Financial Overview

Summary Group Income Statement[1]

	2022 £ million	2021 £ million	Change %
Operating income	**936.1**	952.6	(2)
Adjusted operating expenses	**(598.0)**	(592.1)	1
Impairment losses on financial assets	**(103.3)**	(89.8)	15
Adjusted operating profit	**234.8**	270.7	(13)
Banking	**227.2**	212.5	7
Commercial	**91.0**	52.8	72
Retail	**61.0**	71.9	(15)
Property	**75.2**	87.8	(14)
Asset Management	**21.7**	23.7	(8)
Winterflood	**14.1**	60.9	(77)
Group	**(28.2)**	(26.4)	7
Amortisation and impairment of intangible assets on acquisition	**(2.0)**	(14.2)	(86)
Goodwill impairment	**–**	(12.1)	n/a
Exceptional item: HMRC VAT refund	**–**	20.8	n/a
Operating profit before tax	**232.8**	265.2	(12)
Tax	**(67.6)**	(63.1)	7
Profit after tax	**165.2**	202.1	(18)
Profit attributable to shareholders	**165.2**	202.1	(18)
Adjusted basic earnings per share[2]	**111.5p**	140.4p	(21)
Basic earnings per share[2]	**110.4p**	134.8p	(18)
Ordinary dividend per share	**66.0p**	60.0p	10
Return on opening equity	**10.6%**	14.5%	
Return on average tangible equity	**12.2%**	16.5%	

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

2 Refer to note 8 for the calculation of basic and adjusted earnings per share.

Basis of Presentation

Results are presented both on a statutory and an adjusted basis to aid comparability between periods. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Please refer to page 62 for further details on items excluded from the adjusted performance metrics. The loan book figure has been re-presented to incorporate closing loans and advances to customers and operating lease assets, previously shown separately.

Adjusted Operating Profit and Returns

Adjusted operating profit reduced 13% to £234.8 million (2021: £270.7 million), primarily reflecting a reduction in income in Winterflood and an increase in impairment charges. After adjusting items, statutory operating profit before tax decreased by 12% to £232.8 million (2021: £265.2 million). The group delivered a return on opening equity of 10.6% (2021: 14.5%), reflecting the reduction in Winterflood's profit and continued growth in the equity base, and return on average tangible equity of 12.2% (2021: 16.5%).

Adjusted operating profit in the Banking division increased by 7% to £227.2 million (2021: £212.5 million), reflecting strong income growth, partially offset by higher costs and impairment charges. In the Asset Management division, adjusted operating profit declined 8% to £21.7 million (2021: £23.7 million) as growth in income was more than offset by increased staff costs. Winterflood saw reduced trading opportunities in higher margin sectors and periods of volatility in falling markets. Following the exceptionally strong trading performance and elevated market activity experienced in the prior year, operating profit was down 77% to £14.1 million (2021: £60.9 million). Group net expenses, which include the central functions such as finance, legal and compliance, risk and human resources, increased 7% on the prior year to £28.2 million (2021: £26.4 million), mainly reflecting third party spend in relation to the assessment of potential growth opportunities.

Operating Income

Operating income reduced 2% to £936.1 million (2021: £952.6 million), with growth in Banking and Asset Management offset by a reduction in trading income in Winterflood. Income in the Banking division increased by 10%, reflecting good loan book growth and a strong net interest margin of 7.8% (2021: 7.7%). Although income in the Asset Management division was up 6%, with continued net inflows and positive market performance in the first half of the year, income was more subdued in the second half of the year due to falling markets and their impact on wider client sentiment. Income in Winterflood reduced by 48%, driven by a market-wide slowdown in trading activity from elevated levels during the pandemic and a change in the mix of trading volumes, exacerbated by falling markets.

