Close Brothers

Close Brothers Group plc
10 Crown Place
London EC2A 4FT

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

Registered in England No. 520241

Half Year Results for the Six Months to 31 January 2021

16 March 2021

Highlights

- The group delivered a strong performance in the current environment. Adjusted operating profit increased 2% to £128.5 million and increased 12% to £181.3 million pre provisions, with a return on opening equity ("ROE") of 13.2%
- The group's financial performance reflected high new business volumes in the lending business, solid net inflows in Asset Management and a very strong trading performance in Winterflood, with income growth in all three divisions
- We continued to support our customers and clients through this challenging environment, with over 120,000 customer payment deferrals and other Covid-19 related concessions offered and £730 million lent under government support schemes
- The loan book increased by 4.4% in the first six months of the year to £7.95 billion, reflecting strong demand for loans issued under CBILS and significant new business volumes in Motor Finance
- We remained focused on pricing discipline, with a net interest margin of 7.7%
- The annualised bad debt ratio of 1.3% was up on the pre Covid-19 ratio of 0.9% for H1 2020 but down significantly from the 2.3% ratio for the 2020 financial year, reflecting the quality of our loan book and a stable credit performance
- Adjusted operating profit in the Banking division was £95.1 million, down 18%, reflecting higher impairment charges compared to H1 2020 and continued investment
- The Asset Management division generated solid annualised net inflows of 4%, with managed assets increasing 10% to £13.8 billion. Adjusted operating profit remained broadly stable on the prior year at £12.3 million despite the impact of Covid-19 on new business activity
- Winterflood delivered a very strong trading performance, making the most of heightened trading volumes, achieving operating profit of £34.2 million, 223% up, with no loss days
- The group maintained a strong capital, funding and liquidity position. Our common equity tier 1 ("CET1") capital ratio of 15.3% provides significant headroom above the minimum requirement
- We have declared an 18.0p interim dividend, reflecting the group's strong performance in the first half and continued confidence in our business model and financial position

Key Financials[1]	First half 2021	First half 2020	Change %
Adjusted operating profit[2]	**£128.5m**	£125.7m	2
Operating profit before tax	**£127.0m**	£124.1m	2
Adjusted basic earnings per share	**64.0p**	63.8p	-
Basic earnings per share	**63.2p**	63.0p	-
Ordinary dividend per share	**18.0p**	-	-
Return on opening equity	**13.2%**	13.6%	
Return on average tangible equity	**15.7%**	16.0%	
Net interest margin	**7.7%**	7.8%	
Bad debt ratio	**1.3%**	0.9%	

	31 January 2021	31 July 2020	Change %
Loan book	**£7.95bn**	£7.62bn	4.4
Total client assets	**£14.9bn**	£13.7bn	9
CET1 capital ratio	**15.3%**	14.1%	
Total capital ratio	**17.4%**	16.3%	

1 Please refer to definitions on pages 23 to 25.
2 Adjusted operating profit is stated before amortisation of intangible assets on acquisition of £1.5 million (H1 2020: £1.6 million).

Enquiries

Sophie Gillingham	Close Brothers Group plc	020 3857 6574
Camila Sugimura	Close Brothers Group plc	020 3857 6577
Kimberley Taylor	Close Brothers Group plc	020 3857 6233
Andy Donald	Maitland	07738 346 460

A pre-recorded presentation to analysts and investors will be held today at 9.30 am GMT followed by a live Q&A session. A webcast and dial-in facility will be available by registering at https://webcasts.closebrothers.com/results/InterimResults2021.

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 items, which are non-recurring and do not reflect trading performance.

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 3,700 people, principally in the UK. Close Brothers Group plc is listed on the London Stock Exchange and is a member of the FTSE 250.

CHIEF EXECUTIVE'S STATEMENT

Overview

We delivered a strong performance in the first half of the year in the context of current market conditions, with the positive trends seen at the end of the last financial year continuing, delivering a return on opening equity of 13.2%. We are navigating a challenging external environment successfully by supporting our customers and clients and maintaining the key strengths of our business model, whilst maximising the opportunities available to us.

The Board is pleased to declare an interim dividend of 18.0p per share. This reflects the group's strong performance in the first half and continued confidence in our business model and financial position.

The Board recognises the continued significant uncertainty in the external environment and will make its recommendation on any final dividend in September 2021 subject to the group's financial performance and outlook at the time.

Strategic update

Our priority over the last year has been to navigate the Covid-19 crisis successfully while extending support to our people, customers and clients. We implemented the playbooks that we developed in 2019 in preparation for a downturn, enabling us to adapt our business and maximise the opportunities available in these changing market conditions.

In September 2020 I introduced Our Responsibility as a core component of our model. As we continue to navigate the impact of Covid-19, this responsibility to help address the social, economic and environmental challenges facing our business, colleagues and customers remains paramount.

As part of this responsibility we are expanding our charitable efforts, starting with donations of £100,000 each to two charities facing enormous challenges in the wake of Covid-19; the children's literacy charity Bookmark, and the foodbank charity The Trussell Trust. Both charities make a material difference to children's and families' lives throughout the UK, and these donations are in support of the vital role they play in helping some of the most vulnerable in our communities.

Our responsible approach is key to positioning us well for the long term, whether it be through attracting and bringing out the very best of our people, being there when it matters for our customers and clients, or continuing with our efforts towards reducing our impact on the environment.

Together with the executive team, I have been reviewing how we build on the core strengths of our successful and differentiated business model through the next stage of our development. To ensure that we are best placed to respond to these opportunities and deliver on our strategy, I have made some changes to our Group and Banking executive team. These include bringing the leadership of the Motor Finance and Premium Finance businesses together under our recently appointed Retail CEO, Rebecca McNeil, as well as appointing Neil Davies as our Commercial CEO, with responsibility for Asset Finance and Invoice & Speciality Finance. Rebecca and Neil, along with Frank Pennal, our Property CEO, have joined our Group Executive Committee, with all of our businesses now represented at this level.

The fundamental strengths of our business model have been evidenced throughout the current crisis and our operational resilience leaves us well placed to continue helping the people and businesses of Britain thrive as they emerge from the crisis and over the long term.

Our strategic approach will, therefore, focus on three objectives: to *protect*, *grow* and *sustain* our business model.

We will keep our business safe by maintaining and enhancing our model's key strengths so that it continues to deliver for our stakeholders in a wide range of market conditions. This will be achieved by the continued prudent management of our financial resources, disciplined application of our underwriting and pricing criteria, as well as continued investment to protect the key attributes of our high-touch relationship model.

We will deliver disciplined growth by leaning into the current environment and by maximising future opportunities in existing and new markets. Loan book growth in the lending business remains an output of our business model and we will focus on evolving our offering, improving our operational and digital capabilities and proactively looking for opportunities that fit with our successful model across the divisions.

We will secure the long-term future of our business, customers and the world we operate in by focusing on the needs of our customers, our people, and our community and environment while evolving our business to recognise and support the priorities of each group.

We plan to provide further details about the evolution of our strategic approach and the opportunities ahead for our businesses during our Investor Event, scheduled for 15 June 2021.

GROUP AND DIVISIONAL PERFORMANCE

Group performance

The group's financial performance reflected high new business volumes in the lending business, solid net inflows in Asset Management and a very strong trading performance in Winterflood, with income growth in all three divisions. Adjusted operating profit increased 2% to £128.5 million (H1 2020: £125.7 million) and increased 12% to £181.3 million pre provisions.

Our capital, liquidity and funding position remained strong, with a Common Equity Tier 1 capital ratio of 15.3% (31 July 2020: 14.1%), significantly above the applicable minimum regulatory requirement.

Divisional performance

In the **Banking** division, although income grew in the period, adjusted operating profit decreased 18% to £95.1 million (H1 2020: £115.4 million) reflecting higher impairment charges and continued investment.

The loan book increased by 4.4% to £7.95 billion (31 July 2020: £7.62 billion), whilst maintaining a strong net interest margin of 7.7% (H1 2020: 7.8%).

We saw strong demand for loans issued under the Coronavirus Business Interruption Loan Scheme ("CBILS"), particularly in the Asset Finance business, and record new business levels in Motor Finance. Utilisation levels in Invoice Finance have recovered slightly in the first half but continue to track below pre Covid-19 levels. In Premium Finance, a reduction in the loan book primarily reflects the impact of Covid-19 restrictions and seasonality. In the Property business, while construction activity has continued, the loan book reduced driven by lower drawdowns and higher repayment levels, which reflects delays in completion of developments due to Covid-19 restrictions and strong unit sales.

In January 2021, the loan book declined slightly as we saw a reduction in customer activity in Premium Finance and Invoice Finance, due to the impact of the national lockdown, exacerbated by seasonality.

We continue to make good progress on our preparations for a transition to the Internal Ratings Based ("IRB") approach and, as planned, the initial application to the PRA was submitted in December 2020. We continued to focus on strict cost discipline, with business as usual ("BAU") costs remaining flat. As a result, adjusted operating expenses for the Banking division increased 4%.

Impairment charges increased to £52.9 million (H1 2020: £36.7 million) with an annualised bad debt ratio of 1.3%, up on the pre Covid-19 ratio of 0.9% for the first half of 2020. This is a significant reduction from the 2.3% ratio for the 2020 financial year, reflecting the quality of our loan book and a stable credit performance over the first half, supported by the ongoing government schemes for consumers and SMEs. The impairment charges in the first half reflect growth in the loan book as well as a review of staging and coverage for individual loans and portfolios resulting in higher provisions, particularly in Commercial.

We continue to offer a broad range of concessions to assist customers who find themselves in difficulty. As of 31 January 2021, we have offered more than 120,000 payment deferrals and other Covid-19 concessions to our customers.

The performance of the forborne loan book continues to be encouraging and we remain confident in the quality of our lending, which is predominantly secured, prudently underwritten and diverse. Nevertheless, we will continue to closely monitor the performance of the loan book as the macroeconomic outlook evolves and government support schemes for consumers and SMEs end in the coming months.

In **Asset Management**, managed assets increased to £13.8 billion (31 July 2020: £12.6 billion) and total client assets increased to £14.9 billion (31 July 2020: £13.7 billion), reflecting favourable market movements, solid demand for our integrated wealth and investment management services and inflows from recent portfolio manager hires. The division generated annualised net inflows of 4%, despite reduced face-to-face interaction with clients due to Covid-19.

The Asset Management division delivered an adjusted operating profit of £12.3 million (H1 2020: £12.6 million), broadly flat on the prior year period as operating income grew, despite the impact of Covid-19 on new business activity, and we continued to invest to support the long-term growth potential of the business.

Winterflood delivered a very strong performance, with operating profit of £34.2 million (H1 2020: £10.6 million), 223% up on the first half of 2020. Winterflood was able to successfully navigate the volatile market conditions and heightened trading volumes, demonstrating the expertise of our traders and the operational resilience of the business. There were no loss days in the period and Winterflood has successfully maintained full operational capacity since the start of Covid-19.

Outlook

Overall, the group is navigating this unprecedented environment well and our model is performing as we would expect at this stage of the cycle.

Despite the national lockdown restrictions and volatile macroeconomic environment, our credit performance has remained stable reflecting the quality of our loan book, supported by the ongoing government schemes for consumers and SMEs. Nevertheless, the full impact of Covid-19 still remains highly uncertain.

Against this backdrop, we are committed to maintaining the discipline of our business model, and our readiness to respond to opportunities and changes in market conditions.

The Banking division remains focused on maximising opportunities available to us as we emerge from the Covid-19 crisis, whilst maintaining pricing and underwriting discipline and progressing strategic investment initiatives.

The Asset Management division will continue to look to increase client assets through organic new business, selective hiring, and in-fill acquisitions to support the long-term growth potential of the business.

Winterflood remains focused on maximising opportunities across all market conditions, while continuing to build its institutional sales trading franchise and Winterflood Business Services.

Our proven and resilient model and strong balance sheet, combined with our deep experience in navigating a wide range of economic conditions, leave us well placed to continue supporting our colleagues, customers and clients over the long term.

BOARD CHANGES

After more than nine years' dedicated service on the board, Geoffrey Howe decided not to seek reappointment at the 2020 Annual General Meeting and ceased to be a director on 19 November 2020. In December 2020, the Board was pleased to appoint Mark Pain as a successor to Geoffrey. Mark joined the board as an independent non-executive director with effect from 1 January 2021. Mark has more than 30 years' executive and non-executive experience in financial services, including in retail banking and insurance, with strong finance, risk management and commercial credentials. Mark is a member of the board's Nomination & Governance, Remuneration and Risk Committees, and the group's Senior Independent Director. Like the other members of the board, he also became a director of the group's Banking subsidiary, Close Brothers Limited.

OVERVIEW OF FINANCIAL PERFORMANCE

GROUP INCOME STATEMENT

	First half 2021 £ million	First half 2020 £ million	Change %
Operating income	**474.0**	420.0	13
Adjusted operating expenses	**(292.7)**	(257.6)	14
Impairment losses on financial assets	**(52.8)**	(36.7)	44
Adjusted operating profit	**128.5**	125.7	2
Banking	**95.1**	115.4	(18)
Commercial	**27.4**	38.5	(29)
Retail	**27.9**	34.1	(18)
Property	**39.8**	42.8	(7)
Asset Management	**12.3**	12.6	(2)
Winterflood	**34.2**	10.6	223
Group	**(13.1)**	(12.9)	2
Amortisation of intangible assets on acquisition	**(1.5)**	(1.6)	(6)
Operating profit before tax	**127.0**	124.1	2
Tax	**(32.2)**	(29.6)	9
Profit after tax	**94.8**	94.5	-
Profit attributable to shareholders	**94.8**	94.5	-
Adjusted basic earnings per share	**64.0p**	63.8p	-
Basic earnings per share	**63.2p**	63.0p	-
Ordinary dividend per share	**18.0p**	-	-
Return on opening equity	**13.2%**	13.6%	
Return on average tangible equity	**15.7%**	16.0%	

Operating profit and returns

Adjusted operating profit increased 2% to £128.5 million (H1 2020: £125.7 million), primarily reflecting higher income in Winterflood, partially offset by increased variable costs in that division and higher impairment charges in Banking. Statutory operating profit before tax increased by 2% to £127.0 million (H1 2020: £124.1 million). The group delivered a strong return on opening equity of 13.2% (H1 2020: 13.6%) and return on average tangible equity was 15.7% (H1 2020: 16.0%).

Adjusted operating profit in the Banking division decreased 18% to £95.1 million (H1 2020: £115.4 million) primarily due to higher impairment charges and continued investment, partially offset by modest income growth. The Asset Management division achieved solid net inflows, delivering adjusted operating profit of £12.3 million (H1 2020: £12.6 million), broadly flat on the prior year period as operating income grew, despite the impact of Covid-19 on new business activity, and we continued to invest to support the long-term growth potential of the business. Winterflood delivered a very strong performance, with operating profit of £34.2 million (H1 2020: £10.6 million), 223% up. Group net expenses, which include the central functions such as finance, legal and compliance, risk and human resources, were broadly in line with the comparative period at £13.1 million (H1 2020: £12.9 million).

Operating income

Operating income increased 13% to £474.0 million (H1 2020: £420.0 million), with growth seen in all divisions but primarily in Winterflood. Income in the Banking division increased by 1%, reflecting high new business volumes and a broadly stable net interest margin of 7.7% (H1 2020: 7.8%). Income in the Asset Management division was up 2%, reflecting higher client assets. Income in Winterflood increased by 105% as a result of significantly higher volumes and very strong trading performance.

Adjusted operating expenses

Adjusted operating expenses increased 14% to £292.7 million (H1 2020: £257.6 million) with most of the increase in Winterflood (up 71%), reflecting higher variable costs. In the Banking division, costs increased by 4% driven by continued investment in key strategic programmes and flat BAU costs. Costs increased 3% in the Asset Management division, driven by continued hiring of high net worth portfolio managers and investment in technology. Overall, the group's expense/income ratio was broadly in line with the prior year period at 62% (H1 2020: 61%) and the group's compensation ratio increased to 39% (H1 2020: 36%).

