Close Brothers

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Preliminary Results for the year ended 31 July 2021

28 September 2021

Highlights

- The group delivered a strong performance in evolving market conditions, **with income up 10%. Pre provisions, adjusted operating profit also increased 10%**
- We saw high new business volumes and significantly lower impairment charges in Banking, good net inflows in Asset Management and strong trading volumes in Winterflood, resulting in an **adjusted operating profit of £270.7 million**, **88% higher than the prior year** (2020: £144.0 million)
- **Statutory operating profit before tax increased 88%** to £265.2 million (2020: £140.9 million), and includes exceptional and other adjusting items relating to a VAT refund and the impairment of goodwill and intangible assets on acquisition
- **Adjusted operating profit in the Banking division increased 114%** to £212.5 million (2020: £99.2 million), reflecting **strong loan book growth of 10.9%**, a **strong net interest margin of 7.7%** (2020: 7.5%)**,** rigorous **cost discipline** and a **significant reduction in impairment charges**
- **The bad debt ratio reduced to 1.1%** (2020: 2.3%), with a **strong underlying credit performance** across the Commercial, Retail and Property businesses, as well as a reduction in Covid-19 provisions
- The **Asset Management** division generated **good net inflows of 7%,** with managed assets up 24% to £15.6 billion (31 July 2020: £12.6 billion). **Adjusted operating profit increased 16%** to £23.7 million (2020: £20.4 million) as higher income more than offset continued investment to support the long-term growth potential of the business
- **Winterflood** delivered an **exceptionally strong trading performance**, although activity has slowed over the last few months. **Adjusted operating profit increased 27%** to £60.9 million (2020: £47.9 million), with only one loss day in a volatile market environment
- The group maintained a **strong capital, funding and liquidity position.** Our **common equity tier 1 (“CET1”) capital ratio of 15.8%** (31 July 2020: 14.1%) provides **significant headroom** above applicable minimum requirements
- The board is proposing a final dividend of 42.0p, resulting in a **full year dividend per share of 60.0p** (2020: 40.0p), reflecting the group's strong performance in the year and continued confidence in our business model and financial position

Adrian Sainsbury, Chief Executive, said:

“We have delivered a strong financial performance in the year and made the most of the opportunities arising as the economy recovers from the effects of Covid-19. I am grateful for our colleagues’ hard work and commitment over the year, which has allowed us to continue to support our customers and clients in spite of the ongoing challenges. We are encouraged by the improvement in the economic outlook, although the trajectory remains uncertain.”

Key Financials[1]

	Full year 2021	Full year 2020	Change %
Adjusted operating profit[2]	**£270.7m**	£144.0m	88
Operating profit before tax	**£265.2m**	£140.9m	88
Adjusted basic earnings per share	**140.4p**	74.5p	88
Basic earnings per share	**134.8p**	72.8p	85
Ordinary dividend per share	**60.0p**	40.0p	50
Return on opening equity	**14.5%**	8.0%	
Return on average tangible equity	**16.5%**	9.4%	
Net interest margin	**7.7%**	7.5%	
Bad debt ratio	**1.1%**	2.3%	

	31 July 2021	31 July 2020	Change %
Loan book	**£8.4bn**	£7.6bn	11
Total client assets	**£17.0bn**	£13.7bn	24
CET1 capital ratio	**15.8%**	14.1%	
Total capital ratio	**18.3%**	16.3%	

1 Please refer to definitions on pages 24 to 26.
2 Adjusted operating profit is stated before amortisation and impairment of intangible assets on acquisition, goodwill impairment, exceptional item and tax.

Enquiries

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A virtual presentation to analysts and investors will be held today at 9.30 am BST followed by a Q&A session. A webcast and dial-in facility will be available by registering at https://webcasts.closebrothers.com/PrelimResults2021.

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 8 for further details on items excluded from the adjusted performance metrics.

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

We have delivered strong results in the 2021 financial year, which once again highlight the strengths of our proven and resilient business model.

Covid-19 continued to present challenges for colleagues, customers and clients this year and our priority has been to ensure the group remained in a strong position to support our people and customers while making the most of the opportunities arising as the economy recovers.

We have supported our people throughout these challenging times with a constant focus on their wellbeing. I am truly grateful for our colleagues' hard work and commitment which has allowed us to continue to support our customers and clients. Face-to-face interaction and excellence in customer service remain key features of our relationship-driven model and we are looking forward to increased direct contact as restrictions ease, with the safety of our colleagues, customers and clients remaining our highest priority. We are now in the process of adapting to and implementing future ways of working, taking into account the different needs of customers and our businesses, to suit the diverse nature of our group.

We have supported our customers when they needed us most, with over 130,000 Covid-19 related concessions totalling £2.0 billion offered since the beginning of the pandemic and over £1.1 billion lent under government support schemes. We are pleased to now see most of these customers coming out of forbearance as the economy reopens. At the same time, we have experienced heightened trading volumes in Winterflood, enhanced our Socially Responsible Investment ("SRI") offering in Close Brothers Asset Management ("CBAM") to capture customer interest in that space and made the most of demand in our core banking markets, such as motor finance and asset finance.

Supply and demand dynamics in our lending markets have been impacted by the unprecedented levels of government support, which have been crucial to small and medium-sized businesses. It is in this context that the impact of the withdrawal of the government schemes on customer and competitor's behaviour has yet to fully play out. While we still cannot know how the next phase of the cycle will take shape, we are operationally and strategically prepared for it. Historically, this is when we have maximised the benefits of the consistent application of our business model and I am confident that we have the right approach and foundations in place to take advantage of opportunities as they arise.

Financial Performance

We delivered a strong performance in evolving market conditions. After exceptional and other adjusting items, statutory operating profit before tax increased 88% to £265.2 million (2020: £140.9 million). Adjusted operating profit increased 88% to £270.7 million (2020: £144.0 million).This is back to pre-pandemic levels, corresponding to a return on opening equity of 14.5% (2020: 8.0%). Our performance benefited from higher income levels and significantly lower impairment charges.

Income grew across all divisions, with overall group income 10% higher than the prior year. The Banking division achieved 10.9% loan book growth, reflecting high new business volumes, while maintaining pricing discipline with a strong net interest margin of 7.7%. Income in Asset Management was up, reflecting an increase in client assets, driven by good net inflows of 7% (2020: 9%) and positive market movements. Although activity has slowed over the last few months, Winterflood delivered an exceptional trading performance, benefiting from elevated volumes for most of the year and the expertise of our traders.

Costs increased 10%, broadly in line with income growth, mainly driven by continued investment and higher compensation as performance improved. In Banking and Asset Management, costs increased, reflecting our continued investment and higher performance-related costs. Winterflood's operating expenses also increased, due to higher variable costs.

We have seen a significant reduction in impairment charges and experienced strong underlying credit performance across the Commercial, Retail and Property businesses, as well as a reduction in Covid-19 provisions. The bad debt ratio of 1.1% (2020: 2.3%) included the impact of a significant increase in credit provisions against the Novitas Loans ("Novitas") loan book within the Commercial business.

We have maintained a strong balance sheet, and a prudent funding and liquidity position. Our common equity tier 1 ratio rose to 15.8% (31 July 2020: 14.1%), significantly ahead of applicable minimum regulatory requirements. We successfully issued a £350 million, 10-year senior unsecured bond in December 2020, and in June 2021 we raised £200 million of subordinated debt in the form of Tier 2 notes, replacing and concurrently repurchasing most of the outstanding securities. Our strong financial resources leave us in a good position to deliver on our strategy.

Following the group's strong performance in the year, and to reflect the continued confidence in our business model and financial position, the board is proposing a final dividend of 42.0p per share, resulting in a full-year dividend per share of 60.0p (2020: 40.0p), an increase of 50%.

Keeping Our Model Safe While Taking it Forward

Earlier this year, we introduced the evolution of our strategic priorities to "Protect", "Grow" and "Sustain" our business model to continue to deliver on our purpose of helping the people and businesses of Britain thrive over the long term.

At our recent Investor Event we set out how we plan to build on the core strengths of our business and take it forward. The disciplined application of our lending criteria, our focus on service and personal approach, our distinctive culture and our diversified portfolio of businesses have proven their value throughout the crisis.

We continued to invest to protect our business model and maintain our operational and financial resilience. The playbooks and simulations run in prior years benefited our agile response to the changing environment we are in. We have made good progress on our multi-year investment programmes, which included the submission of our initial Internal Ratings Based ("IRB") application to the PRA in December. Our investment projects have also helped us strengthen our customer proposition and drive operational efficiency in Motor and Asset Finance.

As evidenced by our strong performance, we are focused on maximising the growth opportunities in each of our businesses. In the last year we have, for example, extended the product offering in our Savings franchise, launching 35 Day Retail Notice Accounts and Fixed Rate Cash Individual Savings Accounts ("ISAs"), which supported an increase in customer deposits of 12% in the year. In line with our plans to maximise long-term growth potential in the Asset Management business, we have completed the acquisition of PMN Financial Management LLP ("PMN"), an IFA business with c.£300 million of client assets. Winterflood Business Services ("WBS") has continued to grow its assets under administration, now at £6.2 billion.

Alongside continued growth in our existing market niches, we will continue to assess potential new initiatives. I see good opportunities arising in the sustainability sector, building on our position as an active provider of finance for the green energy and renewables sector.

We have recently taken our investors through our new "Model Fit Assessment Framework". This is a set of criteria we continuously evaluate our businesses and initiatives against to ensure they are aligned with the key attributes that have and will continue to generate long-term value. This framework was used as a key tool in our strategic review of Novitas, which concluded that the overall risk profile of the business is no longer compatible with our long-term strategy and risk appetite, particularly given the recent credit performance of the business. Accordingly, in July 2021, the group decided to cease permanently the approval of lending to new customers across all of the products offered by Novitas and to withdraw from the legal services financing market.

Focus on the Long Term

Our long-term approach defines the way we do business. It is reflected in how we invest for growth and also in how we operate our business and engage with our stakeholders. It is key to ensuring we can sustain and future-proof our business.

We have made good progress on helping to address the social, economic and environmental challenges facing our business, employees and customers. We have announced several sustainability objectives and I am pleased with the progress we have made against those over the past year. For example, as part of our commitment to further increase our diversity and nurture our inclusive culture, we have broadened our inclusion remit to focus on disability inclusion through joining the Valuable 500 initiative and signing up to the Mental Health at Work commitment.

We are also committed to reducing our impact on the environment and responding to the threats and opportunities of climate change. We are supportive of the Paris Agreement goals on net zero and are targeting becoming operationally net zero through our Scope 1 and Scope 2 carbon emissions by 2030. We have already achieved a 23% reduction for the 2021 financial year, exceeding the target we set ourselves last year and building on several consecutive years of lowering our operational emissions. Over the coming months, we will undertake an initial assessment of our indirect Scope 3 emissions, to provide us with a deeper understanding of the emissions impact of our supply chain and business activity.

Outlook

Looking ahead, we are encouraged by the improvement in the economic outlook although the trajectory remains uncertain.

In Banking, we are well positioned to maximise opportunities in the current cycle and remain confident in the long-term growth prospects of our businesses. We will continue to assess opportunities for potential new initiatives alongside growth in our existing market niches.

In Asset Management, our business is aligned with the long-term trends in the wealth management space and we remain committed to our growth strategy.

Winterflood has seen a slowing in volumes and moderation of trading performance over the last few months. Winterflood remains well positioned to continue trading profitably in a range of market conditions but, due to the nature of the business, it remains sensitive to changes in the market environment. We remain focused on growing WBS.

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.

Adrian Sainsbury
Chief Executive
28 September 2021

BOARD CHANGES

Over the last twelve months, there have been a number of changes to the board with the appointment of Adrian Sainsbury, who succeeded Preben Prebensen as Chief Executive on 21 September 2020, and the appointments of Mark Pain, Tesula Mohindra and Patricia Halliday, who became independent non-executive directors on 1 January 2021, 15 July 2021 and 1 August 2021, respectively. The appointment of three new non-executive directors further strengthens the range of skills, backgrounds and experience on the board and forms part of our orderly and proactive approach to succession planning.

OVERVIEW OF FINANCIAL PERFORMANCE

SUMMARY GROUP INCOME STATEMENT[1]

	2021 £ million	2020 £ million	Change %
Operating income	**952.6**	866.1	10
Adjusted operating expenses	**(592.1)**	(538.4)	10
Impairment losses on financial assets	**(89.8)**	(183.7)	(51)
Adjusted operating profit	**270.7**	144.0	88
Banking	**212.5**	99.2	114
Commercial	**52.8**	4.8	1,000
Retail	**71.9**	34.9	106
Property	**87.8**	59.5	48
Asset Management	**23.7**	20.4	16
Winterflood	**60.9**	47.9	27
Group	**(26.4)**	(23.5)	12
Amortisation and impairment of intangible assets on acquisition	**(14.2)**	(3.1)	358
Goodwill impairment	**(12.1)**	-	-
Exceptional item: HMRC VAT refund	**20.8**	-	-
Operating profit before tax	**265.2**	140.9	88
Tax	**(63.1)**	(31.4)	101
Profit after tax	**202.1**	109.5	85
Profit attributable to shareholders	**202.1**	109.5	85
Adjusted basic earnings per share[2]	**140.4p**	74.5p	88
Basic earnings per share[2]	**134.8p**	72.8p	85
Ordinary dividend per share	**60.0p**	40.0p	50
Return on opening equity	**14.5%**	8.0%	
Return on average tangible equity	**16.5%**	9.4%	

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 2.
2 Refer to Note 5 for the calculation of basic and adjusted earnings per share.