Adjusted Operating Expenses

Adjusted operating expenses were broadly stable at £598.0 million (2021: £592.1 million), reflecting a significant reduction in variable costs in Winterflood, offset by higher investment spend and salary increases in Banking and higher staff costs in Asset Management. In the Banking division, costs were up 10%, as we continued to invest in our key strategic programmes and incurred higher business-as-usual ("BAU") spend following salary increases to reflect inflation and performance-driven compensation. Expenses increased 9% in the Asset Management division, mainly driven by higher staff costs in the current inflationary environment and new hires, as we continue to invest to grow the business. Winterflood's operating expenses decreased 33%, reflecting lower variable compensation and settlement costs. Overall, the group's expense/income ratio increased on the prior year period to 64% (2021: 62%), whilst the group's compensation ratio decreased to 37% (2021: 38%). Statutory operating expenses increased to £600.0 million (2021: £597.6 million).

Impairment Charges and IFRS 9 Provisioning

Impairment charges increased to £103.3 million (2021: £89.8 million), corresponding to a bad debt ratio of 1.2% (2021: 1.1%). This included the impact of updated assumptions for the Novitas loan book, informed by experience of credit performance, which resulted in £60.7 million (2021: £73.2 million) of impairment charges related to this business.

Excluding Novitas, the bad debt ratio was 0.5% (2021: 0.2%), reflecting the release of Covid-19 provisions, partially offset by the ongoing review of provisions and coverage across our loan portfolios, including certain individual exposures in the Commercial business, as well as higher IFRS 9 provisions to take into account the outlook for the external environment.

Financial Overview
continued

Adjusted operating profit

£234.8m

2021: £270.7m

Dividend per share

66.0p

2021: 60.0p

Return on average tangible equity

12.2%

2021: 16.5%

There was a marginal decrease in provision coverage to 3.1% (31 July 2021: 3.2%). Excluding provisions related to the Novitas loan book, the coverage ratio reduced to 1.9% (31 July 2021: 2.3%), primarily reflecting provision releases, mainly driven by reduced Covid-19 forborne balances. This coverage level appropriately reflects the elevated uncertainty in the external environment in the range of modelled outcomes.

Economic forecasts have evolved over the course of the 2022 financial year. At 31 July 2021, the scenario weightings reflected the continued economic challenges and uncertainty associated with the pandemic, with 40% allocated to the baseline scenario, 20% to the upside scenario and 40% across the three downside scenarios. The level of economic uncertainty associated with the pandemic reduced up to 31 January 2022 and 10% weight was moved from the three downside scenarios to the upside scenario. In the second half of 2022, 7.5% weight has moved from the baseline scenario to the three downside scenarios, resulting in final weights that are considered consistent with the economic uncertainty at 31 July 2022 as follows: 30% strong upside, 32.5% baseline, 20% mild downside, 10.5% moderate downside and 7% severe downside.

Whilst we are not yet seeing a significant impact from rising inflation and interest rates and their effect on customers on our credit performance, we are alert to the highly uncertain macroeconomic environment and continue to monitor closely the performance of the book. We remain confident in the quality of our loan book, which is predominantly secured, prudently underwritten and diverse. Approximately 99% of our loan book exposure is to the UK, Republic of Ireland and Channel Islands, with the remaining exposure to Western European countries.

Exceptional and Other Adjusting Items

Amortisation and impairment of intangible assets on acquisition was down significantly to £2.0 million (2021: £14.2 million). The prior year charge included a £10.1 million impairment of intangible assets recognised on acquisition in relation to Novitas, following the decision to cease permanently the approval of lending to new customers across all of the products offered by this business.

Following this decision, we also recognised an adjusting item in relation to the full write down of goodwill allocated to Novitas in the prior year of £12.1 million.

There were no exceptional items recorded in the 2022 financial year (2021: £20.8 million). In 2021, we recognised an exceptional gain of £20.8 million, reflecting a VAT refund from HMRC in relation to hire purchase agreements in the Motor Finance and Asset Finance businesses.

Tax Expense

The tax expense was £67.6 million (2021: £63.1 million), which corresponds to an effective tax rate of 29.0% (2021: 23.8%). The increase in the effective tax rate primarily reflected a write-down in the group's deferred tax assets as a result of the legislated reduction in the rate of banking surcharge from 8% to 3% which was due to apply from April 2023, and the non-recurrence of the prior year write-up in the group's deferred tax assets as a result of legislation that year increasing the mainstream corporate tax rate from 19% to 25% (also due to apply from April 2023).

