intangible assets on acquisition.

About Close Brothers

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

BUSINESS OVERVIEW

Close Brothers delivered another good result in the 2017 financial year, with profit growth in all three divisions. Adjusted and statutory operating profit both increased 13% overall to £264.8 million (2016: £233.6 million) and £258.6 million (2016: £228.5 million) respectively. Earnings per share were up 2% to 128.3p (2016: 125.7p), and up 3% to 131.7p (2016: 128.4p) on an adjusted basis, reflecting the first full-year impact of the bank corporation tax surcharge. Return on opening equity has remained strong at 17.9% (2016: 18.9%). The board proposes a full-year dividend of 60.0p (2016: 57.0p) per share, up 5% on last year, in line with our progressive dividend policy.

Profitability and Growth in the Lending Businesses

The UK economy remained relatively stable throughout the year. Interest rates remained low, supporting continued low impairments, and the supply of credit remains abundant, with no change to the current highly competitive lending environment.

The Banking division achieved a good result for the year. The loan book grew 7.0% to £6.9 billion (31 July 2016: £6.4 billion), reflecting the consistent application of our business model, as we prioritise margins and underwriting discipline over growth. We have a diverse loan book, with some businesses growing faster than others at the current point in the cycle. Both property and premium finance delivered good growth in the year, with asset and motor finance both broadly flat.

Adjusted operating profit increased to £243.5 million (2016: £223.0 million), up 9% compared to the prior year, with the net interest margin remaining strong at 8.1% (2016: 8.2%) and a low bad debt ratio of 0.6% (2016: 0.6%). All three lending segments within the Banking division continued to perform well, consistent with their respective stages in the credit cycle. Overall, we maintained a stable return on net loan book of 3.6% (2016: 3.6%).

In Retail Finance, we saw good growth in the premium finance business, following our investment in infrastructure and developing our broker and customer proposition. The motor finance market remains highly competitive and there has been increased market focus on the growth in this market, particularly in finance for new cars through personal contract plans (“PCPs”). In this environment, we continue to prioritise our credit quality and margin, and PCPs remain a relatively small proportion of our loan book.

In Commercial Finance, the asset finance loan book remained flat in the period, but we achieved good growth in the invoice finance business and benefited from a recent acquisition of a specialist finance provider to the legal profession.

Property Finance had a particularly successful year, achieving strong growth in both operating profit and the loan book. The business benefited from continued demand for residential property finance, particularly new build family homes. It remains well positioned competitively, reflecting the specialised nature of our lending and our many years of experience in this market.

Winterflood and Asset Management Benefit from Favourable Market Conditions

Overall, financial market conditions have remained favourable throughout the year and benefited both Winterflood and Asset Management.

Winterflood delivered a strong performance with operating profit up almost 50% to £28.1 million (2016: £19.0 million), benefiting from high levels of retail trading activity throughout the year. There was only one loss day during the year.

Asset Management continued to make good progress, with adjusted operating profit of £17.4 million (2016: £14.4 million), up 21% on the prior year. The business delivered good net inflows, reflecting continued demand for our integrated advice and investment management services.

Prudent Funding, Liquidity and Capital

The prudent management of our funding, liquidity and capital is a core part of our business model allowing us to grow, invest and pay a dividend, while meeting all regulatory requirements. We have maintained good access to a diverse range of funding markets, and during the period we strengthened our funding and capital position through the issuance of a £250 million senior unsecured bond and £175 million of subordinated debt.

As previously announced in January 2017, during the year we absorbed a one-off increase in risk weighted assets following new guidance from the European Banking Authority. As a result, our common equity tier 1 ("CET1") capital ratio reduced from 13.5% to 12.6%, but remains comfortably ahead of regulatory requirements. Our leverage ratio, which is unaffected by risk weightings, remains very strong at over 10%.

Outlook

Although current market conditions remain stable overall, the longer-term economic outlook and impact of Brexit on our customers and wider markets remain uncertain. Against this backdrop, we are fully committed to our proven business model and we remain confident in our ability to trade successfully through the cycle.

In Banking we remain focused on maintaining our underwriting discipline and strong margins. The competitive environment remains challenging for some of our businesses, and we continue to monitor market conditions carefully for any change in demand or credit performance.

Winterflood's good performance has continued but as a daily trading business it remains sensitive to any change in trading conditions.

In Asset Management we have made further progress in the last year and remain focused on growing the business for the long-term.

Overall, while market conditions will clearly vary, our businesses remain well positioned.

OVERVIEW OF FINANCIAL PERFORMANCE

Key Financials

	2017 £ million	2016 £ million	Change %
Operating income	**765.6**	687.4	11
Adjusted operating expenses	**(460.6)**	(415.9)	11
Impairment losses on loans and advances	**(40.2)**	(37.9)	6
Adjusted operating profit	**264.8**	233.6	13
Banking	**243.5**	223.0	9
Retail Finance	**78.9**	79.1	(0)
Commercial Finance	**72.6**	69.6	4
Property Finance	**92.0**	74.3	24
Securities	**28.1**	19.0	48
Asset Management	**17.4**	14.4	21
Group	**(24.2)**	(22.8)	6
Amortisation of intangible assets on acquisition	**(6.2)**	(5.1)	22
Operating profit before tax	**258.6**	228.5	13
Adjusted basic earnings per share	**131.7p**	128.4p	3
Basic earnings per share	**128.3p**	125.7p	2
Dividend per share	**60.0p**	57.0p	5
Return on opening equity	**17.9%**	18.9%	

Good Performance in the Year

Adjusted and statutory operating profit both increased 13% to £264.8 million (2016: £233.6 million) and £258.6 million (2016: £228.5 million) respectively, driven by income growth across all businesses and resulting in an operating margin of 35% (2016: 34%).

The Banking division continued to perform well, with adjusted operating profit up 9% to £243.5 million (2016: £223.0 million). Winterflood delivered a strong result, with operating profit of £28.1 million (2016: £19.0 million), up 48% on the prior year. Asset Management continued to progress well achieving good net inflows and benefiting from positive market conditions, with adjusted operating profit of £17.4 million (2016: £14.4 million). Group net expenses, which include the central functions such as finance, legal and compliance, risk and human resources, were marginally higher at £24.2 million (2016: £22.8 million).

Operating income increased 11% to £765.6 million (2016: £687.4 million), with good income growth at strong net interest margin in the Banking businesses. Income in both Securities and Asset Management was also higher, driven by improved trading and favourable market conditions.

Adjusted operating expenses increased 11% to £460.6 million (2016: £415.9 million). Nearly half of the uplift relates to Banking, where we are investing to protect and improve our existing business model, and ensure our infrastructure is able to meet the evolving needs of the business. Winterflood's variable costs also increased, reflecting improved trading performance compared to the prior year. Overall, both the expense/income and compensation ratios were broadly stable at 60% (2016: 61%) and 37% (2016: 37%) respectively.

Bad debt remained low with a ratio of 0.6% (2016: 0.6%), benefiting from one-off provision releases of £7.5 million in the year, as well as continued strong underlying credit performance.

The tax charge in the period was £67.7 million (2016: £42.2 million), which corresponds to an effective tax rate of 26% (2016: 18%). This is above the corporation tax rate of 20%, reflecting the first full-year impact of the bank corporation tax surcharge. The prior year tax rate included a favourable one-off impact of the revaluation of deferred tax assets.

As a result, adjusted basic earnings per share ("EPS") increased 3% to 131.7p (2016: 128.4p), generating a strong return on opening equity ("RoE") of 17.9% (2016: 18.9%). Basic EPS increased 2% to 128.3p (2016: 125.7p).

Results are presented on both a statutory and adjusted basis. The adjusted basis excludes exceptional items and amortisation of intangible assets on acquisition. Adjusted operating profit is reported on a basis consistent with prior periods and is used by management for internal management reporting purposes. Amortisation of intangible assets on acquisition of £6.2 million (2016: £5.1 million) is excluded from adjusted operating profit to present the performance of the group's acquired businesses consistent with its other businesses. Exceptional items such as significant non-recurring items relating to acquisitions and disposals of businesses are excluded from adjusted operating profit as they are non-recurring and do not reflect the trading performance of the group. There were no exceptional items in the current or prior period.

The board is proposing a final dividend per share of 40.0p (2016: 38.0p), resulting in a full-year dividend per share of 60.0p (2016: 57.0p), an increase of 5% on the prior year. This reflects our progressive dividend policy, while maintaining a prudent level of dividend cover. Subject to shareholder approval at the Annual General Meeting, the final dividend will be paid on 21 November 2017 to shareholders on the register at 13 October 2017.