Operating Profit and Returns

Adjusted operating profit increased 88% to £270.7 million (2020: £144.0 million), primarily reflecting higher income across all divisions and significantly lower impairment charges in Banking, partially offset by increased costs. After exceptional and other adjusting items, statutory operating profit before tax increased by 88% to £265.2 million (2020: £140.9 million). The group delivered a strong return on opening equity of 14.5% (2020: 8.0%) and return on average tangible equity of 16.5% (2020: 9.4%).

Adjusted operating profit in the Banking division increased by 114% to £212.5 million (2020: £99.2 million) primarily due to lower impairment charges and strong income growth, partially offset by continued investment in the business. The Asset Management division achieved good net inflows of 7%, delivering adjusted operating profit of £23.7 million (2020: £20.4 million), 16% higher than the prior year, as growth in operating income more than offset the cost of continued investment to support the long-term growth potential of the business. Winterflood delivered a very strong trading performance, with operating profit up 27% to £60.9 million (2020: £47.9 million), as the business benefited from elevated market activity for most of the year. Group net expenses, which include the central functions such as finance, legal and compliance, risk and human resources, increased on the prior year at £26.4 million (2020: £23.5 million), primarily driven by higher performance-related compensation and share-based award payments.

Operating Income

Operating income increased 10% to £952.6 million (2020: £866.1 million), with growth in all divisions. Income in the Banking division increased by 8%, reflecting high new business volumes and a strong net interest margin of 7.7% (2020: 7.5%). Income in the Asset Management division was up 9%, reflecting an increase in client assets. Income in Winterflood increased by 20% as a result of elevated trading volumes and very strong trading performance.

Adjusted Operating Expenses

Adjusted operating expenses increased 10% to £592.1 million (2020: £538.4 million), mainly driven by higher costs in Banking and Winterflood. In the Banking division, costs increased by 8%, mainly driven by continued investment to protect, grow and sustain the business. Costs increased 8% in the Asset Management division, primarily driven by continued hiring of portfolio managers and increases in variable costs, as well as investment in technology. Winterflood's operating expenses increased by 17% due to higher variable costs such as staff compensation and settlement costs. Overall, the group's expense/income ratio was in line with the prior year period at 62% (2020: 62%) and the group's compensation ratio increased marginally to 38% (2020: 37%). Statutory operating expenses increased to £597.6 million (2020: £541.5 million).

Impairment Charges and IFRS 9 Provisioning

Impairment charges decreased significantly in the year to £89.8 million (2020: £183.7 million), corresponding to a bad debt ratio of 1.1% (2020: 2.3%).

We experienced strong underlying credit performance across Commercial, Retail and Property as well as a reduction in Covid-19 provisions. The bad debt ratio of 1.1% reflected an increase in provisions against the Novitas loan book, which accounted for a significant portion of the impairment charge for the 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 the resulting position being 20% upside (of which 10% was moved to the upside at 31 January 2021), 40% baseline, and 40% downside, to reflect a reduced level of economic uncertainty, the Covid-19 vaccination developments and easing of restrictions.

There was a marginal increase in overall provision coverage to 3.2% (31 July 2020: 3.0%) which included reductions in Covid-19 provisions, reflecting improved macroeconomic outlook and encouraging performance of the forborne loan book, more than offset by a significant increase in provisions against the Novitas loan book.

We believe this represents an appropriate level of provision, reflecting an improved but still uncertain economic outlook.

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.

Exceptional and Other Adjusting Items

We have 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. This follows HMRC's new policy framework in respect of the judgment from the Court of Justice of the European Union regarding Volkswagen Financial Services (UK) Ltd and has been agreed with HMRC in respect of 2009 to 2020.

Following the strategic review of Novitas' products and services, the group decided to cease permanently the approval of lending to new customers across all of the products offered by Novitas. As a result of this decision and the impact on the future cash flow profile of the business, we recorded an impairment charge of £12.1 million relating to the full write down of goodwill allocated to Novitas and a £10.1 million impairment charge relating to the remaining value of intangible assets recognised on acquisition. These charges are recognised as other adjusting items in the presentation of the group's adjusted performance.

Tax Expense

The tax expense was £63.1 million (2020: £31.4 million), which corresponds to an effective tax rate of 23.8% (2020: 22.3%). The effective tax rate in the 2021 financial year is above the UK corporation tax rate primarily due to the surcharge applying to most of the group's profits, partly offset by a write-up in deferred tax assets, reflecting an increase in the UK corporation tax rate from 19% to 25% applying from April 2023 passed into law earlier this year.

The government has 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

Prior to adjusting for exceptional and other items including the impairment of goodwill and intangible assets on acquisition and the VAT refund from HMRC, basic earnings per share ("EPS") increased 85% to 134.8p (2020: 72.8p). After adjusting for these items, adjusted EPS increased 88% to 140.4p (2020: 74.5p).

Dividend

The board is proposing a final dividend of 42.0p per share, resulting in a full-year dividend per share of 60.0p (2020: 40.0p), up 50% on the prior year. This reflects the group's strong performance in the year and continued confidence in our business model and financial position. Subject to approval at the Annual General Meeting, the final dividend will be paid on 23 November 2021 to shareholders on the register at 15 October 2021.

SUMMARY GROUP BALANCE SHEET

	31 July 2021 £ million	31 July 2020 £ million
Loans and advances to customers	**8,444.5**	7,616.7
Treasury assets[1]	**1,788.2**	1,733.9
Market-making assets[2]	**801.6**	719.1
Other assets	**1,000.2**	1,001.8
Total assets	**12,034.5**	11,071.5
Deposits by customers	**6,634.8**	5,917.7
Borrowings	**2,600.9**	2,591.2
Market-making liabilities[2]	**690.6**	622.8
Other liabilities	**538.9**	490.2
Total liabilities	**10,465.2**	9,621.9
Equity	**1,569.3**	1,449.6
Total liabilities and equity	**12,034.5**	11,071.5

1 Treasury assets comprise cash and balances at central banks and debt securities held to support 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 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 9% to £12.0 billion (31 July 2020: £11.1 billion), but decreased marginally on the half year 2021 position (31 January 2021: £12.3 billion). This increase in total assets mainly reflected the strong loan book growth. Total liabilities were up 9% to £10.5 billion (31 July 2020: £9.6 billion) mainly driven by higher customer deposits. Both market-making assets and liabilities were up due to increased settlement balances reflecting the higher trading activity in Winterflood.

Total equity increased 8% to £1.6 billion (31 July 2020: £1.4 billion), primarily reflecting the profit in the year, partially offset by dividend payments of £86.6 million (2020: £65.8 million). The group's return on assets increased to 1.7%, reflecting higher profitability in the year (2020: 1.0%).

GROUP CAPITAL[1]

	31 July 2021 £ million	31 July 2020 £ million
Common equity tier 1 capital	**1,439.3**	1,254.0
Total capital	**1,662.7**	1,441.0
Risk weighted assets	**9,105.3**	8,863.2
Common equity tier 1 capital ratio	**15.8%**	14.1%
Total capital ratio	**18.3%**	16.3%
Leverage ratio	**11.8%**	11.2%

1 The group's capital, risk weighted assets and ratios are presented on a transitional basis after the application of IFRS 9 transitional arrangements and the Capital Requirements Regulations qualifying own funds arrangements in force at the time. Without their application, and excluding the benefit related to the current treatment of software assets, at 31 July 2021 the CET1 capital ratio would be 14.2% and total capital ratio 16.7% (31 July 2020: CET1 capital ratio 13.1% and total capital ratio 15.1%).

The prudent management of capital is a core part of our business model and has been a key focus in the evolving environment so that the group can continue to support customers, clients and colleagues.

Common Equity Tier 1 ("CET1") capital increased 15% to £1,439.3 million (31 July 2020: £1,254.0 million) reflecting strong capital generation through £202.1 million of profit, a £50.2 million benefit from regulatory changes in the treatment of software assets and a £17.5 million transitional IFRS 9 capital add-back. This was partially offset by the regulatory deduction of dividends paid and foreseen of £89.5 million.

Risk weighted assets ("RWAs") increased modestly by 3% to £9.1 billion (31 July 2020: £8.9 billion) notwithstanding the 10.9% growth in the loan book, given the significant portion of government guaranteed loans under Coronavirus Business Interruption Loan Scheme ("CBILS") which attract a lower risk weighting and a reduction in the Property loan book due to high levels of repayments.

The CET1 capital ratio increased to 15.8% (31 July 2020: 14.1%), primarily due to higher profits and the benefit from regulatory changes to the treatment of software assets, partly offset by the increase in RWAs. The total capital ratio increased to 18.3% (31 July 2020: 16.3%), which also reflected our £200 million subordinated debt raised in the form of Tier 2 notes, replacing and concurrently repurchasing most of the outstanding securities.

At 31 July 2021, the applicable minimum CET1 and total capital ratio requirements, excluding any applicable PRA buffer, were 7.6% and 11.5%, respectively. Accordingly, we continue to have significant headroom of 820bps in the CET1 capital ratio, and 680bps in the total capital ratio, leaving us well placed to continue to help our customers and clients and in a position of strength to make the most of the opportunities in the current environment.

In line with the amended CRR ("CRR II"), effective on 23 December 2020, the CET1 capital ratio at 31 July 2021 includes a c.50bps benefit related to software assets which are exempt from the deduction requirement for intangible assets from CET1. The PRA published PS17/21 "Implementation of Basel standards" on 9 July 2021, confirming the reversal to the earlier position. This will result in the reversal of this benefit and reduction of the CET1 capital ratio upon implementation on 1 January 2022.

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. Without their application, and excluding the benefit related to the current treatment of software assets, the CET1 and total capital ratios would be 14.2% and 16.7% respectively.

The leverage ratio, which is a transparent measure of capital strength not affected by risk weightings, remains strong at 11.8% (31 July 2020: 11.2%). The leverage ratio increased on the position at the end of the 2020 financial year, reflecting the strong capital generation 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 are progressing through the first phase of the PRA application process and continue to work with the regulator to support their review. 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.

GROUP FUNDING[1]

	31 July 2021 £ million	31 July 2020 £ million
Customer deposits	**6,634.8**	5,917.7
Secured funding	**1,333.7**	1,418.2
Unsecured funding[2]	**1,539.5**	1,460.1
Equity	**1,569.3**	1,449.6
Total available funding	**11,077.3**	10,245.6
Total funding as % of loan book	**131%**	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 £22.7 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 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 to £11.1 billion (31 July 2020: £10.2 billion) which accounted for 131% (31 July 2020: 135%) of the loan book at 31 July 2021. The average cost of funding reduced to 1.4% (2020: 1.7%) largely driven by lower market rates, re-pricing of deposits and wholesale borrowings.

Customer deposits increased 12% overall to £6.6 billion (31 July 2020: £5.9 billion) with non-retail deposits increasing by 19% to £3.9 billion (31 July 2020: £3.3 billion) and retail deposits increasing by 3% to £2.7 billion (31 July 2020: £2.6 billion).

This has been another successful year for our online savings portal. The 35 Day Retail Notice Account and Fixed Rate Cash ISA were both launched this financial year, with c.39,000 customers, 40% of our retail customer base, registered for online banking. The online portal has proven a particularly valuable channel during Covid-19, mitigating the challenges of a postal offering whilst working remotely. We are focused on continuing to extend the 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 reduced marginally to £1.3 billion (31 July 2020: £1.4 billion). Our range of secured funding facilities include securitisations of our Premium and Motor Finance loan books, and during the year we renewed our £500 million Premium warehouse securitisation. 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.

Unsecured funding, which includes senior unsecured bonds and undrawn facilities, remained broadly stable at £1.5 billion (31 July 2020: £1.5 billion). This was driven by the successful issuance of a £350 million, 10-year senior unsecured bond in December 2020 and the maturity of a £300 million unsecured bond in June 2021, as well as the renewal of our revolving credit facilities and issuing several private placements. We also successfully raised £200 million of Tier 2 debt capital in June 2021, replacing and concurrently repurchasing most of the outstanding securities via a liability management exercise.

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 17 months (31 July 2020: 15 months), in line with our "borrow long, lend short" principle.

Our strong credit ratings have been upgraded by Moody's Investors Services ("Moody's") and affirmed by Fitch Ratings ("Fitch") during the year. Moody's rates Close Brothers Group "A2/P1" and Close Brothers Limited "Aa3/P1" with a "negative" outlook. Fitch rates both Close Brothers Group and Close Brothers Limited "A-/F2", and has upgraded the outlook for both issuers to "stable", from "negative". This reflects the group's profitability, capital position, diversified business model and consistent risk appetite.