The group's underlying effective tax rate for the year ended 31 July 2022, excluding the impact of the deferred tax asset write-down, would be 25.7%, reflecting the UK corporate tax rate of 19% and headline banking surcharge of 8% (which applied to a proportion of the group's profits, resulting in c.6% banking surcharge).

On 23 September 2022, the Chancellor of the Exchequer announced as part of his Growth Plan that the corporation tax rate increase from 19% to 25% from April 2023 will be cancelled, and that the banking surcharge rate will remain at 8%. The relevant legislation is expected to be enacted in the year ending 31 July 2023 and is a non-adjusting post balance sheet event. Had this change been enacted before 31 July 2022, the group's deferred tax asset balance at 31 July 2022 would have decreased by approximately £1.5 million, with a corresponding tax charge recognised in the income statement, net of a smaller credit to other comprehensive income.

Earnings per Share

Profit attributable to shareholders reduced 18% on the prior year to £165.2 million (2021: £202.1 million), reflecting a reduction in adjusted operating profit and the impact from revaluations of deferred tax assets on the effective tax rate in the 2022 and 2021 financial years. As a result, adjusted basic earnings per share ("EPS") was 111.5p (2021: 140.4p) and basic EPS was 110.4p (2021: 134.8p).

Dividend

The board is proposing a final dividend of 44.0p per share, resulting in a full-year dividend per share of 66.0p (2021: 60.0p), up 10% on the prior year. This reflects the group's solid performance in the year and strong capital position, as well as our continued confidence in the business model. We remain committed to our dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover.

Subject to approval at the Annual General Meeting, the final dividend will be paid on 22 November 2022 to shareholders on the register at 14 October 2022.

Summary Group Balance Sheet

The group maintained a strong balance sheet and a prudent approach to managing financial resources. The fundamental structure of the balance sheet remains unchanged, with most of the assets and liabilities relating to our Banking 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 5% to £12.7 billion (31 July 2021: £12.0 billion), mainly reflecting growth in the loan book, an increase in non-trading debt securities and higher market-making assets. Total liabilities were up 5% to £11.0 billion (31 July 2021: £10.5 billion), driven primarily by higher customer deposits and an increase in secured borrowings. Both market-making assets and liabilities, related to trading activity at Winterflood, were up year-on-year due to an increase in value traded at the end of the period when settlement balances are calculated.

Total equity increased 6% to £1.7 billion (31 July 2021: £1.6 billion), primarily reflecting the profit in the year, partially offset by dividend payments of £95.5 million (2021: £86.6 million). The group's return on assets marginally decreased to 1.3% (2021: 1.7%).

Movements in Capital and Other Regulatory Metrics

The CET1 capital ratio reduced from 15.8% to 14.6%, mainly driven by a change in the regulatory treatment of software assets (c.45bps), the impact of the transitional IFRS 9 add-back (c.30bps) and an increase in risk weighted assets ("RWAs") (c.80bps), partly offset by retained earnings (c.75bps).

CET1 capital decreased 3% to £1,396.7 million (31 July 2021: £1,439.3 million), reflecting the regulatory change in the treatment of software assets, which increased the intangible assets deducted from CET1 capital by £50.2 million, a decrease in the transitional IFRS 9 add-back to capital of £34.8 million and the regulatory deduction of dividends paid and foreseen of £98.4 million. This was partially offset by the capital generation through profit of £165.2 million.

Total capital decreased 4% to £1,596.7 million (31 July 2021: £1,662.7 million), also reflecting the regulatory change in the treatment of software assets and a small repayment of our subordinated debt.

RWAs increased 5% to £9.6 billion (31 July 2021: £9.1 billion), mainly driven by an increase in the loan book and risk weighted assets related to derivatives held for hedging purposes, partly offset by the regulatory change in treatment of software assets.

As a result, CET1, tier 1 and total capital ratios were 14.6% (31 July 2021: 15.8%), 14.6% (31 July 2021: 15.8%) and 16.6% (31 July 2021: 18.3%), respectively.

At 31 July 2022, the applicable minimum CET1, tier 1 and total capital ratio requirements, excluding any applicable Prudential Regulation Authority ("PRA") buffer, were 7.6%, 9.3% and 11.5%, respectively. Accordingly, we continue to have headroom significantly above the applicable minimum regulatory requirements of 700bps in the CET1 capital ratio, 530bps in the tier 1 capital ratio and 510bps in the total capital ratio.