Impairment charges and IFRS 9 provisioning

Impairment charges increased to £52.8 million (H1 2020: £36.7 million), corresponding to an annualised bad debt ratio of 1.3% (H1 2020: 0.9%), down significantly from the 2.3% ratio for the 2020 financial year.

Our approach to provisioning continues to reflect the application of our models overlaid with expert judgement to determine the appropriate allocation of loan book balances between stages, to macroeconomic scenario updates and weightings, and to provision coverage at the individual portfolio level.

We have revised the macroeconomic scenarios and the weightings assigned to them, with a 40% weighting remaining to the baseline, and 10% moved to the upside scenario, to reflect reduced Brexit uncertainty and the Covid-19 vaccination developments. However, the modelled impact of these changes on impairment provisions has been mainly offset by judgemental management overlays to reflect the continued uncertainty in the UK economic outlook.

Overall, impairment provisions increased in the first half to take into account loan book growth and a review of staging and provision coverage for individual loans and portfolios. These factors resulted in an overall increase in provision coverage to 3.3% (31 January 2020: 1.5%, 31 July 2020: 3.0%).

We believe this represents an appropriate level of provision, reflecting the highly uncertain external environment and the fact that the full impact of Covid-19 has yet to be reflected in experienced credit performance. We remain confident in the quality of our loan book, which is predominantly secured, prudently underwritten, diverse, and supported by the deep expertise of our people.

Tax expense

The tax expense in the first half of the year was £32.2 million (H1 2020: £29.6 million), which corresponds to an effective tax rate of 25.4% (H1 2020: 23.9%), with the increase primarily reflecting a higher UK corporation tax rate at 19.0%, whereas the prior year was 18.3% reflecting an expected rate cut later reversed.

In line with the Budget 2021 announced on 3 March 2021, the UK corporation tax rate is expected to increase from 19.0% to 25.0% from April 2023. This increase is expected to be enacted in the

current financial year and, as a result, will impact the group's deferred tax asset balance. Had this change been enacted before 31 January 2021, the group's deferred tax asset balance at 31 January 2021 would have increased by up to approximately £10 million, with a corresponding tax benefit recognised in the income statement and other comprehensive income.

The government has also indicated that it will legislate in Finance Bill 2021-22 to ensure that the combined rate of tax on banks' profits, which comprises the standard corporation tax rate and banking surcharge, does not increase substantially from its current level. This legislation would partially reverse the abovementioned deferred tax asset increase, and income statement benefit, however the precise quantum and timing of such a reversal remains uncertain.

Earnings per share

Profit attributable to shareholders remained stable at £94.8 million (H1 2020: £94.5 million). As a result, adjusted basic earnings per share ("EPS") remained stable at 64.0p (H1 2020: 63.8p) and basic EPS was 63.2p (H1 2020: 63.0p).

Dividend

The interim dividend of 18.0p (H1 2020: £nil) reflects the group's strong performance in the first half and continued confidence in our business model and financial position. The interim dividend is due to be paid on 28 April 2021 to shareholders on the register at 26 March 2021.

The Board recognises the continued significant uncertainty in the external environment and will make its recommendation on any final dividend in September 2021, subject to the group's financial performance and outlook at the time.

GROUP BALANCE SHEET

	31 January 2021 **£ million**	31 July 2020 £ million
Loans and advances to customers	**7,953.5**	7,616.7
Treasury assets[1]	**2,182.1**	1,733.9
Market-making assets[2]	**1,114.8**	719.1
Other assets	**1,071.8**	1,001.8
Total assets	**12,322.2**	11,071.5
Deposits by customers	**6,444.8**	5,917.7
Borrowings	**2,936.6**	2,591.2
Market-making liabilities[2]	**1,013.9**	622.8
Other liabilities	**446.5**	490.2
Total liabilities	**10,841.8**	9,621.9
Equity	**1,480.4**	1,449.6
Total liabilities and equity	**12,322.2**	11,071.5

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.

The group maintained a strong balance sheet and remains focused on its prudent approach to managing financial resources.

The structure of the balance sheet remains unchanged, with most of the assets and liabilities relating to our lending activities. Loans and advances make up the majority of assets. 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 by 11% to £12.3 billion (31 July 2020: £11.1 billion). This reflects the strong loan book growth and higher treasury assets as the proceeds from the £350 million, 10 year senior unsecured bond issued in December 2020 contributed to elevated liquidity levels at the end of the period. Total liabilities were up 13% to £10.8 billion (31 July 2020: £9.6 billion) driven by a material uplift in customer deposits and the issue of the senior unsecured bond. Both market-making assets and liabilities were up due to higher settlement balances reflecting the higher trading activity in Winterflood.

Shareholders' equity remained stable at £1.5 billion (31 July 2020: £1.5 billion), with profit in the first half of the year partially offset by dividend payments of £59.8 million (31 January 2020: £65.8 million). The group's return on assets decreased to 1.5%, reflecting higher total assets (H1 2020: 1.8%).

GROUP CAPITAL

	31 January 2021 **£ million**	31 July 2020 £ million
Common equity tier 1 capital	**1,350.2**	1,254.0
Total capital	**1,531.4**	1,441.0
Risk weighted assets	**8,826.5**	8,863.2
Common equity tier 1 capital ratio	**15.3%**	14.1%
Total capital ratio	**17.4%**	16.3%
Leverage ratio	**10.8%**	11.2%

The prudent management of capital is a core part of our business model and has been a key focus since the Covid-19 outbreak to ensure the group can continue to support customers, clients and colleagues during these unprecedented times.

The CET1 capital ratio increased to 15.3% (31 July 2020: 14.1%), primarily due to higher profits and the benefit from regulatory changes to the treatment of software assets. The total capital ratio increased to 17.4% (31 July 2020: 16.3%).

The applicable minimum CET1 and total capital ratio requirements, excluding any applicable Prudential Regulation Authority ("PRA") buffer, were 7.6% and 11.5% respectively at 31 January 2021. Accordingly, we continue to have a significant headroom of 770bps in the CET1 capital ratio, and 590bps in the total capital ratio, leaving us well placed to continue to help our customers and clients and in a position of strength to respond to opportunities and challenges ahead.

The group applies IFRS 9 regulatory transitional arrangements which allows 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 and the UK onshored provisions of the Capital Requirements Regulation ("CRR") qualifying own funds arrangements. Without their application, the CET1 and total capital ratios would be 14.1% and 16.1%, respectively. In line with the amended CRR, effective on 23 December 2020, the CET1 capital ratio at 31 January 2021 includes a c.45bps benefit related to software assets which are exempt from the deduction requirement for intangible assets from CET1. The PRA launched a consultation on 12 February 2021 including a proposal to revert to the earlier position, which if implemented would result in a future reversal of this benefit and reduction of the CET1 capital ratio.

CET1 capital increased 8% to £1,350.2 million (31 July 2020: £1,254.0 million) reflecting strong capital generation through £94.8 million of profit, as well as a £45.1 million benefit from regulatory changes in the treatment of software assets and an increase in the transitional IFRS 9 capital add-back of £18.8 million. This was partially offset by the regulatory deduction of dividends paid and foreseen of £51.2 million and other deductions.

Risk weighted assets ("RWAs") remained broadly flat at £8.8 billion (31 July 2020: £8.9 billion) notwithstanding the 4.4% growth in the loan book, as this was mainly driven by government guaranteed loans under CBILS which attract a lower risk weighting. In addition, a reduction in the Property loan book due to higher levels of repayments contributed to a reduction in credit risk RWAs.

The leverage ratio, which is a transparent measure of capital strength, not affected by risk weightings, remains strong at 10.8% (31 July 2020: 11.2%). The leverage ratio decreased on the position at the end of the 2020 financial year, whilst the CET1 ratio increased, reflecting the balance sheet growth during the period.

We continue to make good progress on our preparations for a transition to the IRB approach and, as planned, the initial application to the PRA was submitted in December 2020. We continue to work with the regulator to support their review of the application over the coming months.

GROUP FUNDING[1]

	31 January 2021 £ million	31 July 2020 £ million
Customer deposits	**6,444.8**	5,917.7
Secured funding	**1,388.9**	1,418.2
Unsecured funding[2]	**1,796.0**	1,460.1
Equity	**1,480.4**	1,449.6
Total available funding	**11,110.1**	10,245.6
Of which term funding (>1 year)	**5,393.3**	4,671.6
Total funding as % of loan book	**140%**	135%
Average maturity of funding allocated to loan book[3]	**24 months**	18 months

1 Numbers relate to core funding and exclude working capital facilities at the business level.
2 Unsecured funding excludes £46.7 million (31 July 2020: £7.9 million) of non-facility overdrafts included in borrowings and includes £295.0 million (31 July 2020: £295.0 million) of undrawn facilities.
3 Average maturity of total funding excluding equity and funding held for liquidity purposes.

The primary purpose of our treasury function is to manage funding and liquidity to support the lending businesses and manage interest rate risk. 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. It is also diverse, drawing on a wide range of wholesale and deposit markets including several public debt securities at both group and operating company level as well as a number of securitisations.

We further increased total funding in the first half of the year to £11.1 billion (31 July 2020: £10.2 billion) which accounted for 140% (31 July 2020: 135%) of the loan book at the balance sheet date. The average cost of funding reduced to 1.5% (H1 2020: 1.7%) mainly driven by a reduction in market rates and re-pricing of deposits.

Unsecured funding, which includes senior unsecured bonds and undrawn facilities, increased to £1.8 billion (31 July 2020: £1.5 billion) as we issued a £350 million, 10 year senior unsecured bond in December 2020.

We transitioned £262 million of drawings previously under the Bank of England's Term Funding Scheme ("TFS") to the Term Funding Scheme with additional incentives for SMEs ("TFSME") in October 2020, taking the total drawings under TFSME to £490 million, and no longer have any drawings under the TFS.

Following the successful launch of our online savings portal, we have continued to see a good level of customer take up and positive feedback, with c.11,000 customers now registered for online access. The online portal has provided an important channel for new business during the pandemic. We have continued to expand the product offering, including the launch of a 35 Day Retail Notice Account and Fixed Rate Cash Individual Savings Accounts ("ISA") since the start of the current financial year, which will continue to grow and diversify our retail deposit base and further optimise our cost of funding and maturity profile.

Deposits increased 9% overall to £6.4 billion (31 July 2020: £5.9 billion) with non-retail deposits increasing by 12% to £3.7 billion (31 July 2020: £3.3 billion) and retail deposits increasing by 5% to £2.7 billion (31 July 2020: £2.6 billion).

We have maintained a prudent maturity profile. The average maturity of funding allocated to the loan book remained ahead of the loan book at 24 months (31 July 2020: 18 months), with the average loan book maturity at 16 months (31 July 2020: 15 months).

Our strong credit ratings have been affirmed by both Moody's Investors Services ("Moody's") and Fitch Ratings ("Fitch") during the period. Moody's rates Close Brothers Group ''A3/P2'' and Close Brothers Limited ''Aa3/P1'' with a ''negative'' outlook. Fitch rates both Close Brothers Group and Close Brothers Limited ''A-/F2'' (from ''A/F1''), with a ''negative'' outlook.

GROUP LIQUIDITY

	31 January 2021 £ million	31 July 2020 £ million
Cash and balances at central banks	**1,908.5**	1,375.8
Sovereign and central bank debt	**94.1**	72.2
Certificates of deposit	**179.5**	285.9
Treasury assets	**2,182.1**	1,733.9

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

Against a backdrop of a generally weak UK economic outlook driven by the continued uncertainty over the implications of Brexit and the Covid-19 crisis, the group continued to deliberately maintain higher liquidity levels to provide additional flexibility as uncertainty persists whilst enabling us to maximise any opportunities available. The proceeds from the senior unsecured bond issued in December 2020 further contributed to the elevated liquidity levels at the end of the period. As a result, treasury assets, predominantly held on deposit with the Bank of England, increased by 26% to £2.2 billion (31 July 2020: £1.7 billion).

We regularly assess and stress test the group's liquidity requirements and continue to comfortably meet the Liquidity coverage ratio ("LCR") regulatory requirements, with a 6-month average to 31 January 2021 LCR of 1,049% (12-month average to 31 July 2020: 823%).

BUSINESS REVIEW

BANKING

Key Financials

	First half 2021 £ million	First half 2020 £ million	Change %
Operating income	**309.0**	306.4	1
Adjusted operating expenses	**(161.0)**	(154.3)	4
Impairment losses on loans and advances	**(52.9)**	(36.7)	44
Adjusted operating profit	**95.1**	115.4	(18)
Net interest margin	**7.7%**	7.8%	
Expense/income ratio	**52%**	50%	
Bad debt ratio	**1.3%**	0.9%	
Return on net loan book	**2.4%**	2.9%	
Return on opening equity	**11.7%**	14.7%	
Closing loan book	**7,953.5**	7,619.1	4
Average loan book and operating lease assets	**8,004.9**	7,862.2	2

A strong performance, with loan book growth, in the current market conditions

Although income grew in the Banking division, adjusted operating profit decreased 18% to £95.1 million (H1 2020: £115.4 million) reflecting higher impairment charges and continued investment across the division. Statutory operating profit decreased to £94.1 million (H1 2020: £114.4 million).

The loan book grew 4.4% in the period to £7.95 billion (31 January 2020: £7.62 billion, 31 July 2020: £7.62 billion), as we experienced strong demand for loans issued under CBILS, particularly in Asset Finance, and record new business levels in Motor Finance.

The return on net loan book, although slightly lower than the first half of 2020, was solid at 2.4% (H1 2020: 2.9%) and was significantly above the levels seen in the 2020 financial year (31 July 2020: 1.3%).

Operating income increased 1% to £309.0 million (H1 2020: £306.4 million), driven by strong new business volumes and growth in the loan book.

The net interest margin of 7.7% (H1 2020: 7.8%) was broadly stable on the first half of 2020 but increased on the 2020 financial year (FY 2020: 7.5%). Excluding the impact of certain items such as modification gains and losses arising from the onset of Covid-19 and adjusting for day count, the monthly net interest margin in the first half remained stable on the 2020 financial year exit rate at c.7.5%, as we maintained our focus on pricing discipline. While we have continued to see some

impact from lower fee and other income due to Covid-19, this was partially offset by a reduction in our cost of funds.

Maintaining our rigorous focus on cost management whilst investing through the cycle remains a strategic priority for the group. BAU costs remained flat despite an increase in staff costs which mainly reflected volume-driven compensation and accrual of discretionary bonuses. Investment costs increased £6.9 million to £31.8 million as we progressed our strategic projects and incurred related depreciation charges. As a result, adjusted operating expenses increased 4%, to £161.0 million (H1 2020: £154.3 million). As we continue to invest to protect, grow and sustain our business model, costs are expected to grow ahead of income in the remainder of the year.

Overall, the compensation ratio increased to 30% (H1 2020: 28%) and the expense/income ratio increased to 52% (H1 2020: 50%).

Impairment charges increased to £52.9 million (H1 2020: £36.7 million) with an annualised bad debt ratio of 1.3% (H1 2020: 0.9%), up on the pre Covid-19 ratio of 0.9% for the first half of 2020 but significantly lower than the 2.3% ratio for the 2020 financial year.

We have revised the macroeconomic scenarios and the weightings assigned to them, with a 40% weighting remaining to the baseline, and 10% moved to the upside scenario, to reflect reduced Brexit uncertainty and the Covid-19 vaccination developments. However, the modelled impact of these changes on impairment provisions has been mainly offset by judgemental management overlays to reflect the continued uncertainty in the UK economic outlook.

Overall, impairment provisions increased in the first half to take into account loan book growth and a review of staging and provision coverage for individual loans and portfolios. These factors resulted in an overall increase in provision coverage to 3.3% (31 January 2020: 1.5%, 31 July 2020: 3.0%).

We believe this represents an appropriate level of provision, reflecting the highly uncertain external environment and the fact that the full impact of Covid-19 has yet to be reflected in experienced credit performance.