GROUP LIQUIDITY

	31 July 2021 £ million	31 July 2020 £ million
Cash and balances at central banks	**1,331.0**	1,375.8
Sovereign and central bank debt[1]	**192.5**	72.2
Certificates of deposit	**264.7**	285.9
Treasury assets	**1,788.2**	1,733.9

1 Included in sovereign and central bank debt is £90.2 million encumbered UK Gilts (31 July 2020: £nil).

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 an improving but uncertain UK economic outlook, the group continued to deliberately maintain higher liquidity relative to historical levels, to provide additional flexibility as uncertainty persists whilst enabling us to maximise any opportunities available. Over the year, treasury assets increased 3% to £1.8 billion (31 July 2020: £1.7 billion) and were predominantly held on deposit with the Bank of England. The proceeds from the senior unsecured bond issued in December 2020, which contributed to further elevate the liquidity levels at the end of the first half, were deployed to repay the £300 million senior unsecured bond which matured in June 2021.

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 2021 LCR of 1,003% (2020: 823%).

BUSINESS REVIEW

BANKING

Key Financials[1]

	2021 £ million	2020 £ million	Change %
Operating income	**631.7**	586.0	8
Adjusted operating expenses	**(329.1)**	(303.4)	8
Impairment losses on financial assets	**(90.1)**	(183.4)	(51)
Adjusted operating profit	**212.5**	99.2	114
Net interest margin	**7.7%**	7.5%	
Expense/income ratio	**52%**	52%	
Bad debt ratio	**1.1%**	2.3%	
Return on net loan book	**2.6%**	1.3%	
Return on opening equity	**13.7%**	6.5%	
Closing loan book	**8,444.5**	7,616.7	11
Average loan book and operating lease assets	**8,253.0**	7,854.3	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 2.

Delivering Disciplined Growth

Banking adjusted operating profit increased 114% to £212.5 million (2020: £99.2 million), reflecting strong loan book growth at a strong net interest margin, rigorous cost discipline and a significant reduction in impairment charges. Statutory operating profit increased to £207.2 million (2020: £97.2 million) and includes adjusting items related to the impairment of goodwill and intangible assets on acquisition as a result of the strategic decision to permanently cease loan origination at Novitas, as well as the exceptional gain related to the VAT refund from HMRC.

The loan book grew 10.9% over the year to £8.44 billion (31 July 2020: £7.62 billion) driven by high new business volumes, particularly in the Asset Finance and Motor Finance businesses, and was further supported by the demand seen under the CBILS scheme. The return on net loan book increased significantly on the 2020 financial year to 2.6% (2020: 1.3%).

The reported net interest margin of 7.7% increased on the prior year (2020: 7.5%) reflecting our continued pricing discipline, as well as lower cost of funds. Our specialist, relationship-driven model and consistent, disciplined pricing position us well to maintain a strong net interest margin going forward.

As a result, operating income increased 8% to £631.7 million (2020: £586.0 million).

Adjusted operating expenses increased 8% to £329.1 million (2020: £303.4 million) as we continued to invest through the cycle to protect, grow and sustain our model whilst maintaining a rigorous focus on cost discipline. Business as usual ("BAU") costs increased by 3% to £255.1 million (2020: £248.3 million), primarily reflecting higher performance-driven compensation. Investment costs increased 34% to £74.0 million (2020: £55.2 million) as we progressed our strategic projects and incurred related depreciation charges[1].

1 Related ongoing costs resulting from investment projects are recategorised from investment costs to BAU costs after one year. For comparison purposes, £2.1 million has been recategorised from investment costs to BAU costs in the 2020 financial year to adjust for investment projects' ongoing costs that commenced prior to the 2021 financial year.

Our multi-year investment programmes include ongoing transformation projects in Motor Finance and Asset Finance and our transition to IRB, alongside enhancements to our operational and cyber resilience. We continue to exercise cost discipline and expect spend on investment programmes to stabilise over the next financial years, although related depreciation will continue to increase.

Overall, the compensation ratio increased marginally to 29% (2020: 28%) primarily driven by an increase in staff expenses related to higher performance-related costs. The expense/income ratio remained stable at 52% (2020: 52%).

Impairment charges decreased significantly to £90.1 million (2020: £183.4 million) as we experienced strong underlying credit performance across Commercial, Retail and Property, as well as a reduction in Covid-19 provisions. The bad debt ratio of 1.1% (2020: 2.3%) reflected an increase in provisions against the Novitas loan book, which accounted for a significant portion of the impairment charge for the year.

The performance of the forborne book continues to be encouraging. At 31 July 2021, the total balance of loans classified as forborne and subject to Covid-19 concessions had reduced to £455 million (31 July 2020: £1.4 billion).

There was a marginal increase in overall provision coverage to 3.2% (31 July 2020: 3.0%) which included reductions in Covid-19 provisions, reflecting improved macroeconomic outlook and encouraging performance of the forborne loan book, more than offset by a significant increase in provisions against the Novitas loan book.

We believe this represents an appropriate level of provision, reflecting an improved but still uncertain economic outlook.

Return on opening equity increased significantly to 13.7% (2020: 6.5%) reflecting the strong performance of the business over the year, as we maximised market opportunities in the current environment to deliver disciplined growth.

Loan Book Analysis

	31 July 2021 £ million	31 July 2020 £ million	Change %
Commercial	**3,968.1**	3,048.0	30
Asset Finance	**2,844.6**	2,167.4	31
Invoice and Speciality Finance	**1,123.5**	880.6	28
Retail	**2,974.3**	2,834.5	5
Motor Finance	**1,924.4**	1,749.4	10
Premium Finance	**1,049.9**	1,085.1	(3)
Property	**1,502.1**	1,734.2	(13)
Closing loan book	**8,444.5**	7,616.7	11
Operating lease assets[1]	**222.9**	221.9	-
Closing loan book and operating lease assets	**8,667.4**	7,838.6	11

1 Operating lease assets of £1.3 million (31 July 2020: £2.9 million) relate to Asset Finance and £221.6 million (31 July 2020: £219.0 million) to Invoice and Speciality Finance.

Loan book growth continues to be an output of our business model, as we focus on delivering disciplined growth whilst continuing to prioritise our margins and credit quality.

We saw a strong year of growth following the initial Covid-19 impact, with the loan book up 10.9% in the year to £8.4 billion (31 July 2020: £7.6 billion), reflecting high levels of new business. Growth

in the Commercial and Retail loan books was driven by strong customer demand, particularly in the Asset Finance and Motor Finance businesses, with the Property loan book contracting.

The Commercial loan book increased 30% to £4.0 billion (31 July 2020: £3.0 billion), reflecting growth across both businesses. The Asset Finance book grew strongly, up 31% to £2.8 billion (31 July 2020: £2.2 billion), driven by strong new business volumes, which were supported by demand under the CBILS government lending scheme.

At 31 July 2021, over £1.14 billion had been lent across more than 5,700 loans under the government support schemes in the Commercial and Property businesses, with the vast majority of lending via CBILS. In addition, £144 million across 686 CBILS loans has been credit approved and can be drawn down until 30 November 2021 for asset finance agreements. We are also approved to lend under the Recovery Loan Scheme, but anticipate volumes to be substantially lower than lending via CBILS.

The business is well positioned to capitalise on continued demand for asset financing. Current growth initiatives in the Asset Finance business include those aligned with the increasing focus on green energy, electric car fleets and renewables.

The Invoice and Speciality Finance loan book increased to £1.1 billion (31 July 2020: £0.9 billion), reflecting good demand under the government schemes, and improving utilisation levels in line with the progressive reopening of the economy, albeit these remain below those seen prior to Covid-19. We expect the growth trajectory in Invoice Finance to follow the economic recovery.

The Retail loan book increased 5% to £3.0 billion (31 July 2020: £2.8 billion), with growth in Motor Finance more than offsetting a slight reduction in the Premium Finance loan book. The Motor Finance book increased 10% to £1.9 billion (31 July 2020: £1.7 billion) as we experienced high levels of new business during the year, with record volumes following the easing of lockdown restrictions. This reflected a combination of pent-up demand and an increasing use of finance in the second-hand car market, supported by our investment in the Motor 2020 programme. The Irish Motor Finance business accounted for 21% of the Motor Finance loan book (31 July 2020: 26%). The Irish market continues to recover from the initial Covid-19 impact, with new business volumes up year-on-year, albeit lower than pre-Covid-19 levels. We continue to see strong fundamentals in the second-hand car market and are exploring opportunities for growth through the shift to Alternatively Fuelled Vehicles.

The Premium Finance book remained broadly stable at £1.0 billion (31 July 2020: £1.1 billion) as Covid-19 restrictions have impacted customer behaviour, with the suspension of driving tests and decline in the new car market reducing demand for car insurance policies. Following the removal of Covid-19 restrictions, we would expect demand for the funding of motor insurance policies to recover.

The Property loan book reduced to £1.5 billion (31 July 2020: £1.7 billion) as we saw high repayment levels, reflecting strong unit sales by borrowers due to the release of pent-up demand and buyers taking advantage of the Stamp Duty temporary reduced rates and Help to Buy incentives. This was more than offset by the uptick in drawdowns seen, particularly in the second half of the year, which were broadly in line with pre-Covid-19 average levels. Our pipeline of undrawn commitments remains solid and the Property loan book trajectory will continue to reflect the rate of repayments, as well as new business volumes.

We remain confident in the quality of our lending, which is predominantly secured or structurally protected, prudently underwritten and diverse.

Banking: Commercial[1]

	2021 £ million	2020 £ million	Change %
Operating income	**288.9**	246.6	17
Adjusted operating expenses	**(158.2)**	(142.6)	11
Impairment losses on financial assets	**(77.9)**	(99.2)	(21)
Adjusted operating profit	**52.8**	4.8	1,000
Net interest margin	**7.7%**	7.6%	
Expense/income ratio	**55%**	58%	
Bad debt ratio	**2.1%**	3.1%	
Closing loan book	**3,968.1**	3,048.0	30
Average loan book and operating lease assets	**3,730.5**	3,240.8	15

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 2.

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

Adjusted operating profit increased to £52.8 million (2020: £4.8 million), driven by strong levels of income and a decrease in impairment charges, following the elevated levels seen in 2020 as a result of Covid-19. Statutory operating profit was £35.9 million (2020: £3.1 million).

Operating income of £288.9 million (2020: £246.6 million) was 17% higher than the prior year, driven by the strong growth in the loan book across both Asset Finance and Invoice Finance. The net interest margin increased marginally to 7.7% (2020: 7.6%), primarily reflecting the lower cost of funds and increased fee income in the Invoice Finance business.

Adjusted operating expenses increased 11% to £158.2 million (2020: £142.6 million), mainly driven by higher volume and performance-driven compensation, increased headcount and investment in the Asset Finance transformation programme. The expense/income ratio decreased to 55% (2020: 58%) as growth in operating income more than offset the cost increase.

Impairment charges decreased 21% to £77.9 million (2020: £99.2 million), corresponding to a bad debt ratio of 2.1% (2020: 3.1%). A significant portion of the impairment charges reported in Commercial related to an increase in credit provisions against the Novitas loan book, reflecting the latest assumptions on the case failure and recovery rates in this business. The underlying credit performance of the rest of the Commercial loan book remains strong.

The provision coverage increased to 4.2% (31 July 2020: 3.9%) reflecting a significant increase in provisions against the Novitas loan book, which more than offset the benefits of loan book growth, improved macroeconomic scenarios and weightings and the encouraging performance of the forborne book.

In July 2021, the group decided to cease permanently the approval of lending to new customers across all of the products offered by Novitas, a wholly owned subsidiary of Close Brothers acquired in 2017, and withdraw from the legal services financing market.

We will remain focused on supporting Novitas' existing customers, working with their solicitors as well as insurers and intermediaries, to ensure we manage the existing book in the best interests of customers. As of 31 July 2021, Novitas had a loan book net of provisions of £181.5 million, representing 2.1% of the group's total loans. The future trajectory of the Novitas loan book will

depend on the rate of drawdown on existing loan agreements, as well as the rate of repayment on outstanding loans.

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 July 2021, 7% of the Commercial loan book by value (31 July 2020: 26%) was classified as forborne and subject to Covid-19 related concessions, with balances of £287.4 million (31 July 2020: £832.8 million). These concessions 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. The majority of those customers classified as forborne at 31 July 2021 and subject to Covid-19 related concessions had resumed payments.

Banking: Retail[1]

	2021 **£ million**	2020 £ million	Change %
Operating income	**219.8**	218.4	1
Adjusted operating expenses	**(138.0)**	(126.9)	9
Impairment losses on financial assets	**(9.9)**	(56.6)	(83)
Adjusted operating profit	**71.9**	34.9	106
Net interest margin	**7.6%**	7.7%	
Expense/income ratio	**63%**	58%	
Bad debt ratio	**0.3%**	2.0%	
Closing loan book	**2,974.3**	2,834.5	5
Average loan book	**2,904.4**	2,822.6	3

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 2.

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

Adjusted operating profit for Retail increased over 100% to £71.9 million (2020: £34.9 million), reflecting good levels of operating income and a significant reduction in impairment charges, following the Covid-19 related provision increase in the 2020 financial year. Statutory operating profit was £83.5 million (2020: £34.6 million).