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. On a fully loaded basis, without their application, the CET1, tier 1 and total capital ratios would be 13.8%, 13.8% and 15.9%, respectively.

The leverage ratio, which is a transparent measure of capital strength not affected by risk weightings, remains strong at 12.0% (31 July 2021: 11.8%). The ratio at 31 July

Summary Group Balance Sheet

	31 July 2022 £ million	31 July 2021[1] £ million
Loans and advances to customers and operating lease assets[2]	**9,098.9**	8,667.4
Treasury assets[3]	**1,855.1**	1,788.2
Market-making assets[4]	**887.2**	801.6
Other assets	**837.1**	777.3
Total assets	**12,678.3**	12,034.5
Deposits by customers	**6,770.4**	6,634.8
Borrowings	**2,870.1**	2,600.9
Market-making liabilities[4]	**796.1**	690.6
Other liabilities	**584.2**	538.9
Total liabilities	**11,020.8**	10,465.2
Equity	**1,657.5**	1,569.3
Total liabilities and equity	**12,678.3**	12,034.5

1 Loans and advances to customers has been re-presented for 31 July 2021 to include £222.9 million of operating lease assets, with a corresponding reduction to other assets.
2 Includes operating lease assets of £0.5 million (31 July 2021: £1.3 million) that relate to Asset Finance and £239.5 million (31 July 2021: £221.6 million) to Invoice and Speciality Finance.
3 Treasury assets comprise cash and balances at central banks and debt securities held to support the Banking division.
4 Market-making assets and liabilities comprise settlement balances, long and short trading positions and loans to or from money brokers.

Group Capital[1]

	31 July 2022[1] £ million	31 July 2021 £ million
Common equity tier 1 capital	**1,396.7**	1,439.3
Total capital	**1,596.7**	1,662.7
Risk weighted assets	**9,591.3**	9,105.3
Common equity tier 1 capital ratio (transitional)	**14.6%**	15.8%
Tier 1 capital ratio (transitional)	**14.6%**	15.8%
Total capital ratio (transitional)	**16.6%**	18.3%
Leverage ratio[2]	**12.0%**	11.8%

1 In line with CRR, effective on 1 January 2022, the CET1, tier 1 and total capital ratios no longer include the benefit related to software assets which were previously exempt from the deduction requirement for intangible assets from CET1.
2 The leverage ratio is calculated as tier 1 capital as a percentage of total balance sheet assets excluding central bank claims, adjusting for certain capital deductions, including intangible assets, and off-balance sheet exposures, in line with the UK leverage framework under CRR. At 31 July 2021, the leverage ratio was calculated under the EU CRR and included central bank claims.

Financial Overview continued

Group Funding[1]

	31 July 2022 £ million	31 July 2021 £ million
Customer deposits	**6,770.4**	6,634.8
Secured funding	**1,598.7**	1,333.7
Unsecured funding[2]	**1,544.3**	1,539.5
Equity	**1,657.5**	1,569.3
Total available funding	**11,570.9**	11,077.3
Total funding as % of loan book[3]	**127%**	128%
Average maturity of funding allocated to loan book[4]	**21 months**	24 months

1 Numbers relate to core funding and exclude working capital facilities at the business level.
2 Unsecured funding excludes £22.1 million (31 July 2021: £22.7 million) of non-facility overdrafts included in borrowings and includes £295.0 million (31 July 2021: £295.0 million) of undrawn facilities.
3 Total funding as a % of loan book has been re-presented to include £240.0 million (31 July 2021: £222.9 million) of operating lease assets in the loan book figure. The revised definition is total funding as a % of loan book including operating lease assets.
4 Average maturity of total funding excluding equity and funding held for liquidity purposes.

Group Liquidity

	31 July 2022 £ million	31 July 2021 £ million
Cash and balances at central banks	**1,254.7**	1,331.0
Sovereign and central bank debt[1]	**415.4**	192.5
Certificates of deposit	**185.0**	264.7
Treasury assets	**1,855.1**	1,788.2

1 Included in sovereign and central bank debt is £216.9 million encumbered UK Government debt (31 July 2021: £90.2 million).