Loan Book Analysis

	31 January 2021 £ million	31 July 2020 £ million	Change %
Commercial	**3,509.4**	3,048.0	15.1
Asset Finance	**2,551.0**	2,167.4	17.7
Invoice and Speciality Finance	**958.4**	880.6	8.8
Retail	**2,843.8**	2,834.5	0.3
Motor Finance	**1,818.6**	1,749.4	4.0
Premium Finance	**1,025.2**	1,085.1	(5.5)
Property	**1,600.3**	1,734.2	(7.7)
Closing loan book	**7,953.5**	7,616.7	4.4
Operating lease assets[1]	**217.6**	221.9	(1.9)
Closing loan book and operating lease assets	**8,171.1**	7,838.6	4.2

1 Operating lease assets of £2.4 million (31 July 2020: £2.9 million) relate to Asset Finance & Leasing and £215.2 million (31 July 2020: £219.0 million) to Invoice and Speciality Finance.

The loan book grew 4.4% in the period to £7.95 billion (31 January 2020: £7.62 billion, 31 July 2020: £7.62 billion), as we experienced high levels of new business volumes alongside strong demand for SME business loans issued under CBILS and record new business levels in Motor Finance. The national lockdown restrictions announced in January have resulted in a slowdown in customer activity in some of our businesses.

We remain confident in the quality of the loan book, which is predominantly secured, prudently underwritten and diverse. The group's largest single sector exposure is to residential property development and construction (c.20%) predominantly through the Property loan book. Consumer lending represented c.32% of the group's exposure with Motor Finance and Premium Finance personal lines comprising c.23% and c.6% respectively. Sector exposures to retail, hospitality, leisure, air transport, and oil and gas are minimal.

The Commercial loan book increased to £3.5 billion (31 July 2020: £3.0 billion), driven by strong new business volumes in Asset Finance in particular. We experienced strong demand for SME business loans issued under CBILS, supporting many existing customers through this scheme.

At 31 January 2021, we had lent £730 million under the government support schemes in the Commercial and Property businesses, with a further £186 million credit approved. The vast majority of lending is via CBILS, under which we are accredited to lend up to £1.25 billion, with £31 million lent via CLBILS and £2.3 million via BBLS. The existing UK government support schemes for SMEs are due to end on 31 March 2021, to be replaced by the new Recovery Loan Scheme which launches on 6 April 2021 and will run until 31 December 2021.

In Invoice Finance, utilisation levels remain subdued and continue to track below pre Covid-19 levels.

The Retail loan book remained flat at £2.8 billion (31 July 2020: £2.8 billion) in the first six months, with growth in Motor Finance largely offset by a reduction in Premium Finance. Record new business volumes were seen in Motor Finance, reflecting pent up demand, an increasing use of finance in the second hand car market and also the benefits from the Motor Finance transformation programme. In Premium Finance, the loan book reduction primarily reflected the impact of Covid-19 restrictions, exacerbated by seasonality.

The Property loan book reduced to £1.6 billion (31 July 2020: £1.7 billion), driven by lower drawdowns and higher repayment levels, which reflect delays in completion of developments due to Covid-19 restrictions and strong unit sales.

Banking: Commercial

	First half 2021 £ million	First half 2020 £ million	Change %
Operating income	**136.6**	129.6	5
Adjusted operating expenses	**(76.2)**	(72.7)	5
Impairment losses on financial assets	**(33.0)**	(18.4)	79
Adjusted operating profit	**27.4**	38.5	(29)
Net interest margin	**7.8%**	8.0%	
Expense/income ratio	**56%**	56%	
Bad debt ratio	**1.9%**	1.1%	
Closing loan book	**3,509.4**	3,065.4	14
Average loan book and operating lease assets	**3,498.5**	3,256.2	7

The Commercial businesses provide specialist, predominantly secured lending principally to the SME market and include Asset Finance and Invoice and Speciality Finance.

The Commercial loan book increased to £3.5 billion (31 July 2020: £3.0 billion), with the Asset Finance book up 18% to £2.6 billion (31 July 2020: £2.2 billion) reflecting strong new business volumes and demand under the CBILS lending scheme. Invoice & Speciality Finance grew by 9% to £1.0 billion (31 July 2020: £0.9 billion), driven by new business, with good demand under the government schemes. However, overall utilisation levels in this business remain subdued versus pre Covid-19 levels.

Adjusted operating profit of £27.4 million (H1 2020: £38.5 million) was down 29% year-on-year, reflecting an increase in impairment charges, although was significantly above the full year 2020 adjusted operating profit of £4.8 million. Statutory operating profit was £26.5 million (H1 2020: £37.6 million).

Operating income of £136.6 million (H1 2020: £129.6 million) was 5% higher than the comparative period, driven by the strong growth in the loan book and operating lease assets. The net interest margin decreased marginally to 7.8% (H1 2020: 8.0%), primarily reflecting the impact of Covid-19 on customer activity and fee income.

Adjusted operating expenses increased 5% to £76.2 million (H1 2020: £72.7 million), primarily driven by higher volume-driven compensation and investment in the Asset Finance transformation programme. This programme is aimed at increased sales effectiveness through enhanced data capabilities and technology, with the first phase expected to deliver additional new business volumes over time. The next phase will focus on optimising our operational efficiency, with upgraded systems and processes to support the long-term resilience of the business. The expense/income ratio remained stable at 56% (H1 2020: 56%) as growth in operating income balanced the cost growth.

Impairment charges increased to £33.0 million (H1 2020: £18.4 million), reflecting loan book growth and a review of staging and provision coverage for individual loans and portfolios. This resulted in an annualised bad debt ratio of 1.9% (H1 2020: 1.1%), significantly down from the 3.1% ratio for the 2020 financial year, reflecting a broadly stable credit environment over the first half. The provision coverage ratio remained stable on the position at the end of the last financial year at 3.9% (31 January 2020: 1.9%, 31 July 2020: 3.9%) as the increase in provisions was offset by higher loan book balances as a result of strong new business volumes.

The Commercial loan book is predominantly secured, with minimal exposure to higher risk sectors and those impacted most severely through the recent crisis, such as travel and leisure, hospitality or oil and gas. Our loans are conservatively underwritten with prudent LTVs, supported by our specialist expertise in the underlying assets and long-standing industry relationships.

At 31 January 2021, 20% of the Commercial loan book by value (31 July 2020: 26%) was classified as forborne and subject to Covid-19 forbearance measures, with balances of £728.7 million (31 July 2020: £832.8 million). These forbearance measures are principally in the form of payment deferrals with fees and charges waived in the Asset Finance business, and flexing of repayments percentages and overpayments on invoice discounting and factoring facilities. Of those customers classified as forborne at 31 January 2021 and subject to Covid-19 forbearance measures, 87% (by value) had resumed payments.

Banking: Retail

	First half 2021 £ million	First half 2020 £ million	Change %
Operating income	**112.1**	113.4	(1)
Adjusted operating expenses	**(67.8)**	(63.9)	6
Impairment losses on loans and advanc	**(16.4)**	(15.4)	6
Adjusted operating profit	**27.9**	34.1	(18)
Net interest margin	**7.9%**	8.1%	
Expense/income ratio	**60%**	56%	
Bad debt ratio	**1.2%**	1.1%	
Closing loan book	**2,843.8**	2,784.1	2
Average loan book	**2,839.2**	2,797.4	1

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

The Retail loan book remained flat at £2.8 billion (31 July 2020: £2.8 billion), with growth in Motor Finance largely offset by a reduction in Premium Finance.

The Motor Finance book increased 4% to £1.8 billion (31 July 2020: £1.7 billion) as we experienced strong new business driven by pent up demand and an increasing use of finance in the second hand car market. Investment in our Motor 2020 programme has also been instrumental in supporting the loan book growth and driving new business volumes. In September 2020, we experienced our highest ever monthly volumes, but the national lockdown that commenced in January 2021 is impacting new business, albeit volumes have remained largely resilient compared to the first lockdown.

The Premium Finance book declined by 6% to £1.0 billion (31 July 2020: £1.1 billion) primarily reflecting impact of Covid-19 restrictions, exacerbated by seasonality.

Overall, adjusted operating profit for Retail decreased 18% to £27.9 million (H1 2020: £34.1 million), reflecting an increase in costs and an impairment charge of £16.4 million. Statutory operating profit was £27.8 million (H1 2020: £34.0 million).

Operating income decreased by 1% on the prior year period to £112.1 million (H1 2020: £113.4 million), with a decline in net interest margin to 7.9% (H1 2020: 8.1%) largely reflecting lower rates as a result of broker consolidation in the insurance sector and the waiving of fees due to Covid-19 forbearance in Premium Finance.

Adjusted operating expenses increased 6% to £67.8 million (H1 2020: £63.9 million) and the expense/income ratio increased to 60% (H1 2020: 56%), reflecting volume-driven costs and ongoing investment in Motor Finance. Good progress continues to be made with the Motor Finance transformation programme which is aimed at improving the service proposition, enhancing operational efficiency, improving our credit acceptance process and increasing sales effectiveness.

Impairment charges increased to £16.4 million (H1 2020: £15.4 million) with an annualised bad debt ratio of 1.2% (H1 2020: 1.1%, FY 2020: 2.0%), reflecting a relatively stable credit environment. The provision coverage ratio increased slightly on the position at the end of the last financial year to 2.7% (31 January 2020: 1.4%, 31 July 2020: 2.5%) due to movements in staging and coverage to reflect the performance of the forborne loan book.

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 only c.12% of the Motor Finance loan book at 31 January 2021. 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.

At 31 January 2021, 6% of the Retail loan book by value (31 July 2020: 9%) was classified as forborne and subject to Covid-19 forbearance measures, principally in the form of payment deferrals, with balances of £165.0 million (31 July 2020: £251.0 million). Of those customers classified as forborne at 31 January 2021 and subject to Covid-19 forbearance measures, 79% (by value) had resumed payments.

Banking: Property

	First half 2021 £ million	First half 2020 £ million	Change %
Operating income	**60.3**	63.4	(5)
Adjusted operating expenses	**(17.0)**	(17.7)	(4)
Impairment losses on loans and advances	**(3.5)**	(2.9)	21
Operating profit	**39.8**	42.8	(7)
Net interest margin	**7.2%**	7.0%	
Expense/income ratio	**28%**	28%	
Bad debt ratio	**0.4%**	0.3%	
Closing loan book	**1,600.3**	1,769.6	(10)
Average loan book	**1,667.3**	1,808.6	(8)

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

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. We continue to see success from our regional initiative, supported by the launch of our Manchester office in 2019, with the regional loan book now making up almost 50% of the Property Finance portfolio.

The Property loan book reduced to £1.6 billion (31 July 2020: £1.7 billion), driven by lower drawdowns and higher repayment levels. This reflects delays in completion of developments due to Covid-19 restrictions and strong unit sales due to the release of pent up demand and buyers taking advantage of the Stamp Duty holiday and Help to Buy incentives. New business volumes remain solid, with undrawn commitments up on the prior year period at £1.0 billion (31 January 2020: £0.9 billion).

The business delivered an operating profit of £39.8 million (H1 2020: £42.8 million), down 7% year-on-year as a result of lower income.

Operating income decreased 5% to £60.3 million (H1 2020: £63.4 million) reflecting the reduction in the loan book, although the net interest margin increased to 7.2% (H1 2020: 7.0%), driven by lower costs of funds and the unwind of modification losses.

Operating expenses were 4% lower at £17.0 million (H1 2020: £17.7 million) as we maintained our rigorous focus on cost management. The expense/income ratio remained stable at 28% (H1 2020: 28%), with the reduction in income offset by disciplined cost control.

Impairment charges increased to £3.5 million (H1 2020: £2.9 million), resulting in an annualised bad debt ratio of 0.4% (H1 2020: 0.3%, FY 2020: 1.5%). The provision coverage ratio increased on the position at the end of the last financial year to 3.1% (31 January 2020: 0.9%, 31 July 2020: 2.5%) following a review of coverage across the portfolio.

The Property loan book is conservatively underwritten with a maximum LTV of 60% at origination on residential development finance, which accounts for the vast majority of the loan book. We work with experienced, professional developers, with a focus on mid-priced family housing, and have minimal exposure to the prime central London market.

At 31 January 2021, 74 customers (31 July 2020: 187 customers) accounting for 13% of the Property loan book by value (31 July 2020: 18%) were subject to forbearance measures as a result of Covid-19, principally in the form of fee-free extensions for residential development loans where we remain confident in the quality of the underlying borrower and security.

ASSET MANAGEMENT

Key Financials

	First half 2021 £ million	First half 2020 £ million	Change %
Investment management	**49.3**	46.2	7
Advice and other services[1]	**17.7**	18.7	(5)
Other income[2]	**0.1**	0.8	(88)
Operating income	**67.1**	65.7	2
Adjusted operating expenses	**(54.8)**	(53.1)	3
Adjusted operating profit	**12.3**	12.6	(2)
Revenue margin (bps)	**94**	95	
Operating margin	**18%**	19%	
Return on opening equity	**32.5%**	35.6%	

1 Income from advice and self-directed services, excluding investment management income.
2 Other income includes net interest income and expense, income on principal investments and other income. Other income in the first half of 2020 includes a £0.5 million gain on disposal of non-core assets.

Continued growth in a challenging operating environment

The Asset Management division provides 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 own advisers and investment managers, and through third party independent financial advisers ("IFAs").
Adjusted operating profit was broadly flat at £12.3 million (H1 2020: £12.6 million) as operating income grew despite the impact of Covid-19 on new business activity, and we continued to invest to support the long-term growth potential of the business. The operating margin was broadly stable

at 18% (H1 2020: 19%) and statutory operating profit before tax was £11.8 million (H1 2020: £12.0 million).

Total operating income increased 2% to £67.1 million (H1 2020: £65.7 million), driven by higher investment management income from growth in managed assets. The reduction in income on advice and other services reflects lower initial advice fees from reduced levels of new business activity, reflecting the impact of Covid-19 on the ability to meet with clients face-to-face. The revenue margin was broadly stable at 94 bps (H1 2020: 95 bps) reflecting lower initial advice fees and a change in the mix of investment management products.

Adjusted operating expenses increased 3% to £54.8 million (H1 2020: £53.1 million), and the expense/income ratio increased to 82% (H1 2020: 81%). The growth in expenses was driven by continued investment in people and new hires, in line with our growth strategy, as well as our investment in technology. The compensation ratio increased to 57% (H1 2020: 56%) primarily reflecting headcount growth.

Solid net inflows

Despite the impact of Covid-19, markets have recovered significantly since the initial falls seen in 2020. However, the ongoing economic impact of Covid-19 and resulting lockdown restrictions have contributed to a slowdown in net inflows. We achieved net inflows of £267 million (H1 2020: £672 million), an annualised net inflow rate of 4% (H1 2020: 12%), reflecting continued demand for our integrated wealth and investment management services and good inflows from our recent portfolio manager hires.

Positive market movements contributed £934 million to managed assets in the first half of the year. The combined impact with positive net inflows resulted in managed assets increasing 10% overall to £13.8 billion (31 July 2020: £12.6 billion).

Total client assets increased 9% overall, to £14.9 billion (31 July 2020: £13.7 billion).

Movement in Client Assets

	Six months to 31 January 2021 £ million	12 months to 31 July 2020 £ million	Six months to 31 January 2020 £ million
Opening managed assets	**12,594**	11,673	11,673
Inflows	**1,029**	2,350	1,263
Outflows	**(762)**	(1,257)	(591)
Net inflows	**267**	1,093	672
Market movements	**934**	(172)	319
Total managed assets	**13,795**	12,594	12,664
Advised only assets	**1,132**	1,118	1,331
Total client assets[1]	**14,927**	13,712	13,995
Net flows as % of opening managed assets[2]	**4%**	9%	12%

1 Total client assets include £5.1 billion of assets (31 July 2020: £5.1 billion) that are both advised and managed.
2 Net flows as % of opening managed assets calculated on an annualised basis.