Operating income increased 1% on the prior year to £219.8 million (2020: £218.4 million), in spite of a marginal decline in net interest margin to 7.6% (2020: 7.7%), 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 9% to £138.0 million (2020: £126.9 million) and the expense/income ratio increased to 63% (2020: 58%), reflecting volume-driven costs and ongoing investment in Motor Finance, as well as increased regulatory-driven expenditure. Good progress continues to be made with the Motor Finance transformation programme as it nears completion, with the programme aimed at improving the service proposition, enhancing operational efficiency, improving our credit acceptance process and increasing sales effectiveness.

Impairment charges decreased significantly to £9.9 million (2020: £56.6 million) with a bad debt ratio of 0.3% (2020: 2.0%), reflecting a strong credit performance. The provision coverage ratio decreased slightly on the position at the end of the last financial year to 2.2% (31 July 2020: 2.5%), which reflected the performance of the forborne loan book and strong new business volumes.

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 typically 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 July 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 July 2021, 2% of the Retail loan book by value (31 July 2020: 9%) was classified as forborne and subject to Covid-19 related concessions, principally in the form of payment deferrals, with balances of £49.2 million (31 July 2020: £251.0 million). The majority of those customers classified as forborne at 31 July 2021 and subject to Covid-19 related concessions had resumed payments.

Banking: Property

	2021 £ million	2020 £ million	Change %
Operating income	**123.0**	121.0	2
Operating expenses	**(32.9)**	(33.9)	(3)
Impairment losses on financial assets	**(2.3)**	(27.6)	(92)
Operating profit	**87.8**	59.5	48
Net interest margin	**7.6%**	6.8%	
Expense/income ratio	**27%**	28%	
Bad debt ratio	**0.1%**	1.5%	
Closing loan book	**1,502.1**	1,734.2	(13)
Average loan book	**1,618.2**	1,790.9	(10)

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, with the regional loan book now making up over 50% of the Property Finance development portfolio.

The business delivered an operating profit of £87.8 million (2020: £59.5 million), up 48%, as impairment charges reduced significantly from their elevated level in 2020.

Operating income increased marginally to £123.0 million (2020: £121.0 million), in spite of the reduction in the loan book, as the net interest margin increased to 7.6% (2020: 6.8%), driven by an accounting reclassification, the unwind of modification losses, and lower cost of funds.

Operating expenses were 3% lower at £32.9 million (2020: £33.9 million) as we maintained our focus on cost discipline. The expense/income ratio reduced slightly to 27% (2020: 28%), as the decline in operating expenses through disciplined cost control more than offset the stable level of operating income.

Impairment charges decreased to £2.3 million (2020: £27.6 million), resulting in a bad debt ratio of 0.1% (2020: 1.5%) reflecting a strong credit performance and improved macroeconomic forecasts, partially offset by an accounting reclassification. The provision coverage ratio remained broadly stable at 2.6% (31 July 2020: 2.5%).

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 July 2021, 50 customers (31 July 2020: 187 customers) accounting for 8% of the Property loan book by value (31 July 2020: 18%) were subject to Covid-19 related concessions, 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[1]

	2021 £ million	2020 £ million	Change %
Investment management	**102.9**	91.4	13
Advice and other services[2]	**36.4**	35.5	3
Other income[3]	**0.1**	1.3	(92)
Operating income	**139.4**	128.2	9
Adjusted operating expenses	**(115.9)**	(107.7)	8
Impairment (losses)/gains on financial assets	**0.2**	(0.1)	(300)
Adjusted operating profit	**23.7**	20.4	16
Revenue margin (bps)	**91**	94	
Operating margin	**17%**	16%	
Return on opening equity	**31.7%**	28.7%	

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 2.

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

3 Other income includes net interest income and expense, income on principal investments and other income. Other income includes a £1.1 million gain on disposal of non-core assets in the 2020 financial year.

Continued Focus on Maximising Long-Term Growth Potential

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 financial advisers.

Equity markets have gained significantly over the year, following the lows of the early Covid-19 impact, as the actions of central banks and vaccine rollout programmes have improved confidence. Despite the improving market conditions, lower new client flows have been seen across the industry, as the ongoing impact of Covid-19 and reduced face-to-face interaction impacted client sentiment and inflows. Nevertheless, we performed well in the year, generating good net inflows of 7% and growing managed assets 24% to £15.6 billion.

Adjusted operating profit increased 16% to £23.7 million (2020: £20.4 million), as the growth in operating income more than offset the cost of continued investment in supporting the long-term growth potential of the business. The operating margin increased marginally to 17% (2020: 16%). Statutory operating profit before tax was £22.4 million (2020: £19.3 million).

Total operating income increased 9% to £139.4 million (2020: £128.2 million) as higher management and advice fees were generated from the growth in assets under management. The revenue margin decreased to 91bps (2020: 94bps) primarily driven by a higher level of flows into our lower margin products and lower initial advice and dealing fees.

Adjusted operating expenses increased 8% to £115.9 million (2020: £107.7 million) primarily driven by new hires, in line with our growth strategy, and an increase in performance-related compensation, as well as investment in our technology and systems. As a result, the compensation ratio increased slightly to 56% (2020: 55%) and the expense/income ratio decreased to 83% (2020: 84%).

As we continue to invest in the business to deliver growth and scale, the cost trajectory will depend on the rate of hiring, with investment in technology projects expected to continue.

Good Net Inflows

Although equity markets have improved over the year, the ongoing impact of Covid-19 has influenced sentiment and inflows across the industry. Despite this, we achieved good net inflows of £917 million and a net inflow rate of 7% of opening managed assets. This reflected continued demand for both our investment management and integrated wealth services as well as good momentum from our recent portfolio manager hires, aided by improved conditions and confidence in the market.

Stronger equity markets meant positive market movements contributed £2.1 billion to managed assets in the year. The combined impact with positive net inflows resulted in managed assets increasing 24% overall to £15.6 billion (31 July 2020: £12.6 billion). Total client assets increased 24% overall to £17.0 billion (31 July 2020: £13.7 billion).

In July, we completed the acquisition of PMN Financial Management LLP ("PMN"), an IFA business with approximately £300 million of client assets. PMN's partners, advisers and support team joined CBAM as part of the acquisition, as we continue to deliver on our growth strategy of making selective infill acquisitions. The acquisition is reflected in CBAM's advised only assets, but has had no impact on managed assets in the 2021 financial year, although we would expect migrations to our investment management services over time.

Movement in Client Assets

	31 July 2021 £ million	31 July 2020 £ million
Opening managed assets	**12,594**	11,673
Inflows	**2,284**	2,350
Outflows	**(1,367)**	(1,257)
Net inflows	**917**	1,093
Market movements	**2,077**	(172)
Total managed assets	**15,588**	12,594
Advised only assets	**1,435**	1,118
Total client assets[1]	**17,023**	13,712
Net flows as % of opening managed assets	**7%**	9%

1 Total client assets include £6.0 billion of assets (31 July 2020: £5.1 billion) that are both advised and managed.

Fund Performance

Our funds and segregated bespoke portfolios are designed to provide attractive risk-adjusted returns for our clients, consistent with their long-term goals and investment objectives. Fund performance has been mixed over the last year, reflecting volatile equity markets. Over the three-year period to 31 July 2021, eight of our 14 multi-asset funds outperformed the relevant peer group average, with nine of the 14 funds outperforming over the five-year period to 31 July 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.

Our Approach to ESG and Sustainability

Sustainable investment strategies remain a key focus area across the industry and our Socially Responsible Investment proposition continues to be well received. We have also launched two new sustainable funds this year (Close Sustainable Balanced Portfolio Fund and Close Sustainable Bond Portfolio Fund) which are gaining good traction.

Earlier this year we became signatories to the UN-supported Principles for Responsible Investment, further demonstrating our commitment to improving the way we measure, report and manage ESG issues throughout our investment activities. We have established a dedicated sustainability committee with oversight of the division's strategy, governance, reporting and operating model with regard to sustainability, and are developing a sustainable proposition for our bespoke investment managers to further embed ESG considerations into our offerings.

Well Positioned for Future Growth

We have remained committed to providing excellent service to our clients, and in spite of the challenges presented by Covid-19 and reduced face-to-face interactions, we have maintained high levels of contact with clients via email, telephone, video, our online portal and our mobile app.

We continue to invest in new hires and technology to support the long-term growth potential of the business and, during the year, have made significant progress in upgrading and consolidating our technology platform, which should further enhance our operating efficiency and improve its capacity, scalability and resilience, as well as providing client experience benefits.

Our vertically integrated, multi-channel business model leaves us well positioned to benefit from proven, continued demand for our services and the structural growth opportunity presented by the wealth management industry. Given the attractive opportunities we see in the market, we will continue to invest to support the long-term growth potential of the business and to drive growth both organically and through the continued selective hiring of advisers and investment managers, and through infill acquisitions.

WINTERFLOOD

Key Financials

	2021 £ million	2020 £ million	Change %
Operating income	**182.0**	151.9	20
Operating expenses	**(121.2)**	(103.8)	17
Impairment (losses)/gains on financial assets	**0.1**	(0.2)	(150)
Operating profit	**60.9**	47.9	27
Average bargains per day ('000)	**101**	82	
Operating margin	**33%**	32%	
Return on opening equity	**63.5%**	50.4%	

Maximising Trading Opportunities in a Dynamic Market Environment

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

Winterflood delivered an exceptionally strong trading performance in the year, with our experienced traders successfully navigating the continued market volatility resulting from Covid-19 to deliver operating profit of £60.9 million (2020: £47.9 million).

Operating income increased 20% to £182.0 million, a 20-year high, with particularly strong activity across AIM, Small Cap and International markets.

The business experienced increased market volatility and heightened retail trading activity for much of the year, driven by lockdown restrictions and increasing investor optimism regarding the economic recovery, offset by concerns over inflation, central bank monetary policy and new Covid-19 variants.

The announcement of the successful trial results for the Pfizer-BioNTech vaccine in November resulted in a remarkable trading performance, with Winterflood achieving the highest daily trade volume on record, 227,000, surpassing the previous high of 186,000 in June 2020 and producing the highest daily trading revenue of the 2021 financial year.

Average daily bargains over the year increased 23% to 100,681 (2020: 82,003) and the team's experience and focus on managing risk resulted in only one loss day during the year despite significant market volatility (2020: seven loss days).

Trading volumes were exceptionally high for most of the financial year, albeit we have seen a slowdown in activity towards the end of the period.

Operating expenses increased 17% to £121.2 million driven by the variable nature of Winterflood's cost base, with the increased revenue performance and trading activity leading to higher staff compensation and settlement costs. The expense/income ratio marginally decreased to 67% (2020: 68%) as a result of the high levels of income in the year, partially offset by the corresponding increase in variable costs. The compensation ratio remained stable at 48% (2020: 48%).

We continued to make progress in expanding our institutional client base, particularly in the UK.

In investment trusts, we also saw good levels of corporate activity over the year with several large transactions, including the $700 million share placing of the Baillie Gifford Schiehallion Fund.

WBS, which provides outsourced dealing and custody services for asset managers and platforms, has generated strong levels of income during the year and its assets under administration have increased significantly to £6.2 billion (2020: £4.1 billion) as a result of growth in its new and existing client base. We continue to see potential for strong growth in WBS' assets under administration in years to come, building on the momentum seen in 2021.

Winterflood has continued to trade successfully in the early part of the 2022 financial year, albeit with a continued slowing in volumes and moderation of trading performance. Due to the nature of the business, it remains sensitive to changes in the market environment.