Group Balance Sheet

	31 July 2017 £ million	31 July 2016 £ million
Loans and advances to customers	**6,884.7**	6,431.6
Treasury assets[1]	**1,029.0**	1,048.4
Market-making assets[2]	**643.4**	576.9
Other assets	**728.1**	691.3
Total assets	**9,285.2**	8,748.2
Deposits by customers	**5,113.1**	4,894.6
Borrowings	**2,041.2**	1,938.3
Market-making liabilities[2]	**556.9**	505.6
Other liabilities	**338.0**	312.8
Total liabilities	**8,049.2**	7,651.3
Equity	**1,236.0**	1,096.9
Total liabilities and equity	**9,285.2**	8,748.2

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

Our prudent approach to management of capital, funding and liquidity remains unchanged. This is reflected in our simple and transparent balance sheet, where the majority of assets and liabilities relate to our lending activities. Assets are made up predominantly of loans and advances to customers, which are mostly secured and short-term with an average maturity of approximately 14 months. Also included in the balance sheet are treasury assets held for liquidity purposes, and settlement balances in our Securities division. Other assets principally comprise intangibles, property, plant and equipment, and prepayments. Liabilities are predominantly made up of customer deposits and both secured and unsecured borrowings to fund the loan book.

In the year, total assets increased by £537.0 million to £9.3 billion (31 July 2016: £8.7 billion), driven by an increase of £453.1 million in the loan book to £6.9 billion (31 July 2016: £6.4 billion). Total liabilities increased £397.9 million to £8.0 billion (31 July 2016: £7.7 billion), driven predominantly by higher customer deposits. Settlement balances also increased reflecting increased trading activity in Winterflood.

Total equity increased to over £1.2 billion (31 July 2016: £1.1 billion), principally reflecting profit in the period, partially offset by dividend payments of £85.6 million. The group's return on assets remained stable at 2.1% (31 July 2016: 2.1%).

Group Capital Position

	31 July 2017 £ million	31 July 2016 £ million
Common equity tier 1 capital	**990.6**	901.4
Total capital	**1,196.2**	925.4
Risk weighted assets	**7,859.0**	6,682.5
Common equity tier 1 capital ratio	**12.6%**	13.5%
Total capital ratio	**15.2%**	13.8%
Leverage ratio	**10.7%**	10.2%

A prudent capital position is a core part of our business model and supports our ability to lend through the cycle. The strong profitability of our business and resulting organic capital generation have allowed us to grow the loan book, pay a progressive dividend and invest in our business, while meeting increasing regulatory requirements in recent years.

In the year to 31 July 2017, we generated £89.2 million of capital, reflecting £191.2 million of profit in the year, dividends paid and foreseen of £89.3 million, and other movements in reserves and intangibles. CET1 capital increased to £990.6 million (31 July 2016: £901.4 million).

Risk weighted assets increased 18% to £7.9 billion (31 July 2016: £6.7 billion), reflecting continued loan book growth and an increase in risk weighting of the property finance loan book. This reflects new guidance from the European Banking Authority, which mandates the risk weighting of all property development loans at 150% under the standardised approach.

As a result, the CET1 capital ratio reduced from 13.5% to 12.6%. The total capital ratio increased to 15.2% (31 July 2016: 13.8%), reflecting the issue of £175 million of subordinated debt qualifying as tier 2 capital.

These ratios reflect the conservative risk weighting of our loan book under the standardised approach, which is now over 90% despite the secured nature of our lending and long track record of strong credit performance. We are in early discussions with the PRA with regards to a potential move to an Internal Ratings Based ("IRB") approach, which we believe would more accurately reflect the risk profile of our lending longer-term.

Our leverage ratio, which is a transparent measure of capital strength not affected by risk weightings, remains very strong at 10.7% (31 July 2016: 10.2%).

Our capital ratios remain comfortably ahead of minimum regulatory requirements. During the year, we received updated individual capital guidance from the PRA, confirming our total pillar 2 add-on at 1.9%, of which 56% or 1.1% needs to be met with CET1 capital. The Bank of England also announced an increase in the counter-cyclical buffer for all UK banks to 0.5%, effective June 2018, and plans for a further increase to 1.0% effective November 2018.

This results in a fully loaded minimum CET1 capital requirement, effective 2019, of 9.1% with a total capital requirement of 13.4%. Accordingly, we maintain good headroom of 350bps in our CET1 capital ratio, and 180bps in the total capital ratio, and our strong profitability gives us continued flexibility.

Group Funding[1]

	31 July 2017 £ million	31 July 2016 £ million
Customer deposits	**5,113.1**	4,894.6
Secured funding[2]	**1,297.3**	1,296.3
Unsecured funding[3]	**1,120.3**	866.0
Equity	**1,236.0**	1,096.9
Total available funding	**8,766.7**	8,153.8
Of which term funding (>1 year)	**4,766.2**	4,315.7
Total funding as % of loan book	**127%**	127%
Term funding as % of loan book	**69%**	67%
Average maturity of term funding (excluding equity)	**38 months**	31 months
Average maturity of funding allocated to loan book[4]	**21 months**	19 months

1 Numbers relate to core funding and exclude working capital facilities at the business level.
2 Includes £97.5 million (31 July 2016: £nil) of Treasury Bills drawn under the Funding for Lending Scheme but not currently in repurchase agreements.
3 Unsecured funding excludes £16.1 million (2016: £21.0 million) of non-facility overdrafts included in borrowings and includes £295.0 million (2016: £245.0 million) of undrawn facilities.
4 Average maturity of total funding excluding equity and funding held for liquidity purposes.

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

Our funding remains diverse with a wide range of retail and corporate deposits, wholesale facilities, senior unsecured debt and most recently a subordinated debt issue. Furthermore, we have a range of secured funding facilities including securitisations of our premium and motor finance loan books. This diversity increases resilience by reducing reliance on any individual source of funding.

We also continue to have access to both the Funding for Lending and the Term Funding Schemes, although combined these represent only c.5% of our total funding.

The loan book growth in the year was funded by an increase in both wholesale funding and deposits. Unsecured funding increased £254.3 million to £1.1 billion (31 July 2016: £0.9 billion), following the issuance of £250 million of senior unsecured debt and £175 million of subordinated debt. These were partly offset by the maturity of a previous £200 million debt issue in February 2017.

Deposits increased 4% to £5.1 billion (31 July 2016: £4.9 billion), driven by an increase in corporate deposits which account for around two thirds of the deposit base. As a result, total funding increased to £8.8 billion (31 July 2016: £8.2 billion) and accounted for 127% (31 July 2016: 127%) of the loan book.

Term funding, with a residual maturity over one year, increased significantly in the last year and now covers 69% (31 July 2016: 67%) of the loan book as a result of new debt issues and the renewal of wholesale facilities. The average maturity of this term funding increased to 38 months (31 July 2016: 31 months), while the average maturity of funding allocated to the loan book was 21 months (31 July 2016: 19 months), reinforcing our "borrow long, lend short" approach.

The funding environment remains favourable and our average cost of funding reduced to 1.7% (2016: 2.0%). This reflects a lower base rate, with a corresponding reduction in deposit rates, and our continued pricing discipline.

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

Group Liquidity

	31 July 2017 £ million	31 July 2016 £ million
Bank of England deposits	**805.1**	847.4
Sovereign and central bank debt	**43.6**	-
High quality liquid assets[1]	**848.7**	847.4
Certificates of deposit	**180.3**	201.0
Treasury assets	**1,029.0**	1,048.4

1 In addition to and not included in the above, at 31 July 2017 the group held £97.5 million (31 July 2016: £nil) of Treasury Bills drawn under the Funding for Lending Scheme but not currently in repurchase agreements which are classified as high quality liquid assets.

The group maintains a strong liquidity position, ensuring it is comfortably ahead of both internal risk appetite and regulatory requirements. The majority of our liquidity requirements and surplus funding are held in the form of high quality liquid assets. We regularly assess and stress test our liquidity requirements and continue to comfortably meet the liquidity coverage ratio requirements under CRD IV.

Treasury assets were broadly stable at £1.0 billion (31 July 2016: £1.0 billion) and were predominantly held on deposit with the Bank of England.

IFRS 9

The provisions of IFRS 9 Financial Instruments will apply to the group for the year ended 31 July 2019. The transition to IFRS 9 will fundamentally change the accounting for credit losses, moving from an “incurred” to an “expected” basis. This requires the development of extensive models to estimate expected credit losses, taking into account both the composition of the loan book and macroeconomic outlook at each point in time.