2022 reflects a change in calculation under the UK leverage framework to exclude central bank reserves.

We continue to make good progress on our preparations for a transition to the IRB approach. Following the submission of our initial application to the PRA in December 2020, we have received confirmation that our application has successfully transitioned to Phase 2. The next phase of formal review will commence in October 2022 and we are well positioned to respond promptly, although the timetable remains under the direction of the PRA. Our Motor Finance, Property Finance and Energy portfolios, where the use of models is most mature, have been submitted with our initial application, with other businesses to follow in future years.

Capital Management Framework

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

The board remains committed to the group's dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover. Further capital distributions to shareholders will be considered depending on future opportunities.

We are considering the further optimisation of our capital structure, including the issuance of debt capital market securities if appropriate, targeting a CET1 capital ratio range of 12% to 13% over the medium term. This would allow the group to maintain a buffer to minimum regulatory requirements while also retaining the flexibility for growth.

In the short term, we would expect to operate above the 12% to 13% CET1 capital ratio target range, in light of the heightened macroeconomic uncertainty and potential growth opportunities available to us.

Group Funding

The primary purpose of our Treasury and Savings business is to manage funding and liquidity to support the Banking 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 increased total funding in the year by 4% to £11.6 billion (31 July 2021: £11.1 billion) which accounted for 127% (31 July 2021: 128%) of the loan book at the balance sheet date. The average cost of funding reduced to 1.3% (2021: 1.4%), an increase from 1.1% in the first half of the 2022 financial year due to the increased cost of customer deposits.

Customer deposits increased 2% to £6.8 billion (31 July 2021: £6.6 billion) with non-retail deposits reducing by 7% to £3.7 billion (31 July 2021: £3.9 billion) and retail deposits increasing by 16% to £3.1 billion (31 July 2021: £2.7 billion).

The previous investment in our customer deposit platform continues to generate benefits and has enabled us to enhance our Savings proposition. Balances in our Fixed Rate Cash Individual Savings Accounts ("ISAs") have grown to c.£350 million (31 July 2021: £160 million) since their launch in December 2020. We remain focused on continuing to extend the deposit product range, which will support us in growing and diversifying our retail deposit base and further optimise our cost of funding and maturity profile.

Secured funding increased 20% to £1.6 billion (31 July 2021: £1.3 billion) as we completed our fourth public Motor Finance securitisation in April 2022 and increased our current drawings under the Term Funding Scheme for Small and Medium-sized Enterprises ("TFSME") to £600 million (31 July 2021: £490 million).

Unsecured funding, which includes senior unsecured and subordinated bonds and undrawn committed revolving facilities, remained stable at £1.5 billion (31 July 2021: £1.5 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 21 months (31 July 2021: 24 months), with the average loan book maturity at 17 months (31 July 2021: 17 months), in line with our "borrow long, lend short" principle.

Our strong credit ratings remain unchanged, with Moody's Investors Services ("Moody's") reaffirming their rating for Close Brothers Group as "A2/P1" and Close Brothers Limited as "Aa3/P1" with a "negative" outlook for both in July 2022, and Fitch Ratings ("Fitch") reaffirming their rating for both Close Brothers Group and Close Brothers Limited as "A-/F2", with a "stable" outlook in May 2022. This reflects the group's profitability, capital position, diversified business model and consistent risk appetite.

Group Liquidity

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

We continued to maintain higher liquidity relative to the pre-Covid-19 position to provide additional flexibility given the uncertain UK economic outlook, whilst enabling us to maximise any opportunities available. Over the year, treasury assets increased 4% to £1.9 billion (31 July 2021: £1.8 billion) and were predominantly held on deposit with the Bank of England.

We regularly assess and stress test the group's liquidity requirements and continue to comfortably meet the liquidity coverage ratio ("LCR") regulatory requirements, with a 12-month average to 31 July 2022 LCR of 924% (2021: 1,003%). In addition to internal measures, we monitor funding risk based on the CRR rules for the net stable funding ratio ("NSFR") which became effective on 1 January 2022. The NSFR at 31 July 2022 was 118.3% (31 January 2022: 117.3%).