DEFINITIONS

Adjusted: 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

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

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

Bargains per day: Average 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

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

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 certain intangible assets and other regulatory adjustments

Compensation ratio: Total staff costs as a percentage of adjusted 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. The scheme closed at the end of March 2021

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

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

Effective tax rate: Tax on operating profit/(loss) as a percentage of operating profit/(loss) 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 as % 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: Includes depreciation and other costs related to investment in multi-year projects, new business initiatives and pilots and cyber resilience. Excludes IFRS 16 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 flows: Net flows as a percentage of opening managed assets calculated on an annualised basis

Net interest margin ("NIM"): 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 net loans and advances to customers and operating lease assets

Net zero: Target of completely negating the amount of greenhouse gases produced by reducing emissions or implementing methods for their removal

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

Recovery Loan Scheme: Launched in April 2021 as a replacement to CBILS. Under the terms of the scheme, businesses of any size that have been adversely impacted by the Covid-19 pandemic can apply to borrow up to £10 million, with accredited lenders receiving a government-backed

guarantee of 80% on losses that may arise. The scheme is due to close at the end of December 2021

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

Return on average tangible equity: Adjusted operating profit attributable to shareholders 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 ("RoE"): Adjusted operating profit attributable to shareholders 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 in line with the CRR. It is used in determining the capital requirement for a financial institution

Scope 1, 2 and 3 emissions: Categorisation of greenhouse gas emissions, as defined by the Greenhouse Gas (GHG) Protocol, into direct emissions from owned or controlled sources (Scope 1), indirect emissions from the generation of purchased electricity, heating and cooling consumed by the reporting company (Scope 2), and all other indirect emissions that occur in a company's value chain (Scope 3)

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

CONSOLIDATED INCOME STATEMENT
for the year ended 31 July 2021

	Note	**2021 £ million**	2020 £ million
Interest income		**656.8**	629.1
Interest expense		**(119.3)**	(135.1)
Net interest income		**537.5**	494.0
Fee and commission income		**246.1**	230.2
Fee and commission expense		**(16.1)**	(17.6)
Gains less losses arising from dealing in securities		**165.2**	142.6
Other income		**89.4**	83.4
Depreciation of operating lease assets and other direct costs	11	**(69.5)**	(66.5)
Non-interest income		**415.1**	372.1
Operating income		**952.6**	866.1
Administrative expenses		**(592.1)**	(538.4)
Impairment losses on financial assets	7	**(89.8)**	(183.7)
Total operating expenses before amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional item		**(681.9)**	(722.1)
Operating profit before amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional item		**270.7**	144.0
Amortisation and impairment of intangible assets on acquisition	10	**(14.2)**	(3.1)
Goodwill impairment	10	**(12.1)**	-
Exceptional item: HMRC VAT refund	3	**20.8**	-
Operating profit before tax		**265.2**	140.9
Tax	4	**(63.1)**	(31.4)
Profit after tax		**202.1**	109.5
Profit attributable to shareholders		**202.1**	109.5
Basic earnings per share	5	**134.8p**	72.8p
Diluted earnings per share	5	**133.6p**	72.5p
Interim dividend per share paid	6	**18.0p**	-
Final dividend per share	6	**42.0p**	40.0p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 July 2021

	2021 £ million	2020 £ million
Profit after tax	**202.1**	109.5
Other comprehensive income/(expense) that may be reclassified to income statement		
Currency translation losses	**(1.1)**	(0.4)
Gains/(losses) on cash flow hedging	**7.4**	(1.9)
Gains/(losses) on financial instruments classified at fair value through other comprehensive income:		
Sovereign and central bank debt	**0.9**	(0.6)
Tax relating to items that may be reclassified	**(1.2)**	1.0
	6.0	(1.9)
Other comprehensive (expense)/income that will not be reclassified to income statement		
Defined benefit pension scheme gains	**0.5**	0.9
Tax relating to items that will not be reclassified	**(0.6)**	(0.3)
	(0.1)	0.6
Other comprehensive income/(expense), net of tax	**5.9**	(1.3)
Total comprehensive income	**208.0**	108.2
Attributable to		
Shareholders	**208.0**	108.2

CONSOLIDATED BALANCE SHEET
at 31 July 2021

	Note	**31 July 2021 £ million**	31 July 2020 £ million
Assets			
Cash and balances at central banks		**1,331.0**	1,375.8
Settlement balances		**699.6**	619.7
Loans and advances to banks		**136.3**	125.8
Loans and advances to customers	7	**8,444.5**	7,616.7
Debt securities	8	**477.3**	382.5
Equity shares	9	**31.9**	30.0
Loans to money brokers against stock advanced		**51.1**	45.8
Derivative financial instruments		**18.3**	39.9
Intangible assets	10	**232.6**	240.1
Property, plant and equipment	11	**309.9**	297.2
Current tax assets		**36.4**	41.2
Deferred tax assets		**56.0**	47.3
Prepayments, accrued income and other assets		**209.6**	209.5
Total assets		**12,034.5**	11,071.5
Liabilities			
Settlement balances and short positions	12	**690.6**	604.9
Deposits by banks	13	**150.6**	152.8
Deposits by customers	13	**6,634.8**	5,917.7
Loans and overdrafts from banks	13	**512.7**	497.9
Debt securities in issue	13	**1,865.5**	1,870.3
Loans from money brokers against stock advanced		**-**	17.9
Derivative financial instruments		**21.3**	20.8
Current tax liabilities		**-**	1.3
Accruals, deferred income and other liabilities		**367.0**	315.3
Subordinated loan capital		**222.7**	223.0
Total liabilities		**10,465.2**	9,621.9
Equity			
Called up share capital		**38.0**	38.0
Retained earnings		**1,555.5**	1,435.0
Other reserves		**(23.2)**	(22.4)
Total shareholders' equity		**1,570.3**	1,450.6
Non-controlling interests		**(1.0)**	(1.0)
Total equity		**1,569.3**	1,449.6
Total liabilities and equity		**12,034.5**	11,071.5

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 July 2021

	Called up share capital £ million	Retained earnings £ million	Other reserves: FVOCI reserve £ million	Other reserves: Share-based payments reserve £ million	Other reserves: Exchange movements reserve £ million	Other reserves: Cash flow hedging reserve £ million	Total attributable to equity holders £ million	Non-controlling interests £ million	Total equity £ million
At 1 August 2019	38.0	1,392.5	0.7	(18.2)	(1.2)	(4.4)	1,407.4	(1.0)	1,406.4
Profit for the year	-	109.5	-	-	-	-	109.5	-	109.5
Other comprehensive income/(expense)	-	0.6	(0.5)	-	(0.1)	(1.3)	(1.3)	-	(1.3)
Total comprehensive income/(expense) for the year	-	110.1	(0.5)	-	(0.1)	(1.3)	108.2	-	108.2
Dividends paid (note 6)	-	(65.8)	-	-	-	-	(65.8)	-	(65.8)
Shares purchased	-	-	-	(8.0)	-	-	(8.0)	-	(8.0)
Shares released	-	-	-	11.9	-	-	11.9	-	11.9
Other movements	-	(1.9)	-	(1.3)	-	-	(3.2)	-	(3.2)
Income tax	-	0.1	-	-	-	-	0.1	-	0.1
At 31 July 2020	38.0	1,435.0	0.2	(15.6)	(1.3)	(5.7)	1,450.6	(1.0)	1,449.6
Profit for the year	-	202.1	-	-	-	-	202.1	-	202.1
Other comprehensive (expense)/income	-	(0.1)	0.6	-	-	5.4	5.9	-	5.9
Total comprehensive income for the year	-	202.0	0.6	-	-	5.4	208.0	-	208.0
Dividends paid (note 6)	-	(86.6)	-	-	-	-	(86.6)	-	(86.6)
Shares purchased	-	-	-	(12.1)	-	-	(12.1)	-	(12.1)
Shares released	-	-	-	10.0	-	-	10.0	-	10.0
Other movements	-	3.7	-	(4.7)	-	-	(1.0)	-	(1.0)
Income tax	-	1.4	-	-	-	-	1.4	-	1.4
At 31 July 2021	**38.0**	**1,555.5**	**0.8**	**(22.4)**	**(1.3)**	**(0.3)**	**1,570.3**	**(1.0)**	**1,569.3**

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 July 2021

	Note	**2021 £ million**	2020 £ million
Net cash inflow from operating activities	15(a)	**119.1**	429.4
Net cash (outflow)/inflow from investing activities			
Purchase of:			
Property, plant and equipment		**(8.9)**	(5.3)
Intangible assets – software		**(47.9)**	(44.3)
Subsidiaries	15(b)	**(2.9)**	(4.6)
Sale of:			
Subsidiaries	15(c)	**2.3**	0.5
		(57.4)	(53.7)
Net cash inflow before financing activities		**61.7**	375.7
Financing activities			
Purchase of own shares for employee share award schemes		**(12.1)**	(8.0)
Equity dividends paid		**(86.6)**	(65.8)
Interest paid on subordinated loan capital and debt financing		**(13.6)**	(14.3)
Payment of lease liabilities		**(14.7)**	(14.6)
Net Issuance of subordinated loan capital		**40.6**	-
Net (decrease)/Increase in cash		**(24.7)**	273.0
Cash and cash equivalents at beginning of year		**1,461.3**	1,188.3
Cash and cash equivalents at end of year	15(d)	**1,436.6**	1,461.3

THE NOTES

1. Basis of Preparation and Accounting Policies

The financial information contained in this announcement does not constitute the statutory accounts for the years ended 31 July 2021 or 31 July 2020 within the meaning of section 435 of the Companies Act 2006, but is derived from those accounts. The accounting policies used are consistent with those set out in the Annual Report 2020.

The financial statements are prepared on a going concern basis. Whilst the financial information has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS"), this announcement does not itself contain sufficient information to comply with IFRS. The company expects to publish full financial statements that comply with IFRS by 4 October 2021.

The financial information for the year ended 31 July 2021 has been derived from the audited financial statements of Close Brothers Group plc for that year. Statutory accounts for 2020 have been delivered to the Registrar of Companies and those for 2021 will be delivered following the company's Annual General Meeting. The group's auditor, PricewaterhouseCoopers LLP, has reported on the 2021 accounts: their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

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. UK company law and IFRS require the directors, in preparing the group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable. The group's estimates and assumptions are based on historical experience and reasonable expectations of future events and are reviewed on an ongoing basis.

Critical accounting judgements

In the application of the group's accounting policies, judgements that are considered by the board to have the most significant effect on the amounts in the financial statements are as follows.

Expected credit losses

At 31 July 2021 the group's expected credit loss provision was £280.4 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 impact and complexity of Covid-19, and to reflect the ongoing 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. These incorporate the effects of Covid-19 into the significant increase in credit risk assessment and continue to be in operation.

Note 17 provides more detail on the group's Covid-19 related concessions. Additional monitoring of this cohort of customers continues to be in place until the relevant cure period has expired, upon which, standard staging triggers are applied.

Definition of default
The definition of default is an important building block for expected credit loss 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 a 90 days past due backstop. While some criteria are factual (e.g. administration, insolvency, or bankruptcy), others require a judgmental assessment of whether the borrower has financial difficulties which are expected to have a detrimental impact on their ability to meet contractual obligations. A change in the definition of default may have a material impact on the expected credit loss provision.

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 wide range of factors, could result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

The accuracy of the expected credit loss provision can be impacted by unpredictable effects or unanticipated changes to model estimates. In addition, forecasting errors could also 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 across model estimates.

A representation of the core drivers of the macroeconomic scenarios that are deployed in our models are outlined below. In some instances, our underlying business expected credit loss models use a range of other macroeconomic metrics and assumptions which are linked to the underlying characteristics of the business.

Model estimates
Across the Banking Division, expected credit loss provisions are outputs of models which are based on a number of assumptions. The assumptions applied involve judgement and as a result are regularly assessed.

During the year, the calculation of the expected credit loss provision for Novitas, which forms part of Commercial, has required the group to update a number of assumptions. This year a significant portion of the expected credit loss provision reported in Commercial relates to the Novitas loan book.

Novitas provides funding via intermediaries to individuals who wish to pursue legal cases. The majority of the Novitas portfolio, and therefore provision, relates to civil litigation cases. To help protect customers in the event that their case fails, a standard loan condition is that an individual purchases an insurance policy which covers loan capital and varying levels of interest. Across the portfolio there are insurance policies from a number of well rated insurers.

The key sources of estimation uncertainty for the portfolio's expected credit loss provision are case failure rates and recovery rates. Case failure rates represent a forward-looking probability assessment of successful case outcomes informed by actual case failure rates. Recovery rates represent the level of interest and capital that is expected to be covered by an insurance policy, once a case fails. In addition an assessment is also undertaken reflecting potential insurer insolvency risk with resultant expected credit losses held for this.

Assumptions are informed by the latest credit performance data, with management judgement applied to reflect expected outcomes and uncertainties. In addition, the provision is informed by sensitivity analysis to reflect the level of uncertainty. More detailed credit performance data continues to develop as the portfolio matures, which over time will reduce the level of estimation uncertainty.

Based on this methodology, and using the latest information available, the expected credit loss provision for the Commercial division has seen a significant uplift, reflecting the latest assumptions on case failure and recovery rates in Novitas. Further details on provisions are included in note 7b.

Given these assumptions represent sources of estimation uncertainty, management has assessed and completed sensitivity analysis when compared to the expected credit loss provision for Commercial of £172.4 million. At 31 July 2021, a 5% absolute deterioration or improvement in case failure rates would increase or decrease the expected credit loss provision by £8.2 million. Separately, a 5% absolute deterioration or improvement in recovery rates would increase or decrease the expected credit loss provision by £4.2 million.

Forward-looking information
Determining expected credit losses under IFRS 9 requires the incorporation of forward-looking macroeconomic information that is reasonable, supportable and includes 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 externally sourced 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 which are incorporated into provisions through the modelling of these multiple scenarios.

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 portfolio level.

The impact of 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 and group chief risk officer meets monthly, 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 been conducted on a monthly basis. The decision is subsequently noted at the Group Risk and Compliance Committee ("GRCC"), which includes the aforementioned roles in addition to the group chief executive officer.

At 31 July 2020, the scenario weightings were 40% baseline and 60% downside, reflecting the uncertainty and elevated risk resultant from the pandemic. At 31 January 2021, 10% weighting was moved from the downside to the upside, reflecting the more optimistic outlook. At 31 July 2021, the level of economic uncertainty had reduced, given the lifting of lockdown restrictions, continued successful vaccine deployment, and falling case numbers. It was therefore approved to increase the upside weighting, with the resulting position being 20% upside, 40% baseline, 15% downside (mild), 15% downside (moderate) and 10% downside (protracted).