Our preparation for the transition to IFRS 9 is progressing well. We have completed our initial model build and will be conducting a parallel run for the duration of the current financial year, which will allow us to validate and refine models and assumptions ahead of implementation at 1 August 2018.

The implementation of IFRS 9 will result in an initial increase in impairment provisions on the group's balance sheet, and may increase volatility in the income statement going forward. We will provide further detail on the expected financial impact of the transition once we have sufficiently reliable estimates. Further qualitative information on the provisions of IFRS 9 and progress towards implementation will be set out in the group's 2017 Annual Report and Accounts.

BANKING

Key Financials

	2017 £ million	2016 £ million	Change %
Operating income	**555.3**	511.2	9
Adjusted operating expenses	**(271.6)**	(250.3)	9
Impairment losses on loans and advances	**(40.2)**	(37.9)	6
Adjusted operating profit	**243.5**	223.0	9
Net interest margin	**8.1%**	8.2%	
Expense/income ratio	**49%**	49%	
Bad debt ratio	**0.6%**	0.6%	
Return on net loan book	**3.6%**	3.6%	
Return on opening equity	**23%**	26%	
Average loan book and operating lease assets	**6,827.0**	6,226.4	10

Good Financial Performance for the Full Year

Banking adjusted operating profit was up 9% to £243.5 million (2016: £223.0 million), driven by growth of 9% in operating income to £555.3 million (2016: £511.2 million) and continued low impairments. Statutory operating profit also increased 9% to £242.6 million (2016: £222.5 million).

The loan book grew 7.0% (2016: 12.1%) with strong growth in both the property finance and premium finance businesses. The return on net loan book remained at 3.6% (2016: 3.6%) reflecting our disciplined approach to lending.

The net interest margin remained strong at 8.1% (2016: 8.2%), as we continue to prioritise margins across all of our businesses, despite significant competition in some of our markets. A slight reduction in yield, attributable to business mix and ongoing price competition in the asset and motor finance businesses, was largely offset by lower cost of funds.

Adjusted operating expenses at £271.6 million (2016: £250.3 million) increased 9% year on year, in line with income. Investment in infrastructure in premium finance and treasury, as well as new business initiatives across Retail Finance and Commercial Finance, account for nearly half of the uplift in costs. Staff related expenses, which represent the majority of the cost base, also increased reflecting continued investment in both front office and support functions. Despite this, both the expense/income and compensation ratios remained in line with last year, at 49% and 29% respectively.

The bad debt ratio was stable on the prior year at 0.6% (2016: 0.6%), reflecting the ongoing benign credit environment and one-off provision releases of £7.5 million in the year. The underlying bad debt ratio remained well below historical levels at 0.7%, and arrears across the businesses remain low.

Return on opening equity remained strong at 23% (2016: 26%), despite the first full-year impact of the bank corporation tax surcharge.

Loan Book Analysis

	31 July 2017 £ million	31 July 2016[1] £ million	Change %
Retail Finance	**2,702.8**	2,511.0	7.6
Motor finance	**1,761.9**	1,704.8	3.3
Premium finance	**940.9**	806.2	16.7
Commercial Finance	**2,552.6**	2,463.4	3.6
Asset finance	**2,017.0**	2,020.0	(0.1)
Invoice finance	**535.6**	443.4	20.8
Property Finance	**1,629.3**	1,457.2	11.8
Closing loan book	**6,884.7**	6,431.6	7.0

1 Minor differences compared to previously reported numbers at 31 July 2016 reflect re-presentation relating to the transfers of the rentals loan book of £15.1 million from asset finance into invoice finance, and the consumer point of sale loan book of £35.7 million from motor finance into premium finance, in line with internal management reporting.

We consider growth to be an output of our business model. The diversity of our loan book provides resilience to changes in demand and competition, with diverging growth rates across our businesses at different points in the cycle. The loan book growth of 7.0% in the year to £6.9 billion (31 July 2016: £6.4 billion) was driven predominantly by property and premium finance, both of which have been resilient to competitive pressure. Invoice finance also grew strongly and benefited from a small acquisition in the period. Motor and asset finance were broadly flat, as we prioritise our strict lending criteria in the face of continued competition in these markets.

We continue to see good growth in the Irish market, where we provide motor, premium, asset and invoice finance. Ireland now accounts for c.10% of the overall Banking loan book and continues to support growth, particularly in the motor and asset finance businesses.

Banking: Retail Finance

	2017 £ million	2016 £ million	Change %
Operating income	**222.4**	204.6	9
Adjusted operating expenses	**(117.7)**	(107.7)	9
Impairment losses on loans and advances	**(25.8)**	(17.8)	45
Adjusted operating profit	**78.9**	79.1	(0)
Net interest margin	**8.5%**	8.6%	
Expense/income ratio	**53%**	53%	
Bad debt ratio	**1.0%**	0.7%	
Average loan book	**2,606.9**	2,388.5	9

Retail Finance provides intermediated finance, principally to individuals, through motor dealers, insurance brokers and retailers and incorporates our premium and motor finance businesses.

The Retail Finance loan book grew 8% to £2.7 billion (31 July 2016: £2.5 billion). Premium finance accounted for most of this increase with new broker wins, increasing volumes from existing brokers and premium inflation all contributing to loan book growth of 17% to £0.9 billion (31 July 2016: £0.8 billion). Premium finance continues to be well positioned competitively, benefiting from the multi-year investment programme in its infrastructure aimed at improving both broker and end customer experience.

Motor finance delivered modest growth of 3% in the year, with the loan book currently at £1.8 billion (31 July 2016: £1.7 billion) and most of the growth coming from Ireland. The UK motor finance market remains highly competitive and we continue to prioritise margin and credit quality.

There has been increased market focus on growth in consumer credit and the motor finance industry, in particular the recent strong growth in new car sales and PCP products. Our core product is hire-purchase contracts for second hand vehicles, with PCP being a relatively new offering and accounting for only c.15% of the motor finance loan book at 31 July 2017. We apply the same prudent and consistent underwriting in PCP products as in the rest of our lending, with conservative loan to value ratios, typically ranging from 75% to 85%. Overall, we believe our business is well positioned but we continue to monitor developments carefully.

Overall, adjusted operating profit for the Retail Finance segment of £78.9 million (2016: £79.1 million) was broadly in line with the prior year. Statutory operating profit was also broadly flat at £78.5 million (2016: £78.8 million).

Operating income was up 9% year on year at £222.4 million (2016: £204.6 million) with the net interest margin broadly stable at 8.5% (2016: 8.6%).

Adjusted operating expenses increased 9%, in line with income growth, to £117.7 million (2016: £107.7 million), as our multi-year investment in infrastructure in the premium finance business continues. During 2017 we also initiated an investment programme in our motor finance business, in order to improve the service proposition, streamline operational processes and improve sales effectiveness. Despite this investment, the expense/income ratio remained in line with the prior year at 53% (2016: 53%).

The bad debt ratio of 1.0% (2016: 0.7%) was higher than the prior year, reflecting increases in both motor and premium finance relative to the exceptionally low bad debts in the prior year. Overall, we remain comfortable with the credit quality in both businesses.

Retail Finance remains well positioned long-term. In motor finance, we are focused on protecting our margins and maintaining credit quality, while in premium finance we continue to invest to further improve business performance.

Banking: Commercial Finance

	2017 £ million	2016 £ million	Change %
Operating income	**213.3**	202.3	5
Adjusted operating expenses	**(125.2)**	(116.2)	8
Impairment losses on loans and advances	**(15.5)**	(16.5)	(6)
Adjusted operating profit	**72.6**	69.6	4
Net interest margin	**8.0%**	8.2%	
Expense/income ratio	**59%**	57%	
Bad debt ratio	**0.6%**	0.7%	
Average loan book and operating leases	**2,676.8**	2,459.8	9

Commercial Finance focuses on specialist, secured lending principally to the SME market and includes the asset and invoice finance businesses.

The asset finance loan book remained flat in the year, reflecting strong competition from both new and existing lenders, as we focus on protecting the margin at the current point in the cycle. Overall, the Commercial Finance loan book increased 4% to £2.6 billion (31 July 2016: £2.5 billion), driven by growth in invoice finance as well as the acquisition of Novitas Loans, a specialist provider of finance to the legal profession, which completed in the second half of the year and contributed £38.2 million to the loan book growth.