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 over the last year reflecting volatile equity markets. Over the 12-month period to 31 January 2021, three out of our 14 multi-asset funds outperformed their relevant peer group average, with ten of the 14 outperforming over the three-year period to 31 January 2021. Our bespoke strategy composites continued to perform well, largely outperforming their respective peer groups over a one, three and five year period, demonstrating a strong track record.

Well positioned for future growth

Despite the challenges presented by Covid-19, we have remained committed to providing excellent service to our clients whilst investing in new hires and technology to support the long-term growth potential of the business. We have made significant progress on enhancing and consolidating our technology platform, which will further improve operating efficiency and strengthen our systems, creating a more scalable and future proof platform. This investment in our technology platform will also result in improved onboarding and enhanced digital functionality.

Sustainable investment strategies remain a key focus area across the industry and our socially responsible investment proposition continues to be well received, with the launch of two new sustainable funds (Close Sustainable Balanced Portfolio Fund and Close Sustainable Bond Portfolio Fund) which are gaining good traction.

Our vertically-integrated, multi-channel business model leaves us well positioned to benefit from continued demand for our services and the structural growth opportunity presented by the wealth management industry. We continue to invest to support the long-term growth potential of the business and remain committed to driving growth both organically and through the continued selective hiring of advisers and investment managers, and through in-fill acquisitions.

WINTERFLOOD

Key Financials

	First half 2021 £ million	First half 2020 £ million	Change %
Operating income	**98.0**	47.9	105
Operating expenses	**(63.9)**	(37.3)	71
Impairment losses on financial assets	**0.1**	-	-
Operating profit	**34.2**	10.6	223
Average bargains per day (‘000)	**97**	57	
Operating margin	**35%**	22%	
Return on opening equity	**69.3%**	22.2%	

Very strong trading performance benefiting from heightened market activity

Winterflood is a leading UK market maker, focused on delivering high quality execution services to stockbrokers, wealth managers and institutional investors.

Winterflood had a very strong first half of the financial year, benefiting from elevated market activity and demonstrating the ability of the business to lean into significant trading volumes. This enabled the business to deliver operating profit of £34.2 million (H1 2020: £10.6 million), 223% up on the first half of 2020.

Operating income increased 105% to £98.0 million (H1 2020: £47.9 million), delivering Winterflood's best start to the financial year in the last decade.

Strong trading volumes were seen throughout the first half, compounded by the underlying increase in retail investor activity since the start of the pandemic, with significant events including the US presidential election, Covid-19 vaccine approvals and a post-Brexit trade deal. UK equities performed strongly in November 2020 on the back of positive vaccine news, enabling Winterflood to deliver its highest ever daily trading volume on record of 227k on 9 November 2020, surpassing the previous high of 186k achieved on 8 June 2020. Average daily bargains in the period increased 72% to 97k (H1 2020: 57k), nearing the levels seen in the second half of 2020 (H2 2020: 108k). We delivered a strong performance across all business sectors we operate in.

Notwithstanding the substantial trading volumes seen, there were no loss days in the period (H1 2020: no loss days), demonstrating the expertise of our traders and their ability to manage risk. Furthermore, we were able to maintain full operational capacity throughout, despite the majority of our staff working from home, as our technology supported us in maximising the market opportunity.

Operating expenses increased 71% to £63.9 million (H1 2020: £37.3 million), driven by the variable nature of Winterflood's cost base, with the increased revenue performance and trading volumes leading to higher staff compensation and settlement costs. The expense/income ratio decreased to 65% (H1 2020: 78%), driven by the high levels of income, partially offset by the corresponding increase in variable costs. The compensation ratio remained stable at 48% (H1 2020: 48%).

Winterflood is continuing to take advantage of market opportunities, building on the strong momentum seen in 2020. Positive progress has been made in expanding its institutional client base and we continue to trade directly with US counterparties through our relationship with our affiliate licensed broker dealer. Winterflood Business Services, which provides outsourced dealing and custody services for asset managers and platforms, has performed well in the period, generating good levels of income. Its assets under administration have increased to £5.0 billion (H1 2020: £4.1 billion).

Winterflood has delivered a very strong first half performance and has continued to benefit from heightened market activity since the period end, but as a daily trading business remains sensitive to changes in the market environment.

DEFINITIONS

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

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

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

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

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

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

Business as usual ("BAU") costs: Operating expenses excluding depreciation and other costs related to investments

Capital Requirements Regulation ("CRR"): UK onshored provisions of EU regulation 575/2013

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

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

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

Coronavirus Business Interruption Loan Scheme ("CBILS"): UK government business lending scheme that helps small and medium-sized businesses access loans and other kinds of finance up to £5 million

Coronavirus Large Business Interruption Loan Scheme ("CLBILS"): UK government business lending scheme that helps medium and large-sized businesses access loans and other kinds of finance up to £200 million

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

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

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

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

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

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

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

Gross carrying amount: Loan book before expected credit loss provision

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

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

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

Investment costs: Include depreciation and other costs related to investment in multi-year projects, new business initiatives and pilots and cyber resilience. Excludes IFRS16 depreciation

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

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

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

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

Modification losses: Modification losses arise when the contractual terms of a financial asset are modified. An adjustment is required to the carrying value of the financial asset to reflect the present value of modified future cash flows discounted at the original effective interest rate

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

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

Operating margin: Adjusted operating profit divided by operating income

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

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

Return on average tangible equity: Adjusted profit attributable to shareholders from continuing operations divided by average total shareholder's equity, excluding intangible assets

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

Return on opening equity: Adjusted profit attributable to shareholders from continuing operations divided by opening equity, excluding non-controlling interests

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

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

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

Term Funding Scheme ("TFS"): The Bank of England's Term Funding Scheme

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

The group faces a number of risks in the normal course of business. To manage these effectively, a consistent approach is adopted based on a set of overarching principles, namely:

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

While there have been no significant changes to our risk management approach in the period, we continue to closely monitor and manage the impacts of the Coronavirus pandemic. This includes both internal and external impacts, and incorporates wider macroeconomic ramifications.

Through the crisis, the group has continued to employ preventative measures to minimise potential risks to colleagues, as well as business disruption. Business continuity plans have been updated and remain under constant review with oversight provided by the Group Executive Committee, which continues to monitor developments on a day-to-day basis.

The group's principal risks remain unchanged since the year end. A detailed description of each, including an overview of our risk management and mitigation approach, is disclosed on pages 53 to 59 of the Annual Report 2020 as part of the 2020 Risk Report. The Annual Report can be accessed via the Investor Relations home page on the group's website at www.closebrothers.com.

A summary of the group's principal risks is included below:

Business risk – The group operates in an environment where it is exposed to an array of independent factors including the broader UK economic climate, changes in technology, regulation and customer behaviour, cost movements and competition from traditional and new players. Changes in these factors may affect the bank's ability to write loans at its desired risk and return criteria, result in lower new business volumes in Asset Management or impact levels of trading activity at Winterflood.

Capital risk – The group is required to hold sufficient regulatory capital to enable it to operate effectively. This includes meeting minimum regulatory requirements, operating within risk appetites set by the board and supporting its strategic goals.

Conduct risk – Failing to treat customers fairly, to safeguard client assets or to provide advice and products which are in clients' best interests, has the potential to damage our reputation and may lead to legal or regulatory sanctions, litigation or customer redress.

Credit risk – As a lender to businesses and individuals, the Banking division is exposed to credit losses if customers are unable to repay loans and outstanding interest and fees. The group also has exposure to counterparties with which it places deposits or trades, and has in place a small number of derivative contracts to hedge interest rate and foreign exchange exposures.

Funding and liquidity – The Banking division's access to funding remains key to support our lending activities and the liquidity requirements of the group.

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

Operational risk –The group is exposed to various operational risks through its day-to-day operations, all of which have the potential to result in financial loss or adverse impact. Legal and regulatory risks are also considered as part of operational risk. Failure to comply with existing legal or regulatory requirements, or to react to changes to these requirements, may have negative consequences for the group. Similarly, changes to regulation can impact our financial performance, capital, liquidity and the markets in which we operate.

Reputational risk – Protection and effective stewardship of the group's reputation are fundamental to its long-term success. Detrimental stakeholder perception could lead to impairment of the group's current business and future goals. This could arise from any action or inaction of the company, its employees or associated third parties.

In addition to day-to-day management of its principal risks, the group utilises an established framework to monitor its portfolio for emerging risks and consider broader market uncertainties, supporting organisational readiness for external volatility.

Current group-level emerging risks include economic uncertainty, economic and political uncertainty as a result of the UK's withdrawal from the EU, the risk of financial loss resulting from the physical and transitional impacts of climate change, the transition from LIBOR, possible disruption occurring from Scottish independence and legal and regulatory change.

Regarding the impacts of climate change specifically, work to progress the development of a firm-wide climate risk framework has continued since the year end, overseen by the Group Chief Risk Officer and the Board. A delivery plan is now in flight with a view to ensuring both regulatory compliance, and alignment with TCFD disclosure recommendations.

DIRECTORS' RESPONSIBILITY STATEMENT

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

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

The Directors of Close Brothers Group plc as at the date of this report are as listed on pages 60 and 61 of the company's Annual Report 2020, subject to the following changes: Geoffrey Howe ceased to be a director on 19 November 2020; and Mark Pain was appointed as an independent non-executive director with effect from 1 January 2021. A list of current Directors is maintained on the company's website www.closebrothers.com.

On behalf of the board

Michael N. Biggs
Chairman

Adrian J. Sainsbury
Chief Executive

16 March 2021

INDEPENDENT REVIEW REPORT TO CLOSE BROTHERS GROUP PLC

Report on the consolidated interim financial statements

Our conclusion

We have reviewed Close Brothers Group plc's consolidated interim financial statements (the "interim financial statements") in the Half Year Results of Close Brothers Group plc for the 6 month period ended 31 January 2021 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the consolidated balance sheet as at 31 January 2021;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated cash flow statement for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Half Year Results of Close Brothers Group plc have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

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

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Half Year Results, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the Half Year Results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

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

What a review of interim financial statements involves

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

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

We have read the other information contained in the Half Year Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
16 March 2021

CONSOLIDATED INCOME STATEMENT

for the six months ended 31 January 2021

	Note	Six months ended 31 January		Year ended 31 July
		2021	2020	2020
		Unaudited	Unaudited	Audited
		£ million	£ million	£ million
Interest income		**326.8**	323.5	629.1
Interest expense		**(61.2)**	(69.4)	(135.1)
Net interest income		**265.6**	254.1	494.0
Fee and commission income		**117.5**	117.7	230.2
Fee and commission expense		**(8.6)**	(9.2)	(17.6)
Gains less losses arising from dealing in securities		**91.2**	43.8	142.6
Other income		**42.9**	44.2	83.4
Depreciation of operating lease assets and other direct costs		**(34.6)**	(30.6)	(66.5)
Non-interest income		**208.4**	165.9	372.1
Operating income	2	**474.0**	420.0	866.1
Administrative expenses		**(292.7)**	(257.6)	(538.4)
Impairment losses on financial assets	6	**(52.8)**	(36.7)	(183.7)
Total operating expenses before amortisation of intangible assets on acquisition		**(345.5)**	(294.3)	(722.1)
Operating profit before amortisation of intangible assets on acquisition		**128.5**	125.7	144.0
Amortisation of intangible assets on acquisition		**(1.5)**	(1.6)	(3.1)
Operating profit before tax		**127.0**	124.1	140.9
Tax	3	**(32.2)**	(29.6)	(31.4)
Profit after tax		**94.8**	94.5	109.5
Profit attributable to shareholders		**94.8**	94.5	109.5
Basic earnings per share	4	**63.2p**	63.0p	72.8p
Diluted earnings per share	4	**62.8p**	62.7p	72.5p
Ordinary dividend per share	5	**18.0p**	-	40.0p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 January 2021

	Six months ended 31 January		Year ended 31 July
	2021	2020	2020
	Unaudited	Unaudited	Audited
	£ million	£ million	£ million
Profit after tax	**94.8**	94.5	109.5
Other comprehensive (expense)/income that may be reclassified to income statement			
Currency translation losses	**(0.4)**	(1.5)	(0.4)
Gains/(losses) on cash flow hedging	**2.4**	1.3	(1.9)
Gains/(losses) on financial instruments classified at fair value through other comprehensive income:			
Sovereign and central bank debt	**0.3**	(0.4)	(0.6)
Tax relating to items that may be reclassified	**(0.7)**	(0.2)	1.0
	1.6	(0.8)	(1.9)
Other comprehensive income/(expense) that will not be reclassified to income statement			
Defined benefit pension scheme gains/(losses)	**0.5**	(0.1)	0.9
Tax relating to items that will not be reclassified	**(0.1)**	-	(0.3)
	0.4	(0.1)	0.6
Other comprehensive income/(expense) for the period, net of tax	**2.0**	(0.9)	(1.3)
Total comprehensive income	**96.8**	93.6	108.2
Attributable to:			
Shareholders	**96.8**	93.6	108.2
	96.8	93.6	108.2

CONSOLIDATED BALANCE SHEET
at 31 January 2021

	Note	**31 January 2021 Unaudited £ million**	31 July 2020 Audited £ million
Assets			
Cash and balances at central banks		**1,908.5**	1,375.8
Settlement balances		**1,016.2**	619.7
Loans and advances to banks		**206.2**	125.8
Loans and advances to customers	6	**7,953.5**	7,616.7
Debt securities	7	**301.2**	382.5
Equity shares	8	**30.6**	30.0
Loans to money brokers against stock advanced		**41.7**	45.8
Derivative financial instruments		**29.7**	39.9
Intangible assets	9	**244.9**	240.1
Property, plant and equipment	10	**302.0**	297.2
Current tax assets		**30.2**	41.2
Deferred tax assets		**48.6**	47.3
Prepayments, accrued income and other assets		**208.9**	209.5
Total assets		**12,322.2**	11,071.5
Liabilities			
Settlement balances and short positions	11	**968.5**	604.9
Deposits by banks	12	**141.7**	152.8
Deposits by customers	12	**6,444.8**	5,917.7
Loans and overdrafts from banks	12	**536.7**	497.9
Debt securities in issue	12	**2,177.2**	1,870.3
Loans from money brokers against stock advanced		**45.4**	17.9
Derivative financial instruments		**17.7**	20.8
Current tax liabilities		**-**	1.3
Accruals, deferred income and other liabilities		**287.1**	315.3
Subordinated loan capital	12	**222.7**	223.0
Total liabilities		**10,841.8**	9,621.9
Equity			
Called up share capital		**38.0**	38.0
Retained earnings		**1,472.0**	1,435.0
Other reserves		**(28.6)**	(22.4)
Total shareholders' equity		**1,481.4**	1,450.6
Non-controlling interests		**(1.0)**	(1.0)
Total equity		**1,480.4**	1,449.6
Total liabilities and equity		**12,322.2**	11,071.5