In line with the approach taken at the start of the pandemic, refreshed scenario forecasts are deployed in the IFRS 9 macroeconomic models on a monthly basis. As at 31 July 2021, the latest baseline scenario forecasts GDP growth of 7.0% in 2021, with unemployment of 5.6%.

The baseline Moody's scenario is focused on continued low Covid-19 case numbers, preventing a further lockdown, with economic recovery through the second half of 2021. Unemployment spikes at the end of 2021 as a result of the furlough scheme ending. House price growth is expected to ease following the end of the stamp duty holiday scheme, alongside the softening in employment.

The table below shows the key UK economic assumptions within each scenario, and the weighting applied to each at 31 July 2021. The numbers shown are the forecasts for 2021, 2022, and an average over the five-year period from 2021 to 2025. A further table is set out below to show the peak to trough range across the key metrics for the scenarios utilised over the five-year period.

These periods have been included as they demonstrate the short, medium and long-term outlook for the key macroeconomic indicators which form the basis of the scenario forecasts. The portfolio has an average residual maturity of 17 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 July 2021										
UK GDP Growth	6.2%	6.3%	7.4%	8.7%	5.1%	4.2%	4.6%	2.0%	4.1%	0.8%
UK Unemployment	5.8%	6.3%	5.7%	5.4%	5.9%	7.3%	6.0%	8.0%	6.1%	8.9%
HPI Growth	5.3%	(1.8%)	7.2%	7.1%	5.0%	(5.4%)	4.4%	(7.9%)	3.1%	(11.6%)
BoE Base Rate	0.1%	0.2%	0.1%	0.3%	0.1%	0.1%	0.1%	0.1%	0.0%	(0.1%)
Weighting	**40%**		**20%**		**15%**		**15%**		**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%**	

			Five year average (2021-2025)		
	Baseline	**Upside (strong)**	**Downside (mild)**	**Downside (moderate)**	**Downside (protracted)**
At 31 July 2021					
UK GDP Growth	3.9%	4.4%	3.7%	3.5%	3.1%
UK Unemployment	5.5%	4.8%	6.3%	7.1%	7.7%
HPI Growth	4.0%	6.0%	2.7%	0.4%	(1.3%)
BoE Base Rate	0.6%	0.8%	0.2%	0.1%	0.0%
Weighting	**40%**	**20%**	**15%**	**15%**	**10%**

			Five 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 July 2021-31 July 2025) of the peak to trough range of values of the key UK economic variables used within the economic scenarios at 31 July 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 July 2021										
UK GDP Growth	12.2%	0.9%	14.3%	0.9%	11.6%	0.4%	10.6%	(0.9%)	10.3%	(2.1%)
UK Unemployment	6.6%	4.9%	6.3%	4.2%	7.5%	5.7%	8.2%	5.8%	9.2%	5.9%
HPI Growth	6.9%	(5.1%)	10.2%	2.6%	6.7%	(8.0%)	6.4%	(14.4%)	6.5%	(19.9%)
BoE Base Rate	1.4%	0.1%	1.7%	0.1%	0.4%	0.1%	0.1%	0.1%	0.1%	(0.1%)
Weighting	**40%**		**20%**		**15%**		**15%**		**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 macroeconomic scenarios. As a result, management has assessed and considered the sensitivity of the provision as follows:

- For the majority of our portfolios the modelled Stage1 and 2 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 and provision measurement.
- Across the businesses adjustments have typically been excluded from the analysis, given a range of outcomes are considered when determining the appropriate level of adjustment.
- In Retail:
  - For some loans a specific sensitivity approach has been adopted to assess short tenor loans' response to modelled macroeconomic 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 much slower recovery in a downside scenario;
  - The sensitivity analysis excludes expected credit loss provisions on loans and advances to customers in Stage 3 because the measurement of expected credit losses is considered more sensitive to credit factors specific to the borrower than macroeconomic scenarios; and
  - In certain portfolios adjustments are dynamic in nature and are flexed in line with the sensitivity analysis.
- In Property and Commercial, the majority of modelled expected credit losses are included in the sensitivity analysis, except where individually assessed provisions are in place, or for certain sub portfolios which are also deemed more sensitive to credit factors than the macroeconomic scenarios.

Based on the above analysis, at 31 July 2021, application of a weighting to the upside strong scenario would decrease the expected credit loss by £12.5 million (31 July 2020: £18.3 million) whilst application to the downside protracted scenario would increase the expected credit loss by £22.7 million (31 July 2020: £23.7 million) driven by the aforementioned changes in risk metrics and stage allocation of the portfolios.

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 ECL 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 July 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 and methodology, comparison between the sensitivity results at 31 July 2021 and 31 July 2020 is not appropriate.

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

2. Segmental Analysis

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

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

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

Summary income statement for the year ended 31 July 2021

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Net interest income/(expense)	**218.1**	**198.8**	**122.6**	**(0.1)**	**(1.4)**	**(0.5)**	**537.5**
Non-interest income/(expense)	**70.8**	**21.0**	**0.4**	**139.5**	**183.4**	**-**	**415.1**
Operating income/ (expense)	**288.9**	**219.8**	**123.0**	**139.4**	**182.0**	**(0.5)**	**952.6**
Administrative expenses	**(139.1)**	**(118.6)**	**(29.1)**	**(110.8)**	**(118.1)**	**(24.1)**	**(539.8)**
Depreciation and amortisation	**(19.1)**	**(19.4)**	**(3.8)**	**(5.1)**	**(3.1)**	**(1.8)**	**(52.3)**
Impairment (losses)/gains on financial assets	**(77.9)**	**(9.9)**	**(2.3)**	**0.2**	**0.1**	**-**	**(89.8)**
Total operating expenses before amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional item	**(236.1)**	**(147.9)**	**(35.2)**	**(115.7)**	**(121.1)**	**(25.9)**	**(681.9)**
Adjusted operating profit/(loss)[1]	**52.8**	**71.9**	**87.8**	**23.7**	**60.9**	**(26.4)**	**270.7**
Amortisation and impairment of intangible assets on acquisition	**(12.2)**	**(0.7)**	**-**	**(1.3)**	**-**	**-**	**(14.2)**
Goodwill impairment	**(12.1)**	**-**	**-**	**-**	**-**	**-**	**(12.1)**
Exceptional item: HMRC VAT refund	**7.4**	**12.3**	**-**	**-**	**-**	**1.1**	**20.8**
Operating profit/(loss) before tax	**35.9**	**83.5**	**87.8**	**22.4**	**60.9**	**(25.3)**	**265.2**
External operating income/(expense)	**343.1**	**258.7**	**142.3**	**139.4**	**182.0**	**(112.9)**	**952.6**
Inter segment operating (expense)/income	**(54.2)**	**(38.9)**	**(19.3)**	**-**	**-**	**112.4**	**-**
Segment operating Income	**288.9**	**219.8**	**123.0**	**139.4**	**182.0**	**(0.5)**	**952.6**

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

Summary balance sheet information at 31 July 2021

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
Total assets[1]	**4,191.0**	**2,974.3**	**1,502.1**	**139.7**	**897.9**	**2,329.5**	**12,034.5**
Total liabilities	**-**	**-**	**-**	**78.1**	**806.5**	**9,580.6**	**10,465.2**

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Balance sheet includes £2,299.0 million assets and £9,677.8 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

Equity is allocated across the group as set out below. Banking division equity which is managed as a whole rather than on a segmental basis, reflects loan book and operating lease assets of £8,667.4 million, in addition to assets and liabilities of £2,299.0 million and £9,677.8 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	**1,288.6**	**61.6**	**91.4**	**127.7**	**1,569.3**

Other segmental information for the year ended 31 July 2021

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group	Total
Employees (average number)[1]	**1,276**	**1,163**	**187**	**706**	**300**	**77**	**3,709**

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

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/(expense)	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 before amortisation of intangible assets on acquisition, goodwill impairment and exceptional item	(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)
Goodwill impairment	-	-	-	-	-	-	-
Exceptional item: HMRC VAT refund	-	-	-	-	-	-	-
Operating profit/(loss) before tax	3.1	34.6	59.5	19.3	47.9	(23.5)	140.9
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 and impairment of intangible assets on acquisition, goodwill impairment, exceptional item and tax.

Summary 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 in the balance sheet information above.

Other segmental information for the year ended 31 July 2020

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group	Total
Employees (average number)[1]	1,215	1,080	176	699	281	70	3,521

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

3. Exceptional Item

During the year, the group recorded 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. This follows HMRC's policy in Revenue and Customs Brief 8 (2020) published in June 2020. The Brief advised businesses who supply goods by way of hire purchase agreements of HMRC's suggested method for apportionment of VAT incurred on overheads (and so the reclaimable portion of such VAT). This follows the Court of Justice of the European Union's judgement regarding Volkswagen Financial Services (UK) Ltd.

The group submitted refund claims in respect of the period from 2009 to 2020. HMRC agreed the claims and repayment was made to the group in June 2021. In line with the group's accounting policy set out in Note 1, this has been presented as an exceptional item as it is material by size and nature and non-recurring.

4. Taxation

	2021 **£ million**	2020 £ million
Tax charged/(credited) to the income statement		
Current tax:		
UK corporation tax	**75.1**	35.4
Foreign tax	**1.5**	0.2
Adjustments in respect of previous years	**(3.4)**	(10.0)
	73.2	25.6
Deferred tax:		
Deferred tax credit for the current year	**(13.6)**	(3.1)
Adjustments in respect of previous years	**3.5**	8.9
	63.1	31.4
Tax on items not charged/(credited) to the income statement		
Current tax relating to:		
Share-based payments	**-**	(0.1)
Deferred tax relating to:		
Cash flow hedging	**2.0**	(0.6)
Defined benefit pension scheme	**0.6**	0.3
Financial instruments classified as fair value through other comprehensive income	**0.3**	(0.1)
Share-based payments	**(1.4)**	-
Currency translation losses	**(1.1)**	(0.3)
Acquisitions	**1.0**	(0.2)
	1.4	(1.0)
Reconciliation to tax expense		
UK corporation tax for the year at 19.0% (2020: 19.0%) on operating profit before tax	**50.4**	26.8
Effect of different tax rates in other jurisdictions	**(0.3)**	(0.2)
Disallowable items and other permanent differences	**2.9**	1.6
Banking surcharge	**19.8**	7.2
Deferred tax impact of increased tax rates	**(9.8)**	(2.9)
Prior year tax provision	**0.1**	(1.1)
	63.1	31.4

The standard UK corporation tax rate for the financial year is 19.0% (2020: 19.0%). However, an additional 8% surcharge applies to banking company profits as defined in legislation. The effective tax rate of 23.8% (2020: 22.3%) is above the UK corporation tax rate primarily due to the surcharge applying to most of the group's profits partly offset by a write-up in deferred tax assets reflecting an increase in the UK corporation tax from 19% to 25% applying from April 2023 passed into law in the year.

In the Chancellor of the Exchequer's Budget 2021 announcement on 3 March 2021, it was 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.

Movements in deferred tax assets and liabilities were as follows:

	Capital allowances £ million	Pension scheme £ million	Share-based payments and deferred compensation £ million	Impair-ment losses £ million	Cash flow hedging £ million	Intangible assets £ million	Other £ million	Total £ million
At 1 August 2019	34.7	(1.4)	8.3	12.7	1.5	(3.3)	(0.3)	52.2
(Charge)/credit to the income statement	(3.5)	-	0.6	(3.2)	-	0.1	0.2	(5.8)
Credit/(charge) to other comprehensive income	0.3	(0.3)	-	-	0.6	-	0.1	0.7
Credit to equity	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	0.2	0.2
At 31 July 2020	31.5	(1.7)	8.9	9.5	2.1	(3.2)	0.2	47.3
Credit /(charge) to the income statement	3.5	0.1	5.2	(0.7)	-	2.5	(0.5)	10.1
Credit /(charge) to other comprehensive income	1.1	(0.6)	-	-	(2.0)	-	(0.3)	(1.8)
Credit to equity	-	-	1.4	-	-	-	-	1.4
Acquisitions	-	-	-	-	-	(1.0)	-	(1.0)
At 31 July 2021	**36.1**	**(2.2)**	**15.5**	**8.8**	**0.1**	**(1.7)**	**(0.6)**	**56.0**

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

5. Earnings per Share

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

	2021	2020
Basic	**134.8p**	72.8p
Diluted	**133.6p**	72.5p
Adjusted basic[1]	**140.4p**	74.5p
Adjusted diluted[1]	**139.1p**	74.2p

1 Excludes amortisation and impairment of intangible assets on acquisition, goodwill impairment, exceptional item and their tax effects.

	2021 £ million	2020 £ million
Profit attributable to shareholders	**202.1**	109.5
Adjustments:		
Amortisation of intangible assets on acquisition	**14.2**	3.1
Goodwill impairment	**12.1**	-
Exceptional item: HMRC VAT refund	**(20.8)**	-
Tax effect of adjustments and exceptional item	**2.9**	(0.5)
Adjusted profit attributable to shareholders	**210.5**	112.1

	2021 million	2020 million
Average number of shares		
Basic weighted	**149.9**	150.4
Effect of dilutive share options and awards	**1.4**	0.7
Diluted weighted	**151.3**	151.1

6. Dividends

	2021 £ million	2020 £ 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
Interim dividend for current financial year paid in April 2021: 18.0p (April 2020: 0.0p)	**26.8**	-
	86.6	65.8

A final dividend relating to the year ended 31 July 2021 of 42.0p, amounting to an estimated £62.7 million, is proposed. This final dividend, which is due to be paid on 23 November 2021 to shareholders on the register at 15 October 2021, is not reflected in these financial statements.