Adjusted operating profit of £72.6 million (2016: £69.6 million) was up 4%, driven by good income and lower bad debt. Statutory operating profit also increased 4% to £72.1 million (2016: £69.4 million).

Operating income of £213.3 million (2016: £202.3 million) was 5% higher than the prior year, reflecting loan book growth. Despite ongoing pricing pressure in the asset finance market, we have maintained a strong net interest margin of 8.0% (2016: 8.2%), which remains ahead of the industry.

Cost growth was slightly ahead of income growth for the year at £125.2 million (2016: £116.2 million), driven by ongoing investment in new initiatives. These include the launch of our technology services business, where we offer financing solutions for IT infrastructure, the expansion of our asset finance offering into Germany, where we have recently obtained regulatory approval to operate, and the acquisition of Novitas Loans. As a result the expense/income ratio increased slightly to 59% (2016: 57%).

The bad debt ratio reduced marginally to 0.6% (2016: 0.7%), with continued good credit performance, as the credit environment remains benign and we maintain our strict lending criteria.

Overall, Commercial Finance performed well in a challenging competitive environment. Our focus remains on protecting the margin and maintaining our prudent underwriting to ensure sustainability of the business through the cycle.

Banking: Property Finance

	2017 **£ million**	2016 £ million	Change %
Operating income	**119.6**	104.3	15
Operating expenses	**(28.7)**	(26.4)	9
Impairment losses on loans and advances	**1.1**	(3.6)	
Operating profit	**92.0**	74.3	24
Net interest margin	**7.7%**	7.6%	
Expense/income ratio	**24%**	25%	
Bad debt ratio	**(0.1%)**	0.3%	
Average loan book	**1,543.3**	1,378.1	12

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

The Property Finance segment had a very successful year, delivering growth of 24% in profits and 12% in loan book, which is now at £1.6 billion (31 July 2016: £1.5 billion). This was driven by solid demand for residential property development finance and low impairments. Our long track record, expertise and quality of service ensure the business remains resilient to competitive pressures and continues to generate high levels of repeat business. London and the South East represent c.70% of the loan book, and we concentrate on new build family homes, where structural demand remains strong. We also continue to successfully expand into selected regional locations across the UK.

The business delivered an operating profit of £92.0 million (2016: £74.3 million), with an improved net interest margin of 7.7% (2016: 7.6%). Provision releases relating to a number of legacy properties also contributed to the higher profit. As a result, the bad debt ratio of (0.1%) (2016: 0.3%) represents a net recovery in the period, with underlying credit quality also remaining strong.

Operating expenses of £28.7 million (2016: £26.4 million) were up 9%, and the expense/income ratio remained low at 24% (2016: 25%), reflecting the lower operational requirements of the business with larger transaction sizes at lower volumes.

Our long track record of successful lending in property finance through the cycle is based on the same principles of prudent underwriting and margin prioritisation as in all of our businesses. We lend at consistently low loan to value ratios, which reflect our conservative approach to lending, and remain confident in the resilience and quality of our business.

Well Positioned to Lend Through the Cycle

Overall, our Banking division remains well positioned for the future and we remain confident in our ability to lend in a wide range of market conditions. Although some of our businesses continue to operate in highly competitive environments, the overall portfolio benefits from the diversity of the businesses and their differing growth profiles through the cycle. Our focus remains on protecting our margins, maintaining our prudent underwriting and investing to improve and extend the model in new and existing markets.

SECURITIES

Key Financials

	2017 £ million	2016 £ million	Change %
Operating income	**106.7**	82.3[1]	30
Operating expenses	**(78.6)**	(63.3)	24
Operating profit	**28.1**	19.0[1]	48
Bargains per day	**65k**	52k	26
Operating margin	**26%**	23%	
Return on opening equity	**29%**	21%	

1 2016 operating income and operating profit include £3.8 million and £1.9 million respectively relating to the disposal of Euroclear shares.

Strong Results in Favourable Market Conditions

Winterflood, the leading UK market-maker, achieved a significant improvement in performance over the year, maximising revenue opportunities in a favourable market environment.

The business benefited from rising markets and political and market events, which attracted higher levels of retail investor trading activity. Operating income increased 30% to £106.7 million (2016: £82.3 million), reflecting higher income across all trading sectors and particularly in AIM and investment trusts.

Average daily bargains increased 26% to 65,286 (2016: 51,864), reflecting the increased trading activity. Winterflood incurred only one loss day (2016: 17), notwithstanding periods of increased market volatility, demonstrating the expertise of its traders.

Operating expenses increased 24%, reflecting higher variable costs as a result of improved trading performance, as well as higher settlement fees, reflecting increased trading activity. Winterflood Business Services, which provides outsourced dealing, custody and settlement services to institutional clients, also invested in a new platform and increased its headcount to support its growing client base. The expense/income ratio reduced to 74% (2016: 77%), reflecting higher revenues, while the compensation ratio remained flat at 48% (2016: 48%).

Overall, Winterflood's operating profit increased 48% to £28.1 million (2016: £19.0 million).

Well Positioned in a Range of Market Conditions

Winterflood has a long track record of providing continuous liquidity and trading profitably in a wide range of market conditions. The trading environment since the year end has remained favourable but Winterflood remains sensitive to changes in market sentiment and in particular retail investor activity.

ASSET MANAGEMENT

Key Financials

	2017 £ million	2016 £ million	Change %
Investment management	**63.7**	57.4	11
Advice and other services[1]	**37.1**	32.1	16
Other income	**2.1**	2.8	(25)
Operating income	**102.9**	92.3	11
Adjusted operating expenses	**(85.5)**	(77.9)	10
Adjusted operating profit	**17.4**	14.4	21
Revenue margin (bps)	**96**	86	
Operating margin	**17%**	16%	
Return on opening equity	**26%**	25%	

1 Income from advice and self-directed services, excluding investment management income.

Good Progress in the Year

Asset Management made further progress in the year, delivering strong net inflows and higher profit, benefiting from favourable market conditions and continued good demand for our integrated advice and investment management services.

The division delivered £17.4 million (2016: £14.4 million) adjusted operating profit with positive net flows of £757 million (31 July 2016: £508 million), or 9% (2016: 6%) of opening managed assets. Statutory operating profit increased 23% to £12.1 million (2016: £9.8 million).

Operating income increased 11% to £102.9 million (2016: £92.3 million), driven by higher client assets from both net inflows and rising markets. The revenue margin increased to 96bps (2016: 86bps) following the disposal of our corporate business in 2016.

Adjusted operating expenses increased 10% to £85.5 million (2016: £77.9 million), although the expense/income ratio reduced to 83% (2016: 84%). Growth in expenses was predominantly driven by staff costs, as headcount increased by 12% reflecting our decision to grow the number of advisers through both hiring and acquisitions to support long-term growth. The compensation ratio increased slightly, to 55% (2016: 54%), reflecting the higher headcount and increased variable compensation.

In the year we disposed of OLIM Investment Managers ("OLIM"), which contributed £2.3 million (2016: £2.5 million) of income and £1.9 million (2016: £0.9 million) operating profit for the year, including a £1.6 million profit on disposal.

Excluding OLIM, and the corporate business sold in 2016, the adjusted operating profit increased 36% to £15.5 million (2016: £11.4 million), with an underlying operating margin of 15% (2016: 13%). The underlying revenue margin increased to 97bps (2016: 93bps) reflecting the higher proportion of managed assets within our integrated wealth management offering.

Net Inflows Across all Channels

Following modest growth in the first half, market conditions and net inflows improved significantly in the second, resulting in 11% growth in managed assets to £8.9 billion (31 July 2016: £8.0 billion). For the full year, organic net inflows increased 49% to £757 million, with strong flows from our own advisers and investment managers, and through third party IFAs. Positive market movements contributed a further £588 million, more than offsetting the sale of OLIM, which had £492 million of managed assets at the time of disposal.

During 2017, we also completed acquisitions of EOS Wealth Management and Adrian Smith & Partners. The two high net worth independent financial advisory businesses strengthen our presence in London and the Midlands, adding c.£450 million of advised client assets and over 800 new clients.

As a result, advised assets under third party management increased by 22% to £2.3 billion (31 July 2016: £1.9 billion), bringing total client assets to £11.2 billion (31 July 2016: £9.9 billion), an increase of 13% over the year.