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 31 January 2021

			Other reserves						
	Called up share capital £ million	Retained earnings £ million	FVOCI reserve £ million	Share-based payments reserve £ million	Exchange movements reserve £ million	Cash flow hedging reserve £ million	Total attributable to equity holders £ million	Non-controlling interests £ million	Total equity £ million
At 1 August 2019 (audited)	38.0	1,392.5	0.7	(18.2)	(1.2)	(4.4)	1,407.4	(1.0)	1,406.4
Profit for the period	-	94.5	-	-	-	-	94.5	-	94.5
Other comprehensive (expense)/income for the period	-	(0.1)	(0.3)	-	(1.5)	1.0	(0.9)	-	(0.9)
Total comprehensive income/(expense) for the period	-	94.4	(0.3)	-	(1.5)	1.0	93.6	-	93.6
Dividends paid	-	(65.8)	-	-	-	-	(65.8)	-	(65.8)
Shares purchased	-	-	-	(8.0)	-	-	(8.0)	-	(8.0)
Shares released	-	-	-	11.0	-	-	11.0	-	11.0
Other movements	-	(3.7)	-	0.8	-	-	(2.9)	-	(2.9)
Income tax	-	0.3	-	-	-	-	0.3	-	0.3
At 31 January 2020 (unaudited)	38.0	1,417.7	0.4	(14.4)	(2.7)	(3.4)	1,435.6	(1.0)	1,434.6
Profit for the period	-	15.0	-	-	-	-	15.0	-	15.0
Other comprehensive income/(expense) for the period	-	0.7	(0.2)	-	1.4	(2.3)	(0.4)	-	(0.4)
Total comprehensive income/(expense) for the period	-	15.7	(0.2)	-	1.4	(2.3)	14.6	-	14.6
Dividends paid	-	-	-	-	-	-	-	-	-
Shares purchased	-	-	-	-	-	-	-	-	-
Shares released	-	-	-	0.9	-	-	0.9	-	0.9
Other movements	-	1.8	-	(2.1)	-	-	(0.3)	-	(0.3)
Income tax	-	(0.2)	-	-	-	-	(0.2)	-	(0.2)
At 31 July 2020 (audited)	38.0	1,435.0	0.2	(15.6)	(1.3)	(5.7)	1,450.6	(1.0)	1,449.6
Profit for the period	-	94.8	-	-	-	-	94.8	-	94.8
Other comprehensive income/(expense) for the period	-	0.4	0.2	-	(0.4)	1.8	2.0	-	2.0
Total comprehensive income/(expense) for the period	-	95.2	0.2	-	(0.4)	1.8	96.8	-	96.8
Dividends paid	-	(59.8)	-	-	-	-	(59.8)	-	(59.8)
Shares purchased	-	-	-	(12.0)	-	-	(12.0)	-	(12.0)
Shares released	-	-	-	7.1	-	-	7.1	-	7.1
Other movements	-	1.0	-	(2.9)	-	-	(1.9)	-	(1.9)
Income tax	-	0.6	-	-	-	-	0.6	-	0.6
At 31 January 2021 (unaudited)	**38.0**	**1,472.0**	**0.4**	**(23.4)**	**(1.7)**	**(3.9)**	**1,481.4**	**(1.0)**	**1,480.4**

CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 31 January 2021

	Note	Six months ended 31 January		Year ended 31 July
		2021	2020	2020
		Unaudited	Unaudited	Audited
		£ million	£ million	£ million
Net cash inflow/(outflow) from operating activities	16(a)	**733.2**	(15.8)	429.4
Net cash (outflow)/inflow from investing activities				
Purchase of:				
Property, plant and equipment		**(10.6)**	(2.8)	(5.3)
Intangible assets – software		**(22.2)**	(23.2)	(44.3)
Subsidiaries and equity shares held for investment	16(b)	**(0.4)**	(3.3)	(4.6)
Sale of:				
Subsidiaries and discontinued operations	16(c)	**2.1**	0.5	0.5
		(31.1)	(28.8)	(53.7)
Net cash inflow/(outflow) before financing activities		**702.1**	(44.6)	375.7
Financing activities				
Purchase of own shares for employee share award schemes		**(12.0)**	(8.0)	(8.0)
Equity dividends paid		**(59.8)**	(65.8)	(65.8)
Interest paid on subordinated loan capital and debt financing		**(7.1)**	(7.1)	(14.3)
Payment of lease liabilities		**(8.4)**	(7.4)	(14.6)
Net increase/(decrease) in cash		**614.8**	(132.9)	273.0
Cash and cash equivalents at beginning of period		**1,461.3**	1,188.3	1,188.3
Cash and cash equivalents at end of period	16(d)	**2,076.1**	1,055.4	1,461.3

THE NOTES

1. Basis of preparation and accounting policies

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

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

The financial information for the year ended 31 July 2020 contained within this half year report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of those statutory accounts has been delivered to the Registrar of Companies. PricewaterhouseCoopers LLP has reported on those accounts. The report of the auditor on those statutory accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

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

The accounting policies applied are consistent with those set out on pages 129 to 133 of the Annual Report 2020.

Critical accounting estimates and judgements

The reported results of the group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed on an ongoing basis. There have been no significant changes in the basis upon which estimates have been determined compared to that applied at 31 July 2020.

Expected credit losses

At 31 January 2021, the group's expected credit loss provision was £274.9 million (31 January 2020: £116.6 million; 31 July 2020: £238.7 million). The calculation of the group's expected credit loss provision under IFRS 9 requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below.

Significant increase in credit risk

Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk since initial recognition. The assessment, which requires judgement, is unbiased, probability weighted and uses both actual and forward-looking information.

In general, the group assesses whether a significant increase in credit risk has occurred based on a quantitative and qualitative assessment, with a 30 day past due backstop. Due to the diverse nature of the group's lending businesses, the specific indicators of a significant increase in credit risk vary by business, and may include some or all of the following factors. The credit risk of a financial asset is considered to have significantly increased when any of the following triggers are met:

• Quantitative assessment: the lifetime PD has increased by more than an agreed threshold relative to the equivalent at origination. Thresholds are based on a fixed number of risk grade movements which are bespoke to the business to ensure that the increased risk since origination is appropriately captured;

• Qualitative assessment: events or observed behaviour indicate credit distress. This includes a wide range of information that is reasonably available including individual credit assessments of the financial performance of borrowers as appropriate during routine reviews, plus forbearance and watch list information; or

• Backstop criteria: the 30 days past due backstop is met.

Due to the ongoing impact and complexity of Covid-19, and to reflect the uncertainty in the external environment, a number of enhancements were made to the above-mentioned staging approach during the course of the 2020 financial year, and continue to be in place, to fully incorporate the effects of Covid-19 into the significant increase in credit risk assessment:

• A Covid-19 payment concession or loan extension has not in itself constituted a significant increase in credit risk (transfer to Stage 2). Instead Covid-19 related forbearance has been considered alongside usual indicators of a significant increase in credit risk, knowledge of recent customer payment history and whether the customer was up to date with payments at the time of requesting such a concession.

• Throughout the Covid-19 pandemic to date, and based on both initial regulatory guidance combined with observed customer behaviour, we have applied a distinction between the impact of the pandemic on consumers and businesses, with the expectation that businesses will be more materially impacted in the short and medium term therefore influencing the staging of these loans.

Definition of default
The definition of default is an important building block for impairment models, and is considered a key judgement. A default is considered to have occurred if any unlikeliness to pay criteria are met or when a financial asset meets the 90 days past due backstop. These include an assessment of whether the borrower has significant financial difficulties which are expected to have a detrimental impact on their ability to pay interest or principal on the loan, and include events such as administration, insolvency, bankruptcy, distressed restructuring and fraud.

An asset is considered credit impaired when one or more events occur that have a detrimental impact on the estimated future cash flows of the financial asset. This comprises assets defined as defaulted and other individually assessed exposures where imminent default or actual loss is identified.

Key sources of estimation uncertainty
At the balance sheet date, the directors consider that expected credit loss provisions are a key source of estimation uncertainty which, depending on a range of factors, could result in a material future adjustment to the carrying amounts of assets and liabilities in the next financial year.

Expected credit losses
The accuracy of the expected credit loss calculation can be impacted by unpredictable effects or unanticipated changes to model assumptions, resulting in modelled risk parameters varying from actual outcomes observed. In addition, forecast errors could occur due to macroeconomic scenarios or weightings differing from actual outcomes observed. Regular model monitoring, validations and provision adequacy reviews are key mechanisms to manage estimation uncertainty.

In certain circumstances, management make appropriate overlays to model-calculated expected credit losses. These overlays are based on management judgements, to ensure the expected credit loss provision adequately reflects the expected outcome. These overlays are generally determined by taking into account the attributes or risks of a financial asset which are not captured by existing impairment model outputs. Judgemental management overlays are actively monitored, reviewed and incorporated into future model development where applicable.

Forward-looking information
Determining expected credit losses under IFRS 9 requires the incorporation of forward-looking macroeconomic information that is reasonable and supportable. To capture the effect of changes to the economic environment, the calculation of expected credit losses incorporates forward-looking information and assumptions linked to economic variables that impact losses in each portfolio. The introduction of macroeconomic information introduces additional volatility to provisions. In order to calculate forward-looking provisions, Moody's Baseline and Alternative Scenarios are deployed and include forecast economic data and scenarios which are used to project

potential credit conditions for each portfolio. Management exercises judgement in estimating future economic conditions by determining the suitability of these economic scenarios for deployment in our models.

Economic scenarios are assigned a probability weighting using a combination of quantitative analysis and expert judgement. Five different projected economic scenarios are currently considered to cover a range of possible outcomes, reflecting upside and downside relative to the baseline forecast economic conditions. The economic scenarios are generated to capture a range of possible economic outcomes to facilitate the calculation of unbiased and expected credit losses. Non-linearity of losses is considered by management when assessing provision adequacy at an individual and portfolio level.

The impact of probability weighted forward-looking information varies across the group's lending businesses because of the differing sensitivity of each portfolio to specific macroeconomic variables. The modelled impact of macroeconomic scenarios and their respective weightings is overlaid with expert judgement in relation to stage allocation and coverage ratios at the individual and portfolio level, incorporating management's experience and knowledge of customers, the sectors in which they operate, and the assets financed.

The Credit Risk Management Committee ("CRMC") including the group finance director, group chief risk officer, and chief credit risk officer meets at least quarterly to review, and if appropriate, agree changes to the economic scenarios and probability weightings assigned thereto. In light of the Covid-19 pandemic, this review has to date been conducted on a monthly basis.

Refreshed scenario forecasts have been deployed in the IFRS 9 model suite on a monthly basis throughout the Covid-19 pandemic, to ensure the most relevant outlook is used to calculate expected credit losses. As at 31 January 2021, the latest baseline scenario forecasted GDP growth in 2021 of 2.5%, with unemployment of 7.3%. The baseline Moody's scenario used incorporated the Brexit Withdrawal Agreement, which became operational on 1 January 2021, and the third national lockdown.

At 31 July 2020, the scenario weightings reflected the continued economic challenges and uncertainty, with 40% allocated to the baseline scenario, and 60% across the three downside scenarios. The baseline scenario at 31 July 2020 forecasted GDP contraction of 8.5% in 2020, with unemployment of 7.1% and forecasted economic recovery in Q2 2021, with positive GDP growth and falling unemployment.

At 31 January 2021, the scenario weightings were revised, with a 40% weighting remaining to the baseline, and 10% moved to the upside scenario from the downside. The decision to reweight the scenarios and move 10% to the upside scenario was driven by reduced Brexit uncertainty following formal separation at the start of the year, and Covid-19 vaccination developments. The UK entered a third national lockdown, illustrating a commitment from the government to deploy measures to reduce the number of cases in the near-term. Furthermore, success of the vaccine rollout results in a more positive outlook when compared to the 31 July 2020 position, and increases optimism regarding the economy partially reopening during the first half of 2021.

The tables below show the key UK economic assumptions within each scenario, and the weighting applied to each at 31 January 2021. The numbers shown are the forecasts for 2021, 2022, and an average over the five-year period from 2021 to 2025. The weightings ascribed are the point in time weightings applied to each scenario at 31 January 2021.

These periods have been included as they demonstrate the short, medium and long-term outlook for the key macroeconomic indicators which form the fundamental basis of the scenario forecasts. On average, the loan book has a residual maturity of 16 months, with c.98% of loan value having a maturity of five years or less.

	Baseline		**Upside (strong)**		**Downside (mild)**		**Downside (moderate)**		**Downside (protracted)**	
	2021	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**
At 31 January 2021										
UK GDP Growth	**2.5%**	**8.3%**	**5.7%**	**7.7%**	**(0.3%)**	**9.1%**	**(2.4%)**	**9.6%**	**(3.4%)**	**9.0%**
UK Unemployment	**7.3%**	**7.2%**	**6.8%**	**6.1%**	**8.0%**	**8.3%**	**8.3%**	**9.7%**	**8.8%**	**10.6%**
HPI Growth	**(3.6%)**	**0.3%**	**(0.3%)**	**5.3%**	**(5.6%)**	**(4.4%)**	**(6.4%)**	**(5.8%)**	**(7.5%)**	**(8.7%)**
BoE Base Rate	**0.1%**	**0.2%**	**0.1%**	**0.4%**	**0.1%**	**0.1%**	**0.1%**	**0.1%**	**0.1%**	**0.1%**
Weighting	**40%**		**10%**		**20%**		**20%**		**10%**	

	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
At 31 July 2020										
UK GDP Growth	(8.5%)	2.8%	(7.2%)	4.7%	(9.4%)	1.6%	(9.5%)	0.3%	(10.0%)	(0.6%)
UK Unemployment	7.1%	8.4%	6.8%	6.9%	7.4%	9.3%	7.8%	10.6%	7.9%	11.4%
HPI Growth	(6.9%)	(12.1%)	(5.9%)	(6.9%)	(7.7%)	(16.4%)	(8.8%)	(21.3%)	(9.3%)	(24.5%)
BoE Base Rate	0.2%	0.1%	0.3%	0.4%	0.2%	0.1%	0.2%	0.1%	0.2%	0.1%
Weighting	40%		0%		20%		25%		15%	

	5 year average (2021-2025)				
	Baseline	**Upside (strong)**	**Downside (mild)**	**Downside (moderate)**	**Downside (protracted)**
At 31 January 2021					
UK GDP Growth	**3.3%**	**3.7%**	**3.2%**	**2.8%**	**2.5%**
UK Unemployment	**6.4%**	**5.6%**	**7.2%**	**8.4%**	**8.9%**
HPI Growth	**3.2%**	**5.3%**	**2.1%**	**1.3%**	**0.1%**
BoE Base Rate	**0.6%**	**0.9%**	**0.1%**	**0.1%**	**0.1%**
Weighting	**40%**	**10%**	**20%**	**20%**	**10%**

	5 year average (2020-2024)				
	Baseline	Upside (strong)	Downside (mild)	Downside (moderate)	Downside (protracted)
At 31 July 2020					
UK GDP Growth	1.2%	1.8%	1.0%	0.7%	0.5%
UK Unemployment	7.5%	6.3%	8.1%	9.4%	10.3%
HPI Growth	(0.2%)	1.3%	(1.1%)	(3.2%)	(5.1%)
BoE Base Rate	0.3%	0.8%	0.1%	0.1%	0.1%
Weighting	40%	0%	20%	25%	15%

The tables below provide a summary for the subsequent five year period (31 January 2021 – 31 January 2025) of the peak to trough range of values of the key UK economic variables used within the economic scenarios at 31 January 2021 and 31 July 2020:

	Baseline		**Upside (strong)**		**Downside (mild)**		**Downside (moderate)**		**Downside (protracted)**	
	Peak	**Trough**	**Peak**	**Trough**	**Peak**	**Trough**	**Peak**	**Trough**	**Peak**	**Trough**
At 31 January 2021										
UK GDP Growth	**19.0%**	**(16.0%)**	**22.3%**	**(15.1%)**	**16.3%**	**(17.2%)**	**12.5%**	**(17.1%)**	**11.8%**	**(17.6%)**
UK Unemployment	**7.8%**	**5.5%**	**7.1%**	**4.8%**	**8.8%**	**6.0%**	**9.9%**	**6.0%**	**10.7%**	**6.2%**
HPI Growth	**7.5%**	**(7.4%)**	**10.6%**	**(2.7%)**	**8.1%**	**(11.2%)**	**7.4%**	**(12.4%)**	**7.4%**	**(14.5%)**
BoE Base Rate	**1.2%**	**0.1%**	**1.6%**	**0.1%**	**0.1%**	**0.1%**	**0.1%**	**0.1%**	**0.1%**	**0.1%**
Weighting	**40%**		**10%**		**20%**		**20%**		**10%**	

	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough
At 31 July 2020										
UK GDP Growth	13.2%	(12.3%)	17.4%	(10.5%)	10.5%	(12.4%)	8.9%	(13.1%)	7.3%	(14.0%)
UK Unemployment	8.5%	6.4%	8.3%	5.4%	9.4%	6.9%	10.7%	8.4%	11.7%	9.4%
HPI Growth	9.9%	(19.3%)	8.3%	(14.6%)	11.8%	(21.4%)	12.4%	(24.6%)	12.4%	(28.2%)
BoE Base Rate	0.8%	0.1%	1.4%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Weighting	40%		0%		20%		25%		15%	

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

- For the majority of our portfolios the expected credit loss provision has been recalculated under the upside strong and downside protracted scenarios described above, applying a 100% weighting to each scenario in turn. The change in provision is driven by the movement in risk metrics under each scenario and resulting impact on stage allocation as well as the measurement of the resulting provision.