7. Loans and Advances to Customers

(a) Maturity analysis of loans and advances to customers

The following table sets out a maturity analysis of loans and advances to customers. At 31 July 2021 loans and advances to customers with a maturity of two years or less was £6,326.6million (31 July 2020: £6,031.6 million) representing 72.5% (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 July 2021	**71.8**	**2,276.6**	**2,289.1**	**1,689.1**	**2,242.8**	**155.5**	**8,724.9**	**(280.4)**	**8,444.5**
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

(b) 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 July 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	**3,417.2**	**549.4**	**74.0**	**623.4**	**99.9**	**4,140.5**
Retail	**2,817.0**	**175.3**	**6.4**	**181.7**	**43.2**	**3,041.9**
Property	**1,200.1**	**100.5**	**54.6**	**155.1**	**187.3**	**1,542.5**
	7,434.3	**825.2**	**135.0**	**960.2**	**330.4**	**8,724.9**
Impairment provisions						
Commercial	**55.6**	**30.3**	**33.6**	**63.9**	**52.9**	**172.4**
Retail	**22.1**	**13.3**	**1.9**	**15.2**	**30.3**	**67.6**
Property	**2.3**	**5.0**	**0.1**	**5.1**	**33.0**	**40.4**
	80.0	**48.6**	**35.6**	**84.2**	**116.2**	**280.4**
Provision coverage ratio						
Commercial	**1.6%**	**5.5%**	**45.4%**	**10.3%**	**53.0%**	**4.2%**
Retail	**0.8%**	**7.6%**	**29.7%**	**8.4%**	**70.1%**	**2.2%**
Property	**0.2%**	**5.0%**	**0.2%**	**3.3%**	**17.6%**	**2.6%**
	1.1%	**5.9%**	**26.4%**	**8.8%**	**35.2%**	**3.2%**

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
	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
	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%
	1.0%	**5.4%**	**7.5%**	**5.5%**	**25.0%**	**3.0%**

Stage allocation of loans and advances to customers has been applied in line with the group's definitions, with staging adjustments made based on management judgement and for Covid-19 related forbearance.

During the year the staging profile of loans and advances to customers has improved. At 31 July 2021, 85.2% (31 July 2020: 75.2%) of loans and advances to customers were Stage 1 primarily as a result of strong new business growth in Commercial and the encouraging performance of our forborne book. Stage 2 loans and advances to customers reduced to 11.0% (31 July 2020: 20.0%) reflecting ongoing repayment or settlement of Stage 2 balances, notably Covid-19 forborne loans. These have more than offset migrations into Stage 2 associated with a significant increase in credit risk. The remaining 3.8% (31 July 2020: 4.8%) of loans and advances to customers was deemed to be credit impaired and classified as Stage 3.

At the same time, overall impairment provisions increased to £280.4 million (31 July 2020: £238.7 million), following regular reviews of staging and provision coverage for individual loans and portfolios. The movement in impairment provisions reflects the benefit of strong underlying credit performance across Retail, Commercial and Property as well as strong new business volumes in Commercial much of which attract guarantees under the government lending support schemes, improved macroeconomic scenarios and weightings and the encouraging performance of our forborne book. Coverage on the residual Stage 2 Covid-19 forborne loan book continues to be monitored and adjusted where appropriate. While these factors reduced provisions overall, this was more than offset by a significant increase in provisions against Novitas, across all stages, due to the latest case failure and recovery rate assumptions.

As a result, there has been a marginal increase in provision coverage to 3.2% (31 July 2020: 3.0%).

Provision Coverage Analysis by Business

In Commercial, the impairment coverage ratio increased to 4.2% (31 July 2020: 3.9%) reflecting a significant increase in provisions in Novitas. These were partly offset by strong new business volumes associated with the government lending support schemes, observed performance of the Covid-19 forborne loan book and the impact of an improving macroeconomic environment. The significant increase in credit provisions against the Novitas loan book reflects the latest assumptions on case failure and recovery rates.

In Retail, at 31 July 2021, the impairment coverage ratio decreased slightly to 2.2% (31 July 2020: 2.5%) reflecting the performance of the forborne loan book and strong new business volumes.

In Property, the impairment coverage ratio remained broadly stable at 2.6% (31 July 2020: 2.5%) reflecting increased individually assessed provisions on Stage 3 loans, offset by the favourable impact of changes in the macroeconomic forecasts.

(c) 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 financial assets 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 year (or at origination if this occurred during the year) and the end of the year (or just prior to final repayment or write off).

Repayments relating to loans which transferred between stages during the year are presented within the transfers between stages lines. Such transfers do not represent overnight reclassification from one stage to another. 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 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	**6,980.2**	**-**	**-**	**6,980.2**
Transfers to Stage 1	**640.0**	**(639.6)**	**(11.2)**	**(10.8)**
Transfers to Stage 2	**(1,054.5)**	**912.4**	**(15.0)**	**(157.1)**
Transfers to Stage 3	**(133.3)**	**(113.4)**	**178.6**	**(68.1)**
Net transfers between stages and repayments[1]	**(547.8)**	**159.4**	**152.4**	**(236.0)**
Repayments while stage remained unchanged and final repayments	**(4,907.6)**	**(781.4)**	**(106.5)**	**(5,795.5)**
Changes to model methodologies	**6.3**	**9.8**	**(16.0)**	**0.1**
Write offs	**(3.4)**	**(1.8)**	**(74.1)**	**(79.3)**
At 31 July 2021	**7,434.3**	**960.2**	**330.4**	**8,724.9**

	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 remained 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 gross carrying amount before modification of loans and advances to customers which were modified during the year while in Stage 2 or 3 was £293.9 million (2020: £689.4 million). A loss of £0.8 million (2020: £3.4 million) was recognised as a result of these modifications. The gross carrying amount at 31 July 2021 of modified loans and advances to customers which transferred from Stage 2 or 3 to Stage 1 during the year was £237.9 million (31 July 2020: £52.8 million).

	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	**45.0**	**-**	**-**	**45.0**
Transfers to Stage 1	**4.0**	**(15.7)**	**(1.0)**	**(12.7)**
Transfers to Stage 2	**(15.7)**	**63.4**	**(2.4)**	**45.3**
Transfers to Stage 3	**(2.2)**	**(13.3)**	**67.6**	**52.1**
Net remeasurement of expected credit losses arising from transfers between stages and repayments[1]	**(13.9)**	**34.4**	**64.2**	**84.7**
Repayments and ECL movements while stage remained unchanged and final repayments	**(9.0)**	**(35.9)**	**(5.0)**	**(49.9)**
Changes to model methodologies	**0.9**	**(0.2)**	**(2.8)**	**(2.1)**
Charge to the income statement	**23.0**	**(1.7)**	**56.4**	**77.7**
Write offs	**(0.6)**	**(1.4)**	**(34.0)**	**(36.0)**
At 31 July 2021	**80.0**	**84.2**	**116.2**	**280.4**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 31 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.

	2021 £ million	2020 £ million
Impairment losses relating to loans and advances to customers:		
Charge to income statement arising from movement in impairment provisions	**77.7**	172.7
Amounts written off directly to income statement, net of recoveries and other costs	**10.2**	7.8
	87.9	180.5
Impairment losses relating to other financial assets	**1.9**	3.2
Impairment losses on financial assets recognised in income statement	**89.8**	183.7

The contractual amount outstanding at 31 July 2021 on financial assets that were written off during the period and are still subject to recovery activity is £19.0 million (31 July 2020: £12.4 million).

(d) Finance lease and hire purchase agreement receivables

	31 July 2021 £ million	31 July 2020 £ million
Loans and advances to customers comprise		
Hire purchase agreement receivables	**3,554.6**	2,998.0
Finance lease receivables	**567.1**	474.8
Other loans and advances	**4,322.8**	4,143.9
At 31 July	**8,444.5**	7,616.7

8. Debt Securities

	Fair value through profit or loss £ million	**Fair value through other comprehensive income £ million**	**Amortised cost £ million**	**Total £ million**
Long trading positions in debt securities	**20.1**	**-**	**-**	**20.1**
Certificates of deposit	**-**	**-**	**264.7**	**264.7**
Sovereign and central bank debt	**-**	**192.5**	**-**	**192.5**
At 31 July 2021	**20.1**	**192.5**	**264.7**	**477.3**

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

	2021 £ million	2020 £ million
Sovereign and central bank debt at 1 August	**72.2**	48.3
Additions	**313.7**	22.7
Redemptions	**(191.0)**	-
Currency translation differences	**(5.2)**	(0.8)
Movement in value	**2.8**	2.0
Sovereign and central bank debt at 31 July	**192.5**	72.2

9. Equity Shares

	31 July 2021 £ million	31 July 2020 £ million
Long trading positions	**30.8**	29.2
Other equity shares	**1.1**	0.8
	31.9	30.0

10. 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	2.3	46.9	-	49.2
Disposals	(0.1)	(14.8)	-	(14.9)
At 31 July 2020	153.0	233.3	67.5	453.8
Additions	2.0	46.2	4.2	52.4
Disposals and write offs	(12.1)	(6.7)	(20.7)	(39.5)
At 31 July 2021	**142.9**	**272.8**	**51.0**	**466.7**
Amortisation and impairment				
At 1 August 2019	47.9	105.0	47.2	200.1
Amortisation charge for the year	-	25.3	3.1	28.4
Impairment charge for the year	-	-	-	-
Disposals	-	(14.8)	-	(14.8)
At 31 July 2020	47.9	115.5	50.3	213.7
Amortisation charge for the year	-	29.4	3.0	32.4
Impairment charge for the year	12.1	-	11.2	23.3
Disposals and write offs	(12.1)	(2.5)	(20.7)	(35.3)
At 31 July 2021	**47.9**	**142.4**	**43.8**	**234.1**
Net book value at 31 July 2021	**95.0**	**130.4**	**7.2**	**232.6**
Net book value at 31 July 2020	105.1	117.8	17.2	240.1
Net book value at 1 August 2019	102.9	96.2	20.3	219.4

Software includes assets under development of £60.1 million (31 July 2020: £65.4 million).

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

In the 2021 financial year, £3.0 million (2020: £3.1 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £29.4 million (2020: £25.3 million) of the amortisation charge is included in administrative expenses shown in the consolidated income statement. An impairment charge of £11.2 million relating to intangible assets on acquisition is excluded from administrative expenses shown in the consolidated income statement.

Impairment of goodwill and intangible assets on acquisition

During the year, the group recorded an impairment charge of £12.1 million relating to the full impairment of goodwill allocated to Novitas, a CGU within the group's Commercial segment. In addition, a total impairment charge of £11.2 million was recorded relating to intangible assets on acquisition, of which £10.1 million related to Novitas.

These impairments reflect the value in use of the Novitas CGU and intangible assets on acquisition falling below carrying value, driven by lower expected future cash flows following strategic decisions made by management. At 31 July 2021, the value in use of the CGU and intangible assets on

acquisition was £192.4 million and £3.1 million respectively, and the pre-tax discount rate used in the impairment calculations was 9%.

11. 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[1] £ million	Total £ million
Cost						
At 1 August 2019	27.1	55.5	314.1	0.1	44.8	441.6
Additions	0.7	10.8	54.6	-	16.3	82.4
Disposals	(2.3)	(6.2)	(27.3)	-	(0.7)	(36.5)
At 1 August 2020	25.5	60.1	341.4	0.1	60.4	487.5
Additions	1.1	17.2	60.6	0.1	17.6	96.6
Disposals	(1.4)	(2.5)	(41.3)	-	(6.3)	(51.5)
At 31 July 2021	**25.2**	**74.8**	**360.7**	**0.2**	**71.7**	**532.6**
Depreciation						
At 1 August 2019	14.6	40.2	93.7	0.1	-	148.6
Depreciation and impairment charges for the year	2.4	7.5	44.3	-	13.2	67.4
Disposals	(2.2)	(4.8)	(18.5)	-	(0.2)	(25.7)
At 31 July 2020	14.8	42.9	119.5	0.1	13.0	190.3
Depreciation and impairment charges for the year	2.3	6.8	44.8	-	13.8	67.7
Disposals	(1.4)	(2.2)	(26.5)	-	(5.2)	(35.3)
At 31 July 2021	**15.7**	**47.5**	**137.8**	**0.1**	**21.6**	**222.7**
Net book value at 31 July 2021	**9.5**	**27.3**	**222.9**	**0.1**	**50.1**	**309.9**
Net book value at 31 July 2020	10.7	17.2	221.9	-	47.4	297.2
Net book value at 1 August 2019	12.5	15.3	220.4	-	-	248.2

1 Right of use assets primarily relate to the group's leasehold properties.

There was a gain of £2.6 million from the sale of assets held under operating leases for the year ended 31 July 2021 (2020: £nil).