Movement in Client Assets

	31 July 2017 £ million	31 July 2016 £ million
Opening managed assets	**8,047**	7,996
Inflows	**1,884**	1,238
Outflows	**(1,127)**	(730)
Net inflows	**757**	508
Market movements	**588**	196
Disposals	**(492)**	(653)
Total managed assets	**8,900**	8,047
Advised only assets	**2,257**	1,854
Total client assets[1]	**11,157**	9,901
Net flows as % of opening managed assets	**9%**	6%

1 Total client assets include £3.7 billion (31 July 2016: £3.0 billion) of assets that are both advised and managed.

Solid Fund Performance

We provide an integrated wealth management offering, combining financial planning advice and investment management, directly to private clients through our own advisers. We also offer our investment management solutions to third party advisers and through our bespoke portfolio managers. Our investment strategy focuses on delivering long-term returns to clients using a conservative, collaborative approach tailored to an individual client's risk profile.

Our funds and segregated bespoke portfolios are designed to provide attractive risk adjusted returns for our clients in line with their long-term goals and investment objectives. Over the 12 month period to 30 June 2017, all our funds and segregated strategies have delivered positive risk adjusted returns. Relative to their peer group, 8 of our 13 unitised funds have outperformed their respective Investment Association sectors. Our segregated bespoke portfolios have all outperformed their ARC peer group average returns over the same period.

Well Positioned for Future Growth

During the year we successfully completed the migration of client accounts onto a single technology platform, which allows us to consolidate custody, trading and administration, improve client experience and create operating efficiencies. In addition, we are looking at ways to optimise our adviser productivity, while continuing to provide excellent service to our clients.

We continue to see significant long-term growth potential for this business and remain well positioned to benefit from continuing high demand for our integrated advice and investment management services, through organic inflows, select hiring of advisers and investment managers, and incremental acquisitions.

DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Operating margin: Adjusted operating profit divided by operating income

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

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

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

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

CONSOLIDATED INCOME STATEMENT
for the year ended 31 July 2017

	Note	**2017 £ million**	2016 £ million
Interest income		**578.9**	550.1
Interest expense		**(117.3)**	(127.5)
Net interest income		**461.6**	422.6
Fee and commission income		**206.5**	189.2
Fee and commission expense		**(29.0)**	(28.5)
Gains less losses arising from dealing in securities		**94.2**	67.9
Other income		**57.3**	55.8
Depreciation of operating lease assets	10	**(25.0)**	(19.6)
Non-interest income		**304.0**	264.8
Operating income		**765.6**	687.4
Administrative expenses		**(460.6)**	(415.9)
Impairment losses on loans and advances	6	**(40.2)**	(37.9)
Total operating expenses before amortisation of intangible assets on acquisition		**(500.8)**	(453.8)
Operating profit before amortisation of intangible assets on acquisition		**264.8**	233.6
Amortisation of intangible assets on acquisition	9	**(6.2)**	(5.1)
Operating profit before tax		**258.6**	228.5
Tax	3	**(67.7)**	(42.2)
Profit after tax		**190.9**	186.3
Profit attributable to non-controlling interests		**(0.3)**	(0.2)
Profit attributable to shareholders		**191.2**	186.5
Basic earnings per share	4	**128.3p**	125.7p
Diluted earnings per share	4	**127.5p**	124.3p
Interim dividend per share paid	5	**20.0p**	19.0p
Final dividend per share	5	**40.0p**	38.0p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 July 2017

	2017 £ million	2016 £ million
Profit after tax	**190.9**	186.3
Other comprehensive income/(expense) that may be reclassified to income statement		
Currency translation gains	**0.4**	3.2
Gains/(losses) on cash flow hedging	**4.7**	(6.1)
Gains on financial instruments classified as available for sale:		
Sovereign and central bank debt	**0.7**	-
Equity shares	**-**	0.2
Contingent consideration	**0.3**	-
Available for sale investment gains transferred to income statement on disposal	**-**	(4.2)
Tax relating to items that may be reclassified	**(2.3)**	0.9
	3.8	(6.0)
Other comprehensive income/(expense) that will not be reclassified to income statement		
Defined benefit pension scheme gains/(losses)	**2.7**	(1.9)
Tax relating to items that will not be reclassified	**(0.5)**	0.3
	2.2	(1.6)
Other comprehensive income/(expense), net of tax	**6.0**	(7.6)
Total comprehensive income	**196.9**	178.7
Attributable to		
Non-controlling interests	**(0.3)**	(0.2)
Shareholders	**197.2**	178.9
	196.9	178.7

CONSOLIDATED BALANCE SHEET
at 31 July 2017

	Note	**2017 £ million**	2016 £ million
Assets			
Cash and balances at central banks		**805.1**	847.4
Settlement balances		**546.7**	478.1
Loans and advances to banks		**99.8**	121.5
Loans and advances to customers	6	**6,884.7**	6,431.6
Debt securities	7	**240.1**	221.3
Equity shares	8	**32.7**	28.2
Loans to money brokers against stock advanced		**48.6**	52.4
Derivative financial instruments		**27.0**	44.7
Intangible assets	9	**191.7**	147.9
Property, plant and equipment	10	**202.7**	185.8
Deferred tax assets		**47.4**	55.2
Prepayments, accrued income and other assets		**158.7**	134.1
Total assets		**9,285.2**	8,748.2
Liabilities			
Settlement balances and short positions	11	**552.6**	475.6
Deposits by banks	12	**72.0**	71.1
Deposits by customers	12	**5,113.1**	4,894.6
Loans and overdrafts from banks	12	**330.9**	469.1
Debt securities in issue	12	**1,489.6**	1,422.8
Loans from money brokers against stock advanced		**4.3**	30.0
Derivative financial instruments		**11.5**	16.3
Current tax liabilities		**21.4**	20.0
Accruals, deferred income and other liabilities		**233.1**	205.4
Subordinated loan capital		**220.7**	46.4
Total liabilities		**8,049.2**	7,651.3
Equity			
Called up share capital	13	**38.0**	37.7
Share premium account		**307.8**	284.0
Retained earnings		**906.6**	797.5
Other reserves		**(15.9)**	(22.1)
Total shareholders' equity		**1,236.5**	1,097.1
Non-controlling interests		**(0.5)**	(0.2)
Total equity		**1,236.0**	1,096.9
Total liabilities and equity		**9,285.2**	8,748.2

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 July 2017

				Other reserves						
	Called up share capital £ million	Share premium account £ million	Retained earnings £ million	Available for sale movements reserve £ million	Share-based payments reserve £ million	Exchange movements reserve £ million	Cash flow hedging reserve £ million	Total attributable to equity holders £ million	Non-controlling interests £ million	Total equity £ million
At 1 August 2015	37.7	284.0	694.4	3.3	(4.5)	(2.8)	(2.3)	1,009.8	0.1	1,009.9
Profit for the year	-	-	186.5	-	-	-	-	186.5	(0.2)	186.3
Other comprehensive (expense)/income	-	-	(1.6)	(3.3)	-	1.7	(4.4)	(7.6)	-	(7.6)
Total comprehensive income/(expense) for the year	-	-	184.9	(3.3)	-	1.7	(4.4)	178.9	(0.2)	178.7
Exercise of options	-	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	(80.3)	-	-	-	-	(80.3)	-	(80.3)
Shares purchased	-	-	-	-	(24.4)	-	-	(24.4)	-	(24.4)
Shares issued	-	-	-	-	-	-	-	-	-	-
Shares released	-	-	-	-	12.8	-	-	12.8	-	12.8
Other movements	-	-	(2.5)	-	1.8	-	-	(0.7)	(0.1)	(0.8)
Income tax	-	-	1.0	-	-	-	-	1.0	-	1.0
At 31 July 2016	37.7	284.0	797.5	-	(14.3)	(1.1)	(6.7)	1,097.1	(0.2)	1,096.9
Profit for the year	-	-	191.2	-	-	-	-	191.2	(0.3)	190.9
Other comprehensive income/(expense)	-	-	2.2	0.7	-	(0.4)	3.5	6.0	-	6.0
Total comprehensive income/(expense) for the year	-	-	193.4	0.7	-	(0.4)	3.5	197.2	(0.3)	196.9
Exercise of options	-	0.1	-	-	-	-	-	0.1	-	0.1
Dividends paid	-	-	(85.6)	-	-	-	-	(85.6)	-	(85.6)
Shares purchased	-	-	-	-	(12.7)	-	-	(12.7)	-	(12.7)
Shares issued	0.3	23.7	-	-	-	-	-	24.0	-	24.0
Shares released	-	-	-	-	15.8	-	-	15.8	-	15.8
Other movements	-	-	0.2	-	(0.7)	-	-	(0.5)	-	(0.5)
Income tax	-	-	1.1	-	-	-	-	1.1	-	1.1
At 31 July 2017	**38.0**	**307.8**	**906.6**	**0.7**	**(11.9)**	**(1.5)**	**(3.2)**	**1,236.5**	**(0.5)**	**1,236.0**