- For some loans within Retail a specific sensitivity approach has been adopted to assess the response of short tenor loans to modelled economic forecasts. For these short tenor loans, PD has been extrapolated from emerging default rates and then proportionally scaled to reflect a sharp recovery in the upside scenario and a slower recovery in a downside scenario.

- All sensitivity analysis excludes expected credit loss provisions and loans and advances to customers in Stage 3 because the measurement of expected credit losses in this population is considered more sensitive to credit factors specific to the borrower than economic scenarios.

Based on the above analysis, at 31 January 2021, application of 100% weighting to the upside strong scenario would decrease the expected credit loss by £5.9 million whilst application to the downside protracted scenario would increase the expected credit loss by £9.5 million driven by the aforementioned changes in risk metrics and stage allocation of the portfolios. Since 31 July 2020 the range of Moody's macro scenarios have narrowed, the resulting impact is a lower and narrower output to our sensitivity analysis at 31 January 2021.

When performing sensitivity analysis there is a high degree of estimation uncertainty. On this basis, 100% weighted expected credit loss provisions presented for the upside and downside scenarios should not be taken to represent the lower or upper range of possible and actual expected credit loss outcomes. The recalculated expected credit loss provision for each of the scenarios should be read in the context of the sensitivity analysis as a whole. The modelled impact presented is based on gross loans and advances to customers at 31 January 2021; it does not incorporate future changes relating to performance, growth or credit risk. In addition, given the change in the macroeconomic conditions, as well as the underlying modelled provisions, comparison between the sensitivity results at 31 January 2021 and 31 July 2020 is not appropriate.

The economic environment remains highly uncertain and future impairment charges may be subject to further volatility (including from changes to macroeconomic variable forecasts) depending on the length and severity of the Covid-19 pandemic, as well as the withdrawal of government support measures.

2. Segmental analysis

The directors manage the group by class of business and we present the segmental analysis on that basis. The group's activities are presented in five (2020: five) operating segments: Commercial, Retail, Property, Asset Management and Securities (which comprises Winterflood only).

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

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

Summary Income Statement for the six months ended 31 January 2021

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Net interest income/(expense)	**104.0**	**101.8**	**60.5**	**-**	**(0.6)**	**(0.1)**	**265.6**
Non-interest income/(expense)	**32.6**	**10.3**	**(0.2)**	**67.1**	**98.6**	**-**	**208.4**
Operating income	**136.6**	**112.1**	**60.3**	**67.1**	**98.0**	**(0.1)**	**474.0**
Administrative expenses	**(67.7)**	**(58.0)**	**(14.8)**	**(52.1)**	**(62.3)**	**(12.2)**	**(267.1)**
Depreciation and amortisation	**(8.5)**	**(9.8)**	**(2.2)**	**(2.7)**	**(1.6)**	**(0.8)**	**(25.6)**
Impairment losses on financial assets	**(33.0)**	**(16.4)**	**(3.5)**	**-**	**0.1**	**-**	**(52.8)**
Total operating expenses	**(109.2)**	**(84.2)**	**(20.5)**	**(54.8)**	**(63.8)**	**(13.0)**	**(345.5)**
Adjusted operating profit/(loss)[1]	**27.4**	**27.9**	**39.8**	**12.3**	**34.2**	**(13.1)**	**128.5**
Amortisation of intangible assets on acquisition	**(0.9)**	**(0.1)**	**-**	**(0.5)**	**-**	**-**	**(1.5)**
Operating profit/(loss) before tax	**26.5**	**27.8**	**39.8**	**11.8**	**34.2**	**(13.1)**	**127.0**
External operating income/(expense)	**164.2**	**132.7**	**70.7**	**67.1**	**98.0**	**(58.7)**	**474.0**
Inter segment operating (expense)/income	**(27.6)**	**(20.6)**	**(10.4)**	**-**	**-**	**58.6**	**-**
Segment operating income	**136.6**	**112.1**	**60.3**	**67.1**	**98.0**	**(0.1)**	**474.0**

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

Balance Sheet Information at 31 January 2021

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
Total assets[1]	**3,727.0**	**2,843.8**	**1,600.3**	**104.7**	**1,207.4**	**2,839.0**	**12,322.2**
Total liabilities	**-**	**-**	**-**	**43.7**	**1,134.5**	**9,663.6**	**10,841.8**

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Balance sheet includes £2,803.7 million assets and £9,737.9 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

Equity is allocated across the group as shown below. Banking division equity, which is managed as a whole rather than on a segmental basis, reflects loan book and operating lease assets of £8,171.1 million, in addition to assets and liabilities of £2,803.7 million and £9,737.9 million respectively primarily comprising treasury balances which are included within the Group column above.

	Banking £ million	**Asset Management £ million**	**Securities £ million**	**Group £ million**	**Total £ million**
Equity	**1,236.9**	**61.0**	**72.9**	**109.6**	**1,480.4**

Summary Income Statement for the six months ended 31 January 2020

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Net interest income/(expense)	90.8	100.3	63.4	-	(0.4)	-	254.1
Non-interest income	38.8	13.1	-	65.7	48.3	-	165.9
Operating income	129.6	113.4	63.4	65.7	47.9	-	420.0
Administrative expenses	(64.2)	(56.3)	(14.9)	(50.6)	(35.7)	(12.9)	(234.6)
Depreciation and amortisation	(8.5)	(7.6)	(2.8)	(2.5)	(1.6)	-	(23.0)
Impairment losses on financial assets	(18.4)	(15.4)	(2.9)	-	-	-	(36.7)
Total operating expenses	(91.1)	(79.3)	(20.6)	(53.1)	(37.3)	(12.9)	(294.3)
Adjusted operating profit/(loss)[1]	38.5	34.1	42.8	12.6	10.6	(12.9)	125.7
Amortisation of intangible assets on acquisition	(0.9)	(0.1)	-	(0.6)	-	-	(1.6)
Operating profit/(loss) before tax	37.6	34.0	42.8	12.0	10.6	(12.9)	124.1
External operating income/(expense)	156.7	134.9	77.5	65.7	47.9	(62.7)	420.0
Inter segment operating (expense)/income	(27.1)	(21.5)	(14.1)	-	-	62.7	-
Segment operating income	129.6	113.4	63.4	65.7	47.9	-	420.0

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

Summary Income Statement for the year ended 31 July 2020

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Net interest income/(expense)	180.0	194.0	120.9	(0.1)	(1.0)	0.2	494.0
Non-interest income	66.6	24.4	0.1	128.3	152.9	(0.2)	372.1
Operating income	246.6	218.4	121.0	128.2	151.9	-	866.1
Administrative expenses	(126.2)	(110.8)	(28.2)	(102.4)	(100.7)	(21.7)	(490.0)
Depreciation and amortisation	(16.4)	(16.1)	(5.7)	(5.3)	(3.1)	(1.8)	(48.4)
Impairment losses on financial assets	(99.2)	(56.6)	(27.6)	(0.1)	(0.2)	-	(183.7)
Total operating expenses	(241.8)	(183.5)	(61.5)	(107.8)	(104.0)	(23.5)	(722.1)
Adjusted operating profit/(loss)[1]	4.8	34.9	59.5	20.4	47.9	(23.5)	144.0
Amortisation of intangible assets on acquisition	(1.7)	(0.3)	-	(1.1)	-	-	(3.1)
Operating profit/(loss) before tax	3.1	34.6	59.5	19.3	47.9	(23.5)	140.9
External operating income/(expense)	302.2	261.8	147.0	128.3	151.9	(125.1)	866.1
Inter segment operating (expense)/income	(55.6)	(43.4)	(26.0)	(0.1)	-	125.1	-
Segment operating income	246.6	218.4	121.0	128.2	151.9	-	866.1

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

Balance Sheet Information at 31 July 2020

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
Total assets[1]	3,269.9	2,834.5	1,734.2	115.7	779.7	2,337.5	11,071.5
Total liabilities	-	-	-	54.8	707.6	8,859.5	9,621.9

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Balance sheet includes £2,305.7 million assets and £8,930.1 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Equity[1]	1,214.2	60.9	72.1	102.4	1,449.6

1 Equity of the Banking division reflects loan book and operating lease assets of £7,838.6 million, in addition to assets and liabilities of £2,305.7 million and £8,930.1 million respectively primarily comprising treasury balances which are included within the Group column above.

3. Taxation

	Six months ended 31 January		Year ended 31 July
	2021	2020	2020
	£ million	£ million	£ million
Tax charged/(credited) to the income statement			
Current tax:			
UK corporation tax	**32.7**	26.7	35.4
Foreign tax	**0.6**	0.6	0.2
Adjustments in respect of previous periods	**0.4**	-	(10.0)
	33.7	27.3	25.6
Deferred tax:			
Deferred tax charge for the current period	**(1.1)**	2.3	(3.1)
Adjustments in respect of previous periods	**(0.4)**	-	8.9
	32.2	29.6	31.4
Tax on items not (credited)/charged to the income statement			
Current tax relating to:			
Share-based payments	**-**	(0.1)	(0.1)
Deferred tax relating to:			
Cash flow hedging	**0.6**	0.3	(0.6)
Defined benefit pension scheme	**0.1**	-	0.3
Financial instruments classified at fair value through other comprehensive income	**0.1**	(0.1)	(0.1)
Share-based payments	**(0.6)**	(0.2)	-
Currency translation gains	**-**	-	(0.3)
Acquisitions	**-**	-	(0.2)
	0.2	(0.1)	(1.0)
Reconciliation to tax expense			
UK corporation tax for the period at 19.0% (six months ended 31 January 2020: 18.3%; year ended 31 July 2020: 19.0%) on operating profit	**24.1**	22.7	26.8
Effect of different tax rates in other jurisdictions	**(0.2)**	(0.1)	(0.2)
Disallowable items and other permanent differences	**0.5**	0.9	1.6
Banking surcharge	**7.8**	6.2	7.2
Deferred tax impact of increased tax rates	**-**	(0.1)	(2.9)
Prior year tax provision	**-**	-	(1.1)
	32.2	29.6	31.4

The effective tax rate for the period is 25.4% (six months ended 31 January 2020: 23.9%; year ended 31 July 2020: 22.3%).

The standard UK corporation tax rate for the financial year is 19.0% (six months ended 31 January 2020: 18.3%; year ended 31 July 2020: 19.0%). However, an additional 8% surcharge applies to banking company profits as defined in legislation. The effective tax rate is above the UK corporation tax rate primarily due to the surcharge applying to the majority of the group's profits.

4. Earnings per share

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

	Six months ended 31 January		Year ended 31 July
	2021	2020	2020
Basic	**63.2p**	63.0p	72.8p
Diluted	**62.8p**	62.7p	72.5p
Adjusted basic[1]	**64.0p**	63.8p	74.5p
Adjusted diluted[1]	**63.6p**	63.5p	74.2p

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

	Six months ended 31 January		Year ended 31 July
	2021	2020	2020
	£ million	£ million	£ million
Profit attributable to shareholders	**94.8**	94.5	109.5
Adjustments:			
Amortisation of intangible assets on acquisition	**1.5**	1.6	3.1
Tax effect of adjustment	**(0.3)**	(0.3)	(0.5)
Adjusted profit attributable to shareholders	**96.0**	95.8	112.1

	Six months ended 31 January		Year ended 31 July
	2021	2020	2020
	million	million	million
Average number of shares			
Basic weighted	**150.1**	150.1	150.4
Effect of dilutive share options and awards	**0.8**	0.7	0.7
Diluted weighted	**150.9**	150.8	151.1

5. Dividends

	Six months ended 31 January		Year ended 31 July
	2021	2020	2020
	£ million	£ million	£ million
For each ordinary share			
Final dividend for previous financial year paid in November 2020: 40.0p (November 2019: 44.0p)	**59.8**	65.8	65.8
	59.8	65.8	65.8

An interim dividend relating to the six months ended 31 January 2021 of 18.0p, amounting to an estimated £26.8 million, is declared. This interim dividend, which is due to be paid on 28 April 2021 to shareholders on the register at 26 March 2021, is not reflected in these condensed half year financial statements.

6. Loans and advances to customers

The following table sets out a maturity analysis of loans and advances to customers. At 31 January 2021 loans and advances to customers with a maturity of two years or less was £6,102.2 million (31 July 2020: £6,031.6 million) representing 74.2% (31 July 2020: 76.8%) of total loans and advances to customers:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total gross loans and advances to customers £ million	Impairment provisions £ million	Total net loans and advances to customers £ million
At 31 January 2021	**79.1**	**2,175.5**	**2,393.3**	**1,454.3**	**1,950.9**	**175.3**	**8,228.4**	**(274.9)**	**7,953.5**
At 31 July 2020	78.1	2,174.0	2,348.2	1,431.3	1,680.5	143.3	7,855.4	(238.7)	7,616.7

(a) Loans and advances to customers and impairment provisions by stage

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

		Stage 2				
At 31 January 2021	**Stage 1 £ million**	**Less than 30 days past due £ million**	**Greater than or equal to 30 days past due £ million**	**Total £ million**	**Stage 3 £ million**	**Total £ million**
Gross loans and advances to customers						
Commercial	**2,617.3**	**848.7**	**66.3**	**915.0**	**121.4**	**3,653.7**
Retail	**2,626.4**	**242.1**	**9.0**	**251.1**	**46.1**	**2,923.6**
Property	**1,291.6**	**100.8**	**44.4**	**145.2**	**214.3**	**1,651.1**
Total	**6,535.3**	**1,191.6**	**119.7**	**1,311.3**	**381.8**	**8,228.4**
Impairment provisions						
Commercial	**35.6**	**46.6**	**10.9**	**57.5**	**51.2**	**144.3**
Retail	**25.3**	**24.0**	**2.6**	**26.6**	**27.9**	**79.8**
Property	**11.3**	**7.0**	**0.6**	**7.6**	**31.9**	**50.8**
Total	**72.2**	**77.6**	**14.1**	**91.7**	**111.0**	**274.9**
Provision coverage ratio						
Commercial	**1.4%**	**5.5%**	**16.4%**	**6.3%**	**42.2%**	**3.9%**
Retail	**1.0%**	**9.9%**	**28.9%**	**10.6%**	**60.5%**	**2.7%**
Property	**0.9%**	**6.9%**	**1.4%**	**5.2%**	**14.9%**	**3.1%**
Total	**1.1%**	**6.5%**	**11.8%**	**7.0%**	**29.1%**	**3.3%**

At 31 July 2020	Stage 1 £ million	Stage 2: Less than 30 days past due £ million	Stage 2: Greater than or equal to 30 days past due £ million	Stage 2: Total £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers						
Commercial	1,913.4	1,110.9	21.1	1,132.0	126.4	3,171.8
Retail	2,604.9	208.1	49.4	257.5	43.4	2,905.8
Property	1,388.3	125.3	59.4	184.7	204.8	1,777.8
Total	5,906.6	1,444.3	129.9	1,574.2	374.6	7,855.4
Impairment provisions						
Commercial	18.1	59.9	1.5	61.4	44.3	123.8
Retail	28.4	11.1	7.5	18.6	24.3	71.3
Property	11.1	6.6	0.7	7.3	25.2	43.6
Total	57.6	77.6	9.7	87.3	93.8	238.7
Provision coverage ratio						
Commercial	0.9%	5.4%	7.1%	5.4%	35.0%	3.9%
Retail	1.1%	5.3%	15.2%	7.2%	56.0%	2.5%
Property	0.8%	5.3%	1.2%	4.0%	12.3%	2.5%
Total	1.0%	5.4%	7.5%	5.5%	25.0%	3.0%

Overall impairment provisions increased to £274.9 million (31 July 2020: £238.7 million) to reflect growth in the loan book and a review of staging and provision coverage for individual loans and portfolios.