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 July 2017

	Note	**2017 £ million**	2016 £ million
Net cash inflow/(outflow) from operating activities	14(a)	**120.0**	(18.8)
Net cash (outflow)/inflow from investing activities			
Purchase of:			
Property, plant and equipment		**(7.1)**	(13.6)
Intangible assets – software		**(33.1)**	(21.7)
Subsidiaries and non-controlling interest	14(b)	**(6.3)**	(3.6)
Sale of:			
Property, plant and equipment		**-**	0.1
Equity shares held for investment		**1.3**	7.6
Subsidiary	14(c)	**(0.3)**	2.3
		(45.5)	(28.9)
Net cash inflow/(outflow) before financing activities		**74.5**	(47.7)
Financing activities	14(d)		
Purchase of own shares for employee share award schemes		**(12.7)**	(24.4)
Equity dividends paid		**(85.6)**	(80.3)
Interest paid on subordinated loan capital and debt financing		**(13.6)**	(28.0)
Redemption of group bond		**(200.0)**	-
Issuance of subordinated loan capital, net of transaction costs		**173.7**	-
Net decrease in cash		**(63.7)**	(180.4)
Cash and cash equivalents at beginning of year		**923.3**	1,103.7
Cash and cash equivalents at end of year	14(e)	**859.6**	923.3

THE NOTES

1. Basis of preparation and accounting policies

The financial information contained in this announcement does not constitute the statutory accounts for the years ended 31 July 2017 or 31 July 2016 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 2016.

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 2 October 2017.

The financial information for the year ended 31 July 2017 has been derived from the audited financial statements of Close Brothers Group plc for that year. Statutory accounts for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered following the company's Annual General Meeting. The auditor, Deloitte LLP, has reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

2. Segmental analysis

The directors manage the group by class of business and we present the segmental analysis on that basis. As announced on 20 February 2017, following the growth of the group and particularly the Banking division in recent years, the group's activities are now presented in five (2016: three) operating segments: Commercial Finance, Retail Finance, Property Finance (previously all Banking), Securities and Asset Management. The day-to-day operations of these businesses remain unchanged. Prior periods have been re-presented for comparability.

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

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

2. Segmental analysis continued

Summary Income Statement for the year ended 31 July 2017

	Banking						
	Retail Finance £ million	Commercial Finance £ million	Property Finance £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Net interest income/(expense)	195.9	146.4	119.8	(0.9)	(0.1)	0.5	461.6
Non-interest income	26.5	66.9	(0.2)	107.6	103.0	0.2	304.0
Operating income	222.4	213.3	119.6	106.7	102.9	0.7	765.6
Administrative expenses	(106.7)	(117.4)	(24.9)	(76.7)	(83.7)	(24.9)	(434.3)
Depreciation and amortisation	(11.0)	(7.8)	(3.8)	(1.9)	(1.8)	-	(26.3)
Impairment losses on loans and advances	(25.8)	(15.5)	1.1	-	-	-	(40.2)
Total operating expenses	(143.5)	(140.7)	(27.6)	(78.6)	(85.5)	(24.9)	(500.8)
Adjusted operating profit/(loss)[1]	78.9	72.6	92.0	28.1	17.4	(24.2)	264.8
Amortisation of intangible assets on acquisition	(0.4)	(0.5)	-	-	(5.3)	-	(6.2)
Operating profit/(loss) before tax	78.5	72.1	92.0	28.1	12.1	(24.2)	258.6
External operating income/(expense)	266.2	260.9	141.8	106.7	103.2	(113.2)	765.6
Inter segment operating (expense)/income	(43.8)	(47.6)	(22.2)	-	(0.3)	113.9	-
Segment operating income	222.4	213.3	119.6	106.7	102.9	0.7	765.6

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

Balance Sheet Information at 31 July 2017

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

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

2. Segmental analysis continued

Equity is allocated across the group as set out below with equity managed for the Banking division as a whole rather than on a segmental basis. Equity for the Banking division is inclusive of the loan book and operating lease assets of £7,062.5 million, as well as assets and liabilities of £1,402.7 million and £7,490.9 million respectively primarily comprising treasury balances which are included within the Group column above.

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

Other segmental information for the year ended 31 July 2017

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

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

Summary Income Statement for the year ended 31 July 2016

	Banking						
	Retail Finance £ million	Commercial Finance £ million	Property Finance £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Net interest income/(expense)	181.1	139.2	101.9	(0.6)	0.4	0.6	422.6
Non-interest income	23.5	63.1	2.4	82.9	91.9	1.0	264.8
Operating income	204.6	202.3	104.3	82.3	92.3	1.6	687.4
Administrative expenses	(95.5)	(110.3)	(23.9)	(61.7)	(75.9)	(24.2)	(391.5)
Depreciation and amortisation	(12.2)	(5.9)	(2.5)	(1.6)	(2.0)	(0.2)	(24.4)
Impairment losses on loans and advances	(17.8)	(16.5)	(3.6)	-	-	-	(37.9)
Total operating expenses	(125.5)	(132.7)	(30.0)	(63.3)	(77.9)	(24.4)	(453.8)
Adjusted operating profit/(loss)[1]	79.1	69.6	74.3	19.0	14.4	(22.8)	233.6
Amortisation of intangible assets on acquisition	(0.3)	(0.2)	-	-	(4.6)	-	(5.1)
Operating profit/(loss) before tax	78.8	69.4	74.3	19.0	9.8	(22.8)	228.5
External operating income/(expense)	251.9	272.1	128.3	82.3	92.9	(140.1)	687.4
Inter segment operating (expense)/income	(47.3)	(69.8)	(24.0)	-	(0.6)	141.7	-
Segment operating income	204.6	202.3	104.3	82.3	92.3	1.6	687.4

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

2. Segmental analysis continued

Balance Sheet Information at 31 July 2016

	Banking						
	Retail Finance £ million	Commercial Finance £ million	Property Finance £ million	Securities £ million	Asset Management £ million	Group[2] £ million	Total £ million
Total assets[1]	2,511.0	2,623.2	1,457.2	647.5	104.8	1,404.5	8,748.2
Total liabilities	-	-	-	577.8	49.1	7,024.4	7,651.3

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Balance sheet includes £1,400.0 million assets and £7,198.2 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Equity[1]	793.2	69.7	55.7	178.3	1,096.9

1 Equity for the Banking division is inclusive of the loan book and operating lease assets of £6,591.4 million, as well as assets and liabilities of £1,400.0 million and £7,198.2 million respectively primarily comprising treasury balances which are included within the Group column.

Other segmental information for the year ended 31 July 2016

	Banking						
	Retail Finance	Commercial Finance	Property Finance	Securities	Asset Management	Group	Total
Employees (average number)[1]	986	959	132	238	570	61	2,946

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

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3. Taxation

	2017 £ million	2016 £ million
Tax charged/(credited) to the income statement		
Current tax:		
UK corporation tax	**64.8**	56.5
Foreign tax	**2.1**	2.5
Adjustments in respect of previous years	**(0.6)**	(1.1)
	66.3	57.9
Deferred tax:		
Deferred tax charge/(credit) for the current year	**0.5**	(16.5)
Adjustments in respect of previous years	**0.9**	0.8
	67.7	42.2
Tax on items not charged/(credited) to the income statement		
Current tax relating to:		
Financial instruments classified as available for sale	**0.2**	-
Share-based payments	**(1.0)**	(2.1)
Deferred tax relating to:		
Cash flow hedging	**1.2**	(1.7)
Defined benefit pension scheme	**0.5**	(0.3)
Financial instruments classified as available for sale	**0.1**	(0.7)
Share-based payments	**(0.1)**	1.1
Currency translation gains	**0.8**	1.5
	1.7	(2.2)
Reconciliation to tax expense		
UK corporation tax for the year at 19.7% (2016: 20.0%) on operating profit	**50.9**	45.7
Gain on sale of subsidiaries and available for sale investment	**(0.3)**	(0.5)
Effect of different tax rates in other jurisdictions	**(0.4)**	(0.6)
Disallowable items and other permanent differences	**0.9**	1.5
Banking surcharge	**14.2**	8.2
Deferred tax impact of decreased/(increased) tax rates	**2.1**	(11.8)
Prior year tax provision	**0.3**	(0.3)
	67.7	42.2

The standard UK corporation tax rate for the financial year is 19.7% (2016: 20.0%). However, an additional 8% surcharge applies to banking company profits as defined in legislation. The effective tax rate of 26.2% (2016: 18.5%) is above the UK corporation tax rate primarily due to the surcharge applying to most of the group's profits and a write down of deferred tax assets due to a 1% cut in the standard corporation tax rate applying from April 2020, which was passed into law in the period.