Over the course of the first half of this financial year, we have revised the macroeconomic scenarios and the weightings assigned to them, with a 40% weighting remaining to the baseline, and 10% moved to the upside scenario. However, at the same time, we have continued to develop our understanding of the profile of customers impacted by Covid-19 as more granular information has become available. This enhanced visibility and the continued uncertainty in the UK economic outlook have impacted judgemental management overlays and coverage has been reviewed accordingly to reflect the perceived underlying credit risk, resulting in overall increase in provision coverage to 3.3% (31 July 2020: 3.0%).

Stage 1 loans and advances to customers have increased during the first half of the year to £6,535.3 million (31 July 2020: £5,906.6 million) as a result of growth in the loan book combined with a proportion of Stage 2 Covid-19 forborne loans curing and migrating back to Stage 1. These same factors have driven an increase in the Stage 1 impairment provisions to £72.2 million (31 July 2020: £57.6 million). Overall, the provision coverage marginally increased to 1.1% (31 July 2020: 1.0%).

Stage 2 loans and advances to customers decreased by £262.9 million to £1,311.3 million (31 July 2020: £1,574.2 million) across all segments driven by repayments of Stage 2 forborne loans and a proportion of loans curing and migrating back to Stage 1. Stage 2 impairment provisions increased to £91.7 million (31 July 2020: £87.3 million) and resulted in an increase in the provision coverage ratio to 7.0% (31 July 2020: 5.5%).

Stage 3 loans and advances to customers have increased marginally to £381.8 million (31 July 2020: £374.6 million). Stage 3 impairment provisions increased to £111.0 million (31 July 2020: £93.8 million) following a review of coverage across the portfolio, which in turn increased the coverage ratio to 29.1% (31 July 2020: 25.0%).

(b) Reconciliation of loans and advances to customers and impairment provisions

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

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

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

Repayments relating to loans which transferred between stages during the period are presented within the transfers between stages lines. All other repayments are presented in a separate line.

ECL model methodologies may be updated or enhanced from time to time and the impacts of such changes are presented on a separate line. Enhancements to our model suite during the course of the financial year are a contributory factor to ECL movements and such factors, when known, have been taken into consideration when assessing any required adjustments to modelled output and ensuring appropriate provision coverage levels.

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

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers				
At 1 August 2020	5,906.6	1,574.2	374.6	7,855.4
New financial assets originated	3,395.2	-	-	3,395.2
Transfers to Stage 1	270.7	(288.4)	(15.5)	(33.2)
Transfers to Stage 2	(680.3)	602.7	(3.5)	(81.1)
Transfers to Stage 3	(57.8)	(76.5)	120.3	(14.0)
Net transfers between stages and repayments[1]	(467.4)	237.8	101.3	(128.3)
Repayments while stage remain unchanged and final repayments	(2,298.7)	(501.0)	(55.7)	(2,855.4)
Changes to model methodologies	1.9	0.9	(2.8)	-
Write offs	(2.3)	(0.6)	(35.6)	(38.5)
At 31 January 2021	**6,535.3**	**1,311.3**	**381.8**	**8,228.4**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers				
At 1 August 2019	6,864.0	703.7	186.2	7,753.9
New financial assets originated	5,859.1	-	-	5,859.1
Transfers to Stage 1	105.4	(164.7)	(14.3)	(73.6)
Transfers to Stage 2	(2,206.1)	1,670.5	(0.8)	(536.4)
Transfers to Stage 3	(303.0)	(157.9)	365.9	(95.0)
Net transfers between stages and repayments[1]	(2,403.7)	1,347.9	350.8	(705.0)
Repayments while stage remain unchanged and final repayments	(4,511.7)	(386.5)	(57.8)	(4,956.0)
Changes to model methodologies	100.9	(89.4)	(11.5)	-
Write offs	(2.0)	(1.5)	(93.1)	(96.6)
At 31 July 2020	**5,906.6**	**1,574.2**	**374.6**	**7,855.4**

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

The gain recognised in the income statement relating to the modifications of loans and advances to customers was £1.9 million (six months ended 31 January 2020: £nil; year ended 31 July 2020: £5.9 million loss). This gain is due to the partial unwinding of modification losses recognised during the year ended 31 July 2020.

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 1 August 2020	57.6	87.3	93.8	238.7
New financial assets originated	22.7	-	-	22.7
Transfers to Stage 1	1.3	(4.4)	(0.7)	(3.8)
Transfers to Stage 2	(11.3)	32.9	(1.1)	20.5
Transfers to Stage 3	(1.1)	(7.0)	37.7	29.6
Net remeasurement of expected credit losses arising from transfers between stages and repayments[1]	(11.1)	21.5	35.9	46.3
Repayments and ECL movements while stage remained unchanged and final repayments	2.6	(16.9)	(4.0)	(18.3)
Changes to model methodologies	0.8	0.2	-	1.0
Charge to the income statement	15.0	4.8	31.9	51.7
Write offs	(0.4)	(0.4)	(14.7)	(15.5)
At 31 January 2021	**72.2**	**91.7**	**111.0**	**274.9**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 1 August 2019	24.9	27.1	52.3	104.3
New financial assets originated	28.1	-	-	28.1
Transfers to Stage 1	0.9	(4.1)	(0.1)	(3.3)
Transfers to Stage 2	(13.9)	69.1	(0.1)	55.1
Transfers to Stage 3	(2.5)	(8.5)	82.9	71.9
Net remeasurement of expected credit losses arising from transfers between stages and repayments[1]	(15.5)	56.5	82.7	123.7
Repayments and ECL movements while stage remained unchanged and final repayments	3.6	3.0	(0.3)	6.3
Changes to model methodologies	16.9	1.3	(3.6)	14.6
Charge to the income statement	33.1	60.8	78.8	172.7
Write offs	(0.4)	(0.6)	(37.3)	(38.3)
At 31 July 2020	**57.6**	**87.3**	**93.8**	**238.7**

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

	Six months ended 31 January		Year ended 31 July
	2021	2020	2020
	£ million	£ million	£ million
Impairment losses relating to loans and advances to customers:			
Charge to income statement arising from movement in impairment provisions	**51.7**	35.0	172.7
Amounts written off directly to income statement, net of recoveries and other costs	**0.2**	1.2	7.8
	51.9	36.2	180.5
Impairment losses relating to other financial assets	**0.9**	0.5	3.2
Impairment losses on financial assets recognised in income statement	**52.8**	36.7	183.7

7. Debt securities

	Fair value through profit or loss £ million	**Fair value through other comprehensive income £ million**	**Amortised cost £ million**	**Total £ million**
Long trading positions in debt securities	**27.6**	**-**	**-**	**27.6**
Certificates of deposit	**-**	**-**	**179.5**	**179.5**
Sovereign and central bank debt	**-**	**94.1**	**-**	**94.1**
At 31 January 2021	**27.6**	**94.1**	**179.5**	**301.2**

	Fair value through profit or loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
Long trading positions in debt securities	24.4	-	-	24.4
Certificates of deposit	-	-	285.9	285.9
Sovereign and central bank debt	-	72.2	-	72.2
At 31 July 2020	24.4	72.2	285.9	382.5

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

	Six months ended 31 January 2021 £ million	Year ended 31 July 2020 £ million
Sovereign and central bank debt at beginning of period	**72.2**	48.3
Additions	**23.7**	22.7
Currency translation difference	**(2.6)**	(0.8)
Changes in fair value	**0.8**	2.0
Sovereign and central bank debt at end of period	**94.1**	72.2

8. Equity shares

	31 January 2021 £ million	31 July 2020 £ million
Long trading positions	**29.3**	29.2
Other equity shares	**1.3**	0.8
	30.6	30.0

9. Intangible assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Total £ million
Cost				
At 1 August 2019	150.8	201.2	67.5	419.5
Additions	-	22.3	-	22.3
Disposals	(0.1)	(0.3)	(0.1)	(0.5)
At 31 January 2020	150.7	223.2	67.4	441.3
Additions	2.3	24.6	-	26.9
Disposals	-	(14.5)	0.1	(14.4)
At 31 July 2020	153.0	233.3	67.5	453.8
Additions	-	20.6	-	20.6
Disposals	-	(0.6)	-	(0.6)
At 31 January 2021	**153.0**	**253.3**	**67.5**	**473.8**
Amortisation and impairment				
At 1 August 2019	47.9	105.0	47.2	200.1
Amortisation charge for the period	-	11.5	1.6	13.1
Disposals	-	(0.3)	(0.1)	(0.4)
At 31 January 2020	47.9	116.2	48.7	212.8
Amortisation charge for the period	-	13.8	1.5	15.3
Disposals	-	(14.5)	0.1	(14.4)
At 31 July 2020	47.9	115.5	50.3	213.7
Amortisation charge for the period	-	13.7	1.5	15.2
Disposals	-	-	-	-
At 31 January 2021	**47.9**	**129.2**	**51.8**	**228.9**
Net book value at 31 January 2021	**105.1**	**124.1**	**15.7**	**244.9**
Net book value at 31 July 2020	105.1	117.8	17.2	240.1
Net book value at 31 January 2020	102.8	107.0	18.7	228.5
Net book value at 1 August 2019	102.9	96.2	20.3	219.4

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

In the six months ended 31 January 2021, £1.5 million (six months ended 31 January 2020: £1.6 million; year ended 31 July 2020: £3.1 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £13.7 million (six months ended 31 January 2020: £11.5 million; year ended 31 July 2020: £25.3 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	Right of use assets £ million	Total £ million
Cost						
At 1 August 2019	27.1	55.5	314.1	0.1	44.8	441.6
Additions	0.1	2.0	38.9	-	12.7	53.7
Disposals	(2.9)	(3.1)	(13.3)	-	(0.1)	(19.4)
At 31 January 2020	24.3	54.4	339.7	0.1	57.4	475.9
Additions	0.6	8.8	15.7	-	3.6	28.7
Disposals	0.6	(3.1)	(14.0)	-	(0.6)	(17.1)
At 31 July 2020	25.5	60.1	341.4	0.1	60.4	487.5
Additions	0.7	11.8	24.1	0.2	8.8	45.6
Disposals	-	(0.1)	(17.9)	-	(2.5)	(20.5)
At 31 January 2021	**26.2**	**71.8**	**347.6**	**0.3**	**66.7**	**512.6**
Depreciation						
At 1 August 2019	14.6	40.2	93.7	0.1	-	148.6
Depreciation charge for the period	1.2	4.0	19.8	-	6.3	31.3
Disposals	(2.9)	(2.9)	(9.1)	-	-	(14.9)
At 31 January 2020	12.9	41.3	104.4	0.1	6.3	165.0
Depreciation charge for the period	1.2	3.5	24.5	-	6.9	36.1
Disposals	0.7	(1.9)	(9.4)	-	(0.2)	(10.8)
At 31 July 2020	14.8	42.9	119.5	0.1	13.0	190.3
Depreciation charge for the period	1.1	3.3	22.9	-	7.5	34.8
Disposals	-	(0.3)	(12.4)	-	(1.8)	(14.5)
At 31 January 2021	**15.9**	**45.9**	**130.0**	**0.1**	**18.7**	**210.6**
Net book value at 31 January 2021	**10.3**	**25.9**	**217.6**	**0.2**	**48.0**	**302.0**
Net book value at 31 July 2020	10.7	17.2	221.9	-	47.4	297.2
Net book value at 31 January 2020	11.4	13.1	235.3	-	51.1	310.9
Net book value at 1 August 2019	12.5	15.3	220.4	-	44.8	293.0

11. Settlement balances and short positions

	31 January 2021 £ million	31 July 2020 £ million
Settlement balances	**951.2**	587.5
Short positions held for trading:		
Debt securities	**10.0**	8.3
Equity shares	**7.3**	9.1
	17.3	17.4
	968.5	604.9

12. Financial liabilities

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

	On demand £ million	**Within three months £ million**	**Between three months and one year £ million**	**Between one and two years £ million**	**Between two and five years £ million**	**After more than five years £ million**	**Total £ million**
Deposits by banks	**19.2**	**75.2**	**47.3**	**-**	**-**	**-**	**141.7**
Deposits by customers	**116.1**	**1,334.7**	**3,379.3**	**1,121.0**	**493.7**	**-**	**6,444.8**
Loans and overdrafts from banks	**26.7**	**20.0**	**-**	**-**	**490.0**	**-**	**536.7**
Debt securities in issue	**18.1**	**27.1**	**498.4**	**659.7**	**357.4**	**616.5**	**2,177.2**
Subordinated loan capital[1]	**1.4**	**46.5**	**0.2**	**-**	**-**	**174.6**	**222.7**
At 31 January 2021	**181.5**	**1,503.5**	**3,925.2**	**1,780.7**	**1,341.1**	**791.1**	**9,523.1**

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

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
Deposits by banks	25.5	123.3	4.0	-	-	-	152.8
Deposits by customers	543.3	1,103.9	2,799.2	1,151.8	319.5	-	5,917.7
Loans and overdrafts from banks	6.9	1.0	-	262.0	228.0	-	497.9
Debt securities in issue	27.1	37.1	914.9	212.4	407.7	271.1	1,870.3
Subordinated loan capital[1]	1.9	1.4	0.2	-	-	219.5	223.0
At 31 July 2020	604.7	1,266.7	3,718.3	1,626.2	955.2	490.6	8,661.7

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

At 31 January 2021, the group was a participant of the Bank of England's Term Funding Scheme with Additional Incentives for SMEs ("TFSME"). At 31 July 2020, in addition to TFSME, the group was also a participant of the Bank of England's Term Funding Scheme ("TFS"). Under these schemes, asset finance loan receivables of £617.5 million (31 July 2020: £758.5 million), UK gilts of £39.0 million (31 July 2020: £nil) and retained notes relating to Motor Finance loan receivables of £100.0 million (31 July 2020: £109.0 million) were positioned as collateral with the Bank of England, against which £490.0 million of cash was drawn (31 July 2020: £228.0 million under TFSME and £262.0 million under TFS).

The term of these transactions is four years from the date of each drawdown but the group may choose to repay earlier at its discretion. The risks and rewards of the loan receivables remain with the group and continue to be recognised in loans and advances to customers on the consolidated balance sheet.

The group has securitised without recourse and restrictions £1,500.4 million (31 July 2020: £1,601.1 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £799.4 million (31 July 2020: £1,037.1 million). This includes the £100.0 million (31 July 2020: £109.0 million) retained notes positioned as collateral with the Bank of England. As the group has retained exposure to substantially all the credit risk and rewards of the residual benefit of the underlying assets it continues to recognise these assets in loans and advances to customers in its consolidated balance sheet.

13. Capital

The group's individual regulated entities and the group as a whole complied with all of the externally imposed capital requirements to which they were subject for the period to 31 January 2021 and the year ended 31 July 2020. The table below summarises the composition of regulatory capital and Pillar 1 risk weighted assets at those financial period ends. The information presented in this note is outside the scope of the independent review performed by PricewaterhouseCoopers LLP.