3. Taxation continued

Movements in deferred tax assets and liabilities were as follows:

	Capital allowances £ million	Pension scheme £ million	Share-based payments and deferred compensation £ million	Available for sale assets £ million	Cash flow hedging £ million	Intangible assets £ million	Other £ million	Total £ million
At 1 August 2015	33.1	(0.6)	10.2	(0.7)	0.6	(3.6)	0.4	39.4
Credit to the income statement	13.3	-	1.1	-	-	1.0	0.3	15.7
(Charge)/credit to other comprehensive income	(1.5)	0.3	-	0.7	1.7	-	-	1.2
Charge to equity	-	-	(1.1)	-	-	-	-	(1.1)
Acquisitions	-	-	-	-	-	-	-	-
At 31 July 2016	44.9	(0.3)	10.2	-	2.3	(2.6)	0.7	55.2
(Charge)/credit to the income statement	(1.5)	-	(0.8)	-	-	1.1	(0.2)	(1.4)
Charge to other comprehensive income	(0.8)	(0.5)	-	(0.1)	(1.2)	-	-	(2.6)
Credit to equity	-	-	0.1	-	-	-	-	0.1
Acquisitions	-	-	-	-	-	(3.9)	-	(3.9)
At 31 July 2017	**42.6**	**(0.8)**	**9.5**	**(0.1)**	**1.1**	**(5.4)**	**0.5**	**47.4**

As the group has been and is expected to continue to be consistently profitable, it is appropriate to recognise the full deferred tax assets.

4. Earnings per share

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

	2017	2016
Basic	**128.3p**	125.7p
Diluted	**127.5p**	124.3p
Adjusted basic[1]	**131.7p**	128.4p
Adjusted diluted[1]	**130.8p**	127.0p

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

	2017 £ million	2016 £ million
Profit attributable to shareholders	**191.2**	186.5
Adjustments:		
Amortisation of intangible assets on acquisition	**6.2**	5.1
Tax effect of adjustments	**(1.2)**	(1.0)
Adjusted profit attributable to shareholders	**196.2**	190.6

	2017 million	2016 million
Average number of shares		
Basic weighted	**149.0**	148.4
Effect of dilutive share options and awards	**1.0**	1.7
Diluted weighted	**150.0**	150.1

5. Dividends

	2017 £ million	2016 £ million
For each ordinary share		
Final dividend for previous financial year paid in November 2016: 38.0p (2015: 35.5p)	**56.0**	52.3
Interim dividend for current financial year paid in April 2017: 20.0p (2016: 19.0p)	**29.6**	28.0
	85.6	80.3

A final dividend relating to the year ended 31 July 2017 of 40.0p, amounting to an estimated £59.8 million, is proposed. This final dividend, which is due to be paid on 21 November 2017 to shareholders on the register at 13 October 2017, is not reflected in these financial statements.

6. 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 2017	**59.3**	**1,914.3**	**2,115.2**	**1,340.7**	**1,431.6**	**76.0**	**(52.4)**	**6,884.7**
At 31 July 2016	58.1	1,746.0	2,014.4	1,279.3	1,328.2	65.3	(59.7)	6,431.6

	2017 £ million	2016 £ million
Impairment provisions on loans and advances to customers		
At 1 August	**59.7**	56.1
Charge for the year	**40.2**	37.9
Amounts written off net of recoveries	**(47.5)**	(34.3)
At 31 July	**52.4**	59.7
Loans and advances to customers comprise		
Hire purchase agreement receivables	**2,842.9**	2,782.4
Finance lease receivables	**418.9**	440.1
Other loans and advances	**3,622.9**	3,209.1
At 31 July	**6,884.7**	6,431.6

At 31 July 2017, gross impaired loans were £135.8 million (31 July 2016: £158.5 million) and equate to 2% (31 July 2016: 2%) of the gross loan book before impairment provisions. The majority of the group's lending is secured and therefore the gross impaired loans quoted do not reflect the expected loss.

7. Debt securities

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

	Held for trading £ million	Available for sale £ million	Loans and receivables £ million	Total £ million
Long trading positions in debt securities	20.3	-	-	20.3
Certificates of deposit	-	-	201.0	201.0
Sovereign and central bank debt	-	-	-	-
At 31 July 2016	20.3	-	201.0	221.3

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

	£ million
At 1 August 2015	20.1
Additions	-
Redemptions at maturity	(20.0)
Currency translation differences	-
Movement in value	(0.1)
At 31 July 2016	-
Additions	41.6
Redemptions at maturity	-
Currency translation differences	1.7
Movement in value	0.3
At 31 July 2017	**43.6**

8. Equity shares

	31 July 2017 £ million	31 July 2016 £ million
Long trading positions	**31.9**	26.1
Other equity shares	**0.8**	2.1
	32.7	28.2

Movements on the book value of other equity shares comprise:

	Available for sale £ million	Fair value through profit or loss £ million	Total £ million
At 1 August 2015	10.0	0.1	10.1
Disposals	(7.7)	-	(7.7)
Currency translation differences	0.4	-	0.4
Movement in value of:			
Equity shares classified as available for sale	(0.7)	-	(0.7)
At 31 July 2016	2.0	0.1	2.1
Disposals	(1.3)	(0.1)	(1.4)
Currency translation differences	0.1	-	0.1
Movement in value of:			
Equity shares classified as available for sale	-	-	-
At 31 July 2017	**0.8**	**-**	**0.8**

9. Intangible assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Total £ million
Cost				
At 1 August 2015	146.0	81.0	43.9	270.9
Additions	1.7	24.1	0.4	26.2
Disposals	(6.9)	(0.5)	-	(7.4)
At 31 July 2016	140.8	104.6	44.3	289.7
Additions	16.9	31.1	22.7	70.7
Disposals	(7.0)	(4.1)	-	(11.1)
At 31 July 2017	**150.7**	**131.6**	**67.0**	**349.3**
Amortisation and impairment				
At 1 August 2015	61.8	42.2	22.7	126.7
Amortisation charge for the year	-	17.2	5.1	22.3
Disposals	(6.9)	(0.3)	-	(7.2)
At 31 July 2016	54.9	59.1	27.8	141.8
Amortisation charge for the year	-	17.2	6.2	23.4
Disposals	(7.0)	(0.6)	-	(7.6)
At 31 July 2017	**47.9**	**75.7**	**34.0**	**157.6**
Net book value at 31 July 2017	**102.8**	**55.9**	**33.0**	**191.7**
Net book value at 31 July 2016	85.9	45.5	16.5	147.9
Net book value at 1 August 2015	84.2	38.8	21.2	144.2

Additions in goodwill in 2017 of £12.1 million, £3.9 million and £0.9 million and intangible assets on acquisition of £15.9 million, £5.1 million and £1.7 million relate to the 100% acquisitions of Novitas Loans Limited (“Novitas”), EOS Wealth Management Limited (“EOS”) and Adrian Smith & Partners Limited (“ASPL”) respectively. Novitas is a specialist provider of secured finance to law firms and their clients and EOS and ASPL are independent financial advisers. Additions in goodwill in 2016 of £1.7 million and intangible assets on acquisition of £0.4 million relates to the 100% acquisition of Finance for Industry Group. These acquisitions are not regarded as material in the context of the group’s financial statements and therefore information required for material acquisitions by IFRS 3 has not been disclosed.

The £7.0 million disposal of goodwill in 2017 relates to the sale of Asset Management’s OLIM Limited business. The £6.9 million disposal of goodwill in 2016 relates to the sale of Asset Management’s corporate advice and investment management activities.

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

In the 2017 financial year, £6.2 million (2016: £5.1 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £17.2 million (2016: £17.2 million) of the amortisation charge is included in administrative expenses shown in the consolidated income statement.

10. 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 2015	17.4	34.6	165.1	0.8	217.9
Additions	4.3	9.2	61.6	0.1	75.2
Disposals	(0.2)	(3.6)	(25.3)	(0.5)	(29.6)
At 31 July 2016	21.5	40.2	201.4	0.4	263.5
Additions	1.6	5.4	56.2	-	63.2
Disposals	(0.7)	(0.5)	(26.8)	(0.1)	(28.1)
At 31 July 2017	**22.4**	**45.1**	**230.8**	**0.3**	**298.6**
Depreciation					
At 1 August 2015	7.2	23.7	38.1	0.5	69.5
Charge for the year	2.5	4.6	19.6	0.1	26.8
Disposals	-	(2.2)	(16.1)	(0.3)	(18.6)
At 31 July 2016	9.7	26.1	41.6	0.3	77.7
Charge for the year	2.0	7.1	25.0	-	34.1
Disposals	(0.6)	(1.5)	(13.6)	(0.2)	(15.9)
At 31 July 2017	**11.1**	**31.7**	**53.0**	**0.1**	**95.9**
Net book value at 31 July 2017	**11.3**	**13.4**	**177.8**	**0.2**	**202.7**
Net book value at 31 July 2016	11.8	14.1	159.8	0.1	185.8
Net book value at 1 August 2015	10.2	10.9	127.0	0.3	148.4

The loss from the sale of assets held under operating leases for the year ended 31 July 2017 was £0.1 million (2016: £0.1 million gain).

11. Settlement balances and short positions

	31 July 2017 £ million	31 July 2016 £ million
Settlement balances	**524.9**	456.3
Short positions held for trading:		
Debt securities	**11.5**	5.8
Equity shares	**16.2**	13.5
	27.7	19.3
	552.6	475.6

12. Financial liabilities

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

	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	31.9	1.9	26.5	10.1	0.7	-	71.1
Deposits by customers	130.8	918.0	2,117.3	1,233.4	495.1	-	4,894.6
Loans and overdrafts from banks	11.0	207.8	160.1	90.2	-	-	469.1
Debt securities in issue	30.2	7.1	557.1	201.5	589.1	37.8	1,422.8
At 31 July 2016	203.9	1,134.8	2,861.0	1,535.2	1,084.9	37.8	6,857.6

The group has accessed £224.4 million (31 July 2016: £nil) cash under the Term Funding Scheme and £197.5 million (31 July 2016: £451.0 million) UK Treasury Bills under the Funding for Lending Scheme. The UK Treasury Bills are not recorded on the group's consolidated balance sheet as ownership remains with the Bank of England. £197.5 million (31 July 2016: £451.0 million) UK Treasury Bills have been drawn under the Funding for Lending Scheme, of which £100.0 million (31 July 2016: £451.0 million) have been lent in exchange for cash. Cash from the repurchase agreements and Term Funding Scheme is included within bank loans and overdrafts. Residual maturities of the repurchase agreements and Term Funding Scheme 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 2017	**1.2**	**69.9**	**-**	**20.5**	**223.2**	**-**	**314.8**
At 31 July 2016	-	197.8	160.1	90.2	-	-	448.1

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13. Capital

At 31 July 2017, the group's common equity tier 1 ("CET1") capital ratio was 12.6% (31 July 2016: 13.5%). CET1 capital increased to £990.6 million (31 July 2016: £901.4 million) primarily due to growth in profit attributable to shareholders. The increase in share capital in connection with the acquisition of Novitas Loans Limited ("Novitas") has been broadly offset by a deduction for goodwill recognised as part of the transaction.

Risk weighted assets increased to £7,859.0 million (31 July 2016: £6,682.5 million) as a result of growth in credit and counterparty risk associated with the loan book and due to European Banking Authority ("EBA") guidance which mandates 150% risk weighting for property development loans. Notional risk weighted assets for operational risk also increased reflecting increased performance over recent years.

During the year, the group issued £175 million of tier 2 capital. This changed the composition of capital with 82.8% (31 July 2016: 97.4%) of the total capital consisting of CET1 capital.

	31 July 2017 £ million	31 July 2016 £ million
CET1 capital		
Called up share capital	**38.0**	37.7
Share premium account	**307.8**	284.0
Retained earnings	**906.6**	797.5
Other reserves recognised for CET1 capital	**21.4**	21.8
Deductions from CET1 capital		
Intangible assets, net of associated deferred tax liabilities	**(186.3)**	(145.3)
Foreseeable dividend[1]	**(59.8)**	(56.1)
Investment in own shares	**(34.1)**	(37.2)
Pension asset, net of associated deferred tax liabilities	**(2.8)**	(0.9)
Prudent valuation adjustment	**(0.2)**	(0.1)
CET1 capital	**990.6**	901.4
Tier 2 capital – subordinated debt[2]	**205.6**	24.0
Total regulatory capital	**1,196.2**	925.4
Risk weighted assets (notional) – unaudited		
Credit and counterparty credit risk	**6,967.6**	5,824.9
Operational risk[3]	**806.8**	784.9
Market risk[3]	**84.6**	72.7
	7,859.0	6,682.5
CET1 capital ratio	**12.6%**	13.5%
Total capital ratio	**15.2%**	13.8%

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2017 and 31 July 2016 for a foreseeable dividend being the proposed final dividend as set out in note 5.
2 Shown after applying the Capital Requirements Regulations transitional and qualifying own funds arrangements.
3 Operational and market risk include a notional adjustment at 8% in order to determine notional risk weighted assets.

13. Capital continued

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

	31 July 2017 £ million	31 July 2016 £ million
Equity	**1,236.0**	1,096.9
Regulatory deductions from equity:		
Intangible assets, net of associated deferred tax liabilities	**(186.3)**	(145.3)
Foreseeable dividend[1]	**(59.8)**	(56.1)
Pension asset, net of associated deferred tax liabilities	**(2.8)**	(0.9)
Prudent valuation adjustment	**(0.2)**	(0.1)
Other reserves not recognised for CET1 capital:		
Cash flow hedging reserve	**3.2**	6.7
Non-controlling interests	**0.5**	0.2
CET1 capital	**990.6**	901.4

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2017 and 31 July 2016 for a foreseeable dividend being the proposed final dividend as set out in note 5.

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

	£ million
CET1 capital at 31 July 2016	901.4
Profit in the period attributable to shareholders	191.2
Shares issued in the period	24.1
Dividends paid and foreseen	(89.3)
Increase in intangible assets, net of associated deferred tax liabilities	(41.0)
Other movements in reserves recognised for CET1 capital	6.2
Other movements in deductions from CET1 capital	(2.0)
CET1 capital at 31 July 2017	**990.6**

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14. Consolidated cash flow statement reconciliation

	31 July 2017 £ million	31 July 2016 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit before tax	**258.6**	228.5
Tax paid	**(63.6)**	(53.7)
Depreciation and amortisation	**57.5**	49.1
(Increase)/decrease in:		
Interest receivable and prepaid expenses	**(18.1)**	(16.0)
Net settlement balances and trading positions	**6.7**	(9.7)
Net loans to/from money brokers against stock advanced	**(21.9)**	16.0
Interest payable and accrued expenses	**19.1**	3.2
Net cash inflow from trading activities	**238.3**	217.4
Decrease/(increase) in:		
Loans and advances to banks not repayable on demand	**0.3**	(26.7)
Loans and advances to customers	**(453.1)**	(693.8)
Assets let under operating leases	**(43.2)**	(51.9)
Certificates of deposit	**20.7**	(85.7)
Sovereign and central bank debt	**(44.5)**	20.0
Other assets less other liabilities	**22.5**	28.9
Increase/(decrease) in:		
Deposits by banks	**0.9**	36.0
Deposits by customers	**218.5**	413.2
Loans and overdrafts from banks	**(138.2)**	87.9
Issuance of debt securities, net of transaction costs	**297.8**	35.9
Net cash inflow/(outflow) from operating activities	**120.0**	(18.8)
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and non-controlling interests		
Cash consideration paid	**(6.3)**	(3.6)
(c) Analysis of net cash (outflow)/inflow in respect of the sale of a subsidiary		
Cash consideration received	**0.3**	2.4
Cash and cash equivalents disposed of	**(0.6)**	(0.1)
	(0.3)	2.3
(d) Analysis of changes in financing activities		
Share capital (including premium), group bond and subordinated loan capital[1]:		
Opening balance	**566.6**	566.6
Redemption of group bond	**(200.0)**	-
Issuance of subordinated loan capital, net of transaction costs	**173.7**	-
	540.3	566.6
(e) Analysis of cash and cash equivalents[2]		
Cash and balances at central banks	**798.2**	840.6
Loans and advances to banks repayable on demand	**61.4**	82.7
	859.6	923.3

1 Excludes accrued interest.

2 Excludes Bank of England cash reserve account, amounts held as collateral and settlement money held in accordance with Financial Conduct Authority Client Asset Rules.

Cautionary statement

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