	31 January 2021 £ million	31 July 2020 £ million
Common equity tier 1 ("CET1") capital		
Called up share capital	**38.0**	38.0
Retained earnings[1]	**1,472.0**	1,435.0
Other reserves recognised for CET1 capital	**14.0**	17.2
Regulatory adjustments to CET1 capital		
Intangible assets, net of associated deferred tax liabilities[2]	**(196.8)**	(236.9)
Foreseeable dividend[3]	**(51.2)**	(59.8)
Investment in own shares	**(38.7)**	(33.9)
Pension asset, net of associated deferred tax liabilities	**(6.0)**	(5.7)
Prudent valuation adjustment	**(0.2)**	(0.2)
IFRS 9 transitional arrangements[4]	**119.1**	100.3
CET1 capital	**1,350.2**	1,254.0
Tier 2 capital – subordinated debt	**181.2**	187.0
Total regulatory capital[5]	**1,531.4**	1,441.0
Risk weighted assets (notional)[5]		
Credit and counterparty risk	**7,770.7**	7,789.0
Operational risk[6]	**945.7**	945.7
Market risk[6]	**110.1**	128.5
	8,826.5	8,863.2
CET1 capital ratio[5]	**15.3%**	14.1%
Total capital ratio[5]	**17.4%**	16.3%

1 Retained earnings for the period ended 31 January 2021 include all profits (both verified and unverified) for the six month period.
2 In line with the amended Capital Requirements Regulation, effective on 23 December 2020, the CET1 ratio at 31 January 2021 includes a c.45bps benefit related to software assets which are exempt from the deduction requirement for intangible assets from CET1. The PRA launched a consultation on 12 February 2021 including a proposal to revert to the earlier position, which if implemented would result in a future reversal of this benefit and reduction of the CET1 capital ratio.
3 Under the Regulatory Technical Standard on own funds, a deduction has been recognised for a foreseeable dividend. In accordance with this standard, for 31 January 2021 a foreseeable dividend has been determined based on the payout ratio for the previous year applied to the retained earnings for the period. For 31 July 2020 a foreseeable dividend was determined as the proposed final dividend.
4 The group has elected to apply IFRS 9 transitional arrangements, which allow the capital impact of expected credit losses to be phased in over the transitional period.
5 Shown after applying IFRS 9 transitional arrangements and the Capital Requirement Regulations transitional and qualifying own funds arrangements. At 31 January 2021 the fully loaded CET1 capital ratio is 14.1% (31 July 2020: 13.1%) and total capital ratio is 16.1% (31 July 2020: 15.1%).
6 Operational and market risks include a notional adjustment at 8% in order to determine notional risk weighted assets.

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

	31 January 2021 £ million	31 July 2020 £ million
Equity	**1,480.4**	1,449.6
Regulatory adjustments to CET1 capital:		
Intangible assets, net of associated deferred tax liabilities	**(196.8)**	(236.9)
Foreseeable dividend[1]	**(51.2)**	(59.8)
IFRS 9 transitional arrangements	**119.1**	100.3
Pension asset, net of associated deferred tax liabilities	**(6.0)**	(5.7)
Prudent valuation adjustment	**(0.2)**	(0.2)
Other reserves not recognised for CET1 capital:		
Cash flow hedging reserve	**3.9**	5.7
Non-controlling interests	**1.0**	1.0
CET1 capital	**1,350.2**	1,254.0

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised for a foreseeable dividend. In accordance with this standard, for 31 January 2021 a foreseeable dividend has been determined based on the payout ratio for the previous year applied to the retained earnings for the period. For 31 July 2020 a foreseeable dividend was determined as the proposed final dividend.

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

	£ million
CET1 capital at 31 July 2020	1,254.0
Profit in the period attributable to shareholders	94.8
Dividends paid and foreseen	(51.2)
Change in software assets treatment[1]	45.1
IFRS 9 transitional arrangements	18.8
Increase in intangible assets, net of associated deferred tax liabilities	(5.0)
Other movements in reserves recognised for CET1 capital	(1.2)
Other movements in deductions from CET1 capital	(5.1)
CET1 capital at 31 January 2021	**1,350.2**

1 In line with the amended Capital Requirements Regulation, effective on 23 December 2020, the CET1 ratio at 31 January 2021 includes a c.45bps benefit related to software assets which are exempt from the deduction requirement for intangible assets from CET1. The PRA launched a consultation on 12 February 2021 including a proposal to revert to the earlier position, which if implemented would result in a future reversal of this benefit and reduction of the CET1 capital ratio.

14. Contingent liabilities

Financial Services Compensation Scheme ("FSCS")

As disclosed in note 23 of the Annual Report 2020, the group is exposed to the FSCS which provides compensation to customers of financial institutions in the event that an institution is unable, or is likely to be unable, to pay claims against it.

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

15. Related party transactions

Related party transactions, including salary and benefits provided to directors and key management, did not have a material effect on the financial position or performance of the group during the period. There were no changes to the type and nature of the related party transactions disclosed in the Annual Report 2020 that could have a material effect on the financial position and performance of the group in the six months to 31 January 2021.

16. Consolidated cash flow statement reconciliation

	31 January		31 July
	2021	2020	2020
	£ million	£ million	£ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities			
Operating profit before tax	**127.0**	124.1	140.9
Tax paid	**(24.0)**	(64.6)	(86.6)
Depreciation and amortisation	**50.0**	44.4	95.8
(Increase)/decrease in:			
Interest receivable and prepaid expenses	**(1.1)**	(15.5)	(14.5)
Net settlement balances and trading positions	**(36.2)**	(7.7)	(12.9)
Net loans to/from money broker against stock advanced	**31.6**	27.3	0.3
(Decrease)/increase in interest payable and accrued expenses	**(12.2)**	(40.5)	15.2
Net cash inflow from trading activities	**135.1**	67.5	138.2
(Increase)/decrease in:			
Loans and advances to banks not repayable on demand	**1.7**	(0.3)	(13.3)
Loans and advances to customers	**(385.2)**	18.6	(87.8)
Assets held under operating leases	**(18.1)**	(34.8)	(45.6)
Certificates of deposit	**106.4**	(60.3)	(45.2)
Sovereign and central bank debt	**(23.7)**	-	(22.7)
Other assets less other liabilities	**32.7**	33.5	142.6
(Decrease)/increase in:			
Deposits by banks	**(9.4)**	77.5	93.4
Deposits by customers	**537.1**	(75.9)	284.3
Loans and overdrafts from banks	**38.8**	(9.0)	(21.4)
Issuance/(redemption) of debt securities	**317.8**	(32.6)	6.9
Net cash inflow/(outflow) from operating activities	**733.2**	(15.8)	429.4
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and equity shares held for investment			
Cash consideration paid	**(0.4)**	(3.3)	(4.6)
(c) Analysis of net cash inflow in respect of the sale of subsidiaries and discontinued operations			
Cash consideration received	**2.1**	0.5	0.5

	31 January		31 July
	2021	2020	2020
	£ million	£ million	£ million
(d) Analysis of cash and cash equivalents[1]			
Cash and balances at central banks	**1,894.6**	903.9	1,362.8
Loans and advances to banks repayable on demand	**181.5**	151.5	98.5
	2,076.1	1,055.4	1,461.3

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

During the period ended 31 January 2021, the non-cash changes on debt financing amounted to £6.5 million (31 January 2020: £7.0 million; 31 July 2020: £16.2 million) arising from interest accretion and fair value hedging movements.

17. Fair value of financial assets and liabilities

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

	31 January 2021		31 July 2020	
	Fair value £ million	**Carrying value £ million**	Fair value £ million	Carrying value £ million
Subordinated loan capital	**226.8**	**222.7**	227.0	223.0
Debt securities in issue	**2,211.7**	**2,177.2**	1,885.8	1,870.3

The group holds financial instruments that are measured at fair value subsequent to initial recognition. Each instrument has been categorised within one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. These levels are based on the degree to which the fair value is observable and are defined in note 28 "Financial risk management" of the Annual Report 2020. The table below shows the classification of financial instruments held at fair value into the valuation hierarchy:

	Level 1 £ million	**Level 2 £ million**	**Level 3 £ million**	**Total £ million**
At 31 January 2021				
Assets				
Debt securities:				
Long trading positions in debt securities	**26.2**	**1.4**	**-**	**27.6**
Sovereign and central bank debt	**94.1**	**-**	**-**	**94.1**
Equity shares	**6.7**	**23.5**	**0.4**	**30.6**
Derivative financial instruments	**-**	**29.7**	**-**	**29.7**
Contingent consideration	**-**	**-**	**0.5**	**0.5**
	127.0	**54.6**	**0.9**	**182.5**
Liabilities				
Short positions:				
Debt securities	**8.9**	**1.1**	**-**	**10.0**
Equity shares	**1.9**	**5.4**	**-**	**7.3**
Derivative financial instruments	**-**	**17.7**	**-**	**17.7**
Contingent consideration	**-**	**-**	**3.9**	**3.9**
	10.8	**24.2**	**3.9**	**38.9**

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2020				
Assets				
Debt securities:				
Long trading positions in debt securities	23.1	1.3	-	24.4
Sovereign and central bank debt	72.2	-	-	72.2
Equity shares	6.1	23.6	0.3	30.0
Derivative financial instruments	-	39.9	-	39.9
Contingent consideration	-	-	2.7	2.7
	101.4	64.8	3.0	169.2
Liabilities				
Short positions:				
Debt securities	6.3	2.0	-	8.3
Equity shares	3.1	6.0	-	9.1
Derivative financial instruments	-	20.8	-	20.8
Contingent consideration	-	-	3.5	3.5
	9.4	28.8	3.5	41.7

There is no significant change to the valuation methodologies relating to Level 2 and 3 financial instruments disclosed in note 28 “Financial risk management” of the Annual Report 2020.

Financial instruments classified as Level 3 predominantly comprise contingent consideration payable and receivable in relation to the acquisitions and disposal of subsidiaries. The valuation of contingent consideration is determined on a discounted expected cash flow basis. The group believes that there is no reasonably possible change to the technique or inputs used in the valuation of these positions which would have a material effect on the group's consolidated income statement.

There were no significant transfers between Level 1, 2 and 3 during the six months ended 31 January 2021 (six months ended 31 January 2020: none).

There were no significant movements in financial instruments categorised as Level 3 during the six months ended 31 January 2021 (six months ended 31 January 2020: none).

The losses recognised in the consolidated income statement relating to financial instruments held at 31 January 2021 amounted to £0.5 million (31 January 2020: £0.3 million gain; 31 July 2020: £0.4 million loss).

18. Additional support for customers

Forbearance

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

During the first half, we have continued to offer additional forbearance measures to those of our customers who find themselves in difficulty as a result of the ongoing impact from Covid-19. Concessions granted to customers are varied across our lending businesses but typically would relate to a form of payment deferral or the waiving of fees.

In all instances, where further support is required this is considered on a case by case basis as we seek to assist our customers during these unpredictable times. The number of customers supported via Covid-19 concessions offered has fallen to 55,418 from 66,153 at the end of the prior financial year.

A customer will be treated as forborne until a cure period has been met. Cure periods are subject to expert judgement and are underpinned by carefully considered assumptions. These are subject to regular review, and during the course of this financial year, have been adjusted in some portfolios to reflect the ongoing implications of Covid-19.

Our cure approach varies by division and ranges from instant cure when a concession ends (subject to confirmation of no adverse performance) to a cure period between 3 and 12 months. The latter applies to Covid-19 forborne exposures in Commercial, which comprises the majority of forborne loan balances. In some instances where the loan is of short tenor the exposure may remain forborne for the residual life of the loan.

Forbearance analysis

At 31 January 2021, the gross carrying amount of loans with forbearance measures decreased £310.2 million to £1,286.0 million (31 July 2020: £1,596.2 million) driven by an increase in the proportion of customers resuming repayments but remaining in cure periods and in loans curing and thus no longer being considered forborne, partially offset by requests for further concessions. Requests for support remain significantly below the peak experienced at the height of the Covid-19 pandemic.

Covid-19 forbearance continues to account for the vast majority of overall forbearance (31 January 2021: 85.8% of the forborne book; 31 July 2020: 88.4%). This reflects the proportion of customers who have sought additional support as a result of the impacts of the Covid-19 pandemic.

An analysis of forborne loans as at 31 January 2021 is shown in the table below:

	Gross loans and advances to customers £ million	Forborne loans £ million	Forborne loans as a percentage of gross loans and advances to customers %	Provision on forborne loans £ million	Number of customers supported
31 January 2021	**8,228.4**				
Covid-19 forbearance		**1,103.7**	**13.4%**	**74.1**	**55,418**
Non-Covid-19 forbearance		**182.3**	**2.2%**	**34.4**	**1,999**
	8,228.4	**1,286.0**	**15.6%**	**108.5**	**57,417**
31 July 2020	7,855.4				
Covid-19 forbearance		1,410.4	18.0%	71.9	66,153
Non-Covid-19 forbearance		185.8	2.3%	34.5	3,039
	7,855.4	1,596.2	20.3%	106.4	69,192

The following is a breakdown of forborne loans by segment split by those driven by Covid-19 compared to concessions that have arisen in the normal course of business:

	31 January 2021			31 July 2020		
	Covid-19 £ million	**Non-Covid-19 £ million**	**Total forborne loans £ million**	Covid-19 £ million	Non-Covid-19 £ million	Total forborne loans £ million
Commercial	**728.7**	**23.5**	**752.2**	832.8	50.1	882.9
Retail	**165.0**	**3.1**	**168.1**	251.0	4.1	255.1
Property	**210.0**	**155.7**	**365.7**	326.6	131.6	458.2
	1,103.7	**182.3**	**1,286.0**	1,410.4	185.8	1,596.2

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

	31 January 2021			31 July 2020		
	Covid-19	**Non-Covid-19**	**Total number of customers supported**	Covid-19	Non-Covid-19	Total number of customers supported
Commercial	**6,816**	**176**	**6,992**	7,322	284	7,606
Retail	**48,528**	**1,756**	**50,284**	58,644	2,700	61,344
Property	**74**	**67**	**141**	187	55	242
	55,418	**1,999**	**57,417**	66,153	3,039	69,192

The following is a breakdown of forborne loans by concession type split by those driven by Covid-19 compared to concessions that have arisen in the normal course of business:

	31 January 2021			31 July 2020		
	Covid-19	**Non-Covid-19**	**Forborne loans**	Covid-19	Non-Covid-19	Forborne loans
Extension outside terms	**275.1**	**143.5**	**418.6**	440.1	138.0	578.1
Refinancing	**4.4**	**8.4**	**12.8**	0.5	15.2	15.7
Moratorium	**823.5**	**14.6**	**838.1**	969.8	28.6	998.4
Other modifications	**0.7**	**15.8**	**16.5**	-	4.0	4.0
	1,103.7	**182.3**	**1,286.0**	1,410.4	185.8	1,596.2

Government lending schemes

In addition to the Covid-19 specific forbearance measures covered in this note, as an accredited lender, we have continued to offer many of our customers facilities under the UK government-introduced Coronavirus Business Interruption Loan Scheme ("CBILS"), the Coronavirus Large Business Interruption Loan Scheme ("CLBILS") and the Bounce Back Loan Scheme ("BBLS"), thereby enabling us to maximise our support for small businesses. We have seen strong demand for loans under these schemes with 4,069 (31 July 2020: 1,430) of these loans approved within our Invoice Finance, Property Finance, and Asset Finance and Leasing businesses.

We maintain a regular reporting cycle of the uptake of these facilities and monitor usage compared to approved overall credit limits. In addition to facilities already approved and drawn we have a strong pipeline of applications that are undergoing eligibility assessment. At 31 January 2021, lending under the CBILS and associated schemes totalled £729.7 million across 3,418 loans (31 July 2020: £193.8 million across 901 loans) with CBILS constituting the vast majority of such exposures. Additionally, at 31 January 2021, £186.0 million across 651 loans (31 July 2020: £159.1 million across 529 loans) had been credit approved and were awaiting drawdown. Our lending under these government-supported schemes is well spread across industry sectors and across the whole of the UK.

19. Post balance sheet event

On 3 March 2021, the Chancellor of the Exchequer confirmed as part of the Budget 2021 announcement that the corporation tax rate will increase from 19% to 25% from April 2023. This increase is expected to be enacted in the year ending 31 July 2021 and is a non-adjusting post balance sheet event. Had this change been enacted before 31 January 2021, the group's deferred tax asset balance at 31 January 2021 would have increased by up to approximately £10 million, with a corresponding tax benefit recognised in the income statement and other comprehensive income.

However, the Chancellor also indicated that the government intends to legislate in Finance Bill 2021-22 to ensure that the combined rate of tax on banks' profits, which comprises the standard corporation tax rate and banking surcharge, does not increase substantially from its current level. This legislation would have the impact of partially reversing the abovementioned deferred tax asset increase, and income statement benefit, however the precise quantum of such a reversal remains uncertain.

Cautionary Statement

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

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