12. Settlement Balances and Short Positions

	31 July 2021 £ million	31 July 2020 £ million
Settlement balances	**674.2**	587.5
Short positions in:		
Debt securities	**7.0**	8.3
Equity shares	**9.4**	9.1
	16.4	17.4
	690.6	604.9

13. Financial Liabilities

	On demand £ million	**Within three months £ million**	**Between three months and one year £ million**	**Between one and two years £ million**	**Between two and five years £ million**	**After more than five years £ million**	**Total £ million**
Deposits by banks	**2.1**	**37.7**	**110.8**	**-**	**-**	**-**	**150.6**
Deposits by customers	**576.3**	**1,547.9**	**3,343.6**	**729.8**	**437.2**	**-**	**6,634.8**
Loans and overdrafts from banks	**22.7**	**-**	**-**	**-**	**490.0**	**-**	**512.7**
Debt securities in issue[1]	**(0.6)**	**57.0**	**161.2**	**655.2**	**327.5**	**665.2**	**1,865.5**
At 31 July 2021	**600.5**	**1,642.6**	**3,615.6**	**1,385.0**	**1,254.7**	**665.2**	**9,163.6**

1 Debt securities in issue of £(0.6) million due on demand include an adjustment relating to the group's fair value hedges.

	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
At 31 July 2020	602.8	1,265.3	3,718.1	1,626.2	955.2	271.1	8,438.7

At 31 July 2021, the parent company held £251.1 million (31 July 2020: £250.8 million) debt securities in issue.

The group accessed £490.0 million cash under the Bank of England's Term Funding Scheme with Additional Incentives for SMEs (31 July 2020: £228.0 million under the Term Funding Scheme with Additional Incentives for SMEs and £262.0 million under the Term Funding Scheme). Cash from the schemes and repurchase agreements is included within bank loans and overdrafts. Residual maturities of the schemes and repurchase agreements are as follows:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
At 31 July 2021	**-**	**-**	**-**	**-**	**490.0**	**-**	**490.0**
At 31 July 2020	-	-	-	262.0	228.0	-	490.0

14. Capital

At 31 July 2021, the group's CET1 capital ratio was 15.8% (31 July 2020: 14.1%). CET1 capital increased to £1,439.3 million (31 July 2020: £1,254.0 million) primarily due to retained profit and the benefit from regulatory changes to the treatment of software assets.

RWAs, calculated using the standardised approaches, increased modestly to £9,105.3 million (31 July 2020: £8,863.2 million) notwithstanding the 10.9% growth in the loan book, given the significant portion of government guaranteed loans under CBILS which attract a lower risk weighting and a reduction in the Property loan book due to high levels of repayments. The primary driver of the overall rise in RWAs is the increase in operational risk RWAs due to higher average levels of income in Winterflood and average loan book balance.

	31 July 2021 £ million	31 July 2020 £ million
CET1 capital		
Called up share capital	**38.0**	38.0
Retained earnings	**1,555.5**	1,435.0
Other reserves recognised for CET1 capital	**13.1**	17.2
Deductions from CET1 capital		
Intangible assets, net of associated deferred tax liabilities[1]	**(180.7)**	(236.9)
Foreseeable dividend[2]	**(62.7)**	(59.8)
Investment in own shares	**(36.0)**	(33.9)
Pension asset, net of associated deferred tax liabilities	**(5.4)**	(5.7)
Prudent valuation adjustment	**(0.3)**	(0.2)
IFRS 9 transitional arrangements[3]	**117.8**	100.3
CET1 capital[4]	**1,439.3**	1,254.0
Tier 2 capital – subordinated debt	**223.4**	187.0
Total regulatory capital[4]	**1,662.7**	1,441.0
RWAs (notional)[5] – unaudited		
Credit and counterparty credit risk	**7,945.8**	7,789.0
Operational risk[5]	**1,038.5**	945.7
Market risk[5]	**121.0**	128.5
	9,105.3	8,863.2
CET1 capital ratio[4] – unaudited	**15.8%**	14.1%
Total capital ratio[4] – unaudited	**18.3%**	16.3%

1 In line with the amended Capital Requirements Regulation ("CRR II"), effective on 23 December 2020, the CET1 capital ratio at 31 July 2021 includes a c.50bps benefit related to software assets which are exempt from the deduction requirement for intangible assets from CET1. The PRA published PS17/21 'Implementation of Basel standards' on 9 July 2021, confirming the reversal to the earlier position. This will result in the reversal of this benefit and reduction of the CET1 capital ratio upon implementation on 1 January 2022.

2 Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2021 and 31 July 2020 for a foreseeable dividend, being the proposed final dividend as set out in note 6.

3 The group has elected to apply IFRS 9 transitional arrangements for 31 July 2021, which allow the capital impact of expected credit losses to be phased in over the transitional period.

4 Shown after applying IFRS 9 transitional arrangements and the CRR transitional and qualifying own funds arrangements in force at the time. Without their application, and excluding the benefit related to the current treatment of software assets, at 31 July 2021 the CET1 capital ratio would be 14.2% and total capital ratio 16.7% (31 July 2020: CET1 capital ratio 13.1% and total capital ratio 15.1%).

5 Operational and market risk include a notional adjustment at 8% in order to determine notional RWAs.

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

	31 July 2021 £ million	31 July 2020 £ million
Equity	**1,569.3**	1,449.6
Regulatory adjustments to equity:		
Intangible assets, net of associated deferred tax liabilities	**(180.7)**	(236.9)
Foreseeable dividend[1]	**(62.7)**	(59.8)
IFRS 9 transitional arrangements[2]	**117.8**	100.3
Pension asset, net of associated deferred tax liabilities	**(5.4)**	(5.7)
Prudent valuation adjustment	**(0.3)**	(0.2)
Other reserves not recognised for CET1 capital:		
Cash flow hedging reserve	**0.3**	5.7
Non-controlling interests	**1.0**	1.0
CET1 capital	**1,439.3**	1,254.0

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2021 and 31 July 2020 for a foreseeable dividend, being the proposed final dividend as set out in note 6.

2 The group has elected to apply IFRS 9 transitional arrangements for 31 July 2021, which allow the capital impact of expected credit losses to be phased in over the transitional period.

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

	2021 £ million	2020 £ million
CET1 capital at 1 August	**1,254.0**	1,169.2
Profit in the period attributable to shareholders	**202.1**	109.5
Dividends paid and foreseen	**(89.5)**	(59.9)
Change in software assets treatment[1]	**50.2**	-
IFRS 9 transitional arrangements	**17.5**	55.7
Decrease/(increase) in intangible assets, net of associated deferred tax liabilities	**6.0**	(20.8)
Other movements in reserves recognised for CET1 capital	**0.9**	(3.0)
Other movements in adjustments from CET1 capital	**(1.9)**	3.3
CET1 capital at 31 July	**1,439.3**	1,254.0

1 In line with CRR II effective on 23 December 2020, the CET1 ratio at 31 July 2021 includes a c.50bps benefit related to software assets which are exempt from the deduction requirement for intangible assets from CET1. The PRA published PS17/21 ‘Implementation of Basel standards’ on 9 July 2021, confirming the reversal to the earlier position. This will result in the reversal of this benefit and reduction of the CET1 capital ratio upon implementation on 1 January 2022.

15. Consolidated Cash Flow Statement Reconciliation

	2021 £ million	2020 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit before tax	**265.2**	140.9
Tax paid	**(69.7)**	(86.6)
Depreciation, amortisation and impairment	**123.4**	95.8
Decrease/(increase) in:		
Interest receivable and prepaid expenses	**4.6**	(14.5)
Net settlement balances and trading positions	**8.5**	(12.9)
Net loans from money brokers against stock advanced	**(23.2)**	0.3
Increase/(decrease) in interest payable and accrued expenses	**27.2**	15.2
Net cash inflow from trading activities	**336.0**	138.2
Decrease/(increase) in:		
Loans and advances to banks not repayable on demand	**9.6**	(13.3)
Loans and advances to customers	**(906.6)**	(87.8)
Assets let under operating leases	**(43.9)**	(45.6)
Certificates of deposit	**21.2**	(45.2)
Sovereign and central bank debt	**(126.6)**	(22.7)
Other assets less other liabilities	**74.8**	142.6
Increase/(decrease) in:		
Deposits by banks	**3.9**	93.4
Deposits by customers	**745.1**	284.3
Loans and overdrafts from banks	**14.8**	(21.4)
Net (redemption)/issuance of debt securities	**(9.2)**	6.9
Net cash inflow from operating activities	**119.1**	429.4
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and non-controlling interests		
Cash consideration paid	**(2.9)**	(4.6)
(c) Analysis of net cash inflow in respect of the sale of subsidiaries		
Cash consideration received	**2.3**	0.5
	2.3	0.5
(d) Analysis of cash and cash equivalents[1]		
Cash and balances at central banks	**1,314.7**	1,362.8
Loans and advances to banks	**121.9**	98.5
At 31 July	**1,436.6**	1,461.3

1 Excludes £30.7 million of Bank of England and other cash reserve accounts.

During the year ended 31 July 2021, the non-cash changes on debt financing amounted to £18.2 million (31 July 2020: £16.2 million) arising largely from interest accretions and fair value hedging movements.

16. Fair Value of Financial Assets and Liabilities

The fair values of the group's financial assets and liabilities are not materially different from their carrying values. The main differences are as follows:

	31 July 2021		31 July 2020	
	Fair value	Carrying value	Fair value	Carrying value
	£ million	£ million	£ million	£ million
Subordinated loan capital	226.5	222.7	227.0	223.0
Debt securities in issue	1,908.9	1,865.5	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. 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 July 2021				
Assets				
Debt securities:				
Long trading positions in debt securities	19.0	1.1	-	20.1
Sovereign and central bank debt	192.5	-	-	192.5
Equity shares	6.2	25.4	0.3	31.9
Derivative financial instruments	-	18.3	-	18.3
Contingent consideration	-	-	0.1	0.1
	217.7	44.8	0.4	262.9
Liabilities				
Short positions:				
Debt securities	5.7	1.3	-	7.0
Equity shares	3.2	6.2	-	9.4
Derivative financial instruments	-	21.3	-	21.3
Contingent consideration	-	-	3.0	3.0
	8.9	28.8	3.0	40.7

	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.

Instruments classified as Level 3 predominantly comprise contingent consideration payable and receivable in relation to the acquisitions and disposal of subsidiaries. The fair value of contingent consideration is determined on a discounted expected cash flow basis. The group believes that there is no reasonably possible change to 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 in 2021 and 2020.

The losses recognised in the consolidated income statement relating to financial instruments held at the year end amounted to £0.1 million (2020: £0.4 million).

17. Government Lending Schemes and Forbearance

Government lending schemes

In addition to the Covid-19 specific forbearance measures covered below, following accreditation, customers facilities were offered 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 to small businesses. We saw good demand for loans under these schemes with 6,449 loans totalling £1,278.4 million approved within the Invoice Finance, Property Finance, and Asset Finance and Leasing businesses ahead of the 31 May 2021 deadline. As at 31 July 2021, 5,763 facilities were drawn, with a residual balance of £983.9 million (31 July 2020: £193.8 million) following commencement of repayments in some instances. Any undrawn approvals are valid until 30 November 2021.

We have also received accreditation to offer products under the Recovery Loan Scheme, and schemes in the Republic of Ireland. To date, a small volume and value of applications have been received and approved.

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.

The Banking division reports on forborne exposures as either performing or non-performing in line with regulatory requirements. A forbearance policy is maintained to ensure the necessary processes are in place to enable consistently fair treatment of each customer and that they are managed based on their individual circumstances. The arrangements agreed with customers will aim to create a sustainable and affordable financial position, thereby reducing the likelihood of suffering a credit loss. The forbearance policy is periodically reviewed to ensure it remains effective.

Forbearance analysis

At 31 July 2021 the gross carrying amount of exposures with forbearance measures was £615.0 million (31 July 2020: £1,596.2 million). The key driver of this decrease has been repayment and curing of Covid-19 related forbearance, the total of which amounts to £454.8 million at 31 July 2021 (31 July 2020: £1,410.4 million).

An analysis of forborne loans as at 31 July 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 July 2021	**8,724.9**				
Non-Covid-19 forbearance		**160.2**	**1.8%**	**35.5**	**12,679**
Covid-19 forbearance		**454.8**	**5.2%**	**47.3**	**17,674**
	8,724.9	**615.0**	**7.0%**	**82.8**	**30,353**
31 July 2020	7,855.4				
Non-Covid-19 forbearance		185.8	2.4%	34.5	3,039
Covid-19 forbearance		1,410.4	18.0%	71.9	66,153
	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 July 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	**287.4**	**19.8**	**307.2**	832.8	50.1	882.9
Retail	**49.2**	**9.2**	**58.4**	251.0	4.1	255.1
Property	**118.2**	**131.2**	**249.4**	326.6	131.6	458.2
	454.8	**160.2**	**615.0**	1,410.4	185.8	1,596.2

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

	31 July 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	**2,291**	**136**	**2,427**	7,322	284	7,606
Retail	**15,333**	**12,485**	**27,818**	58,644	2,700	61,344
Property	**50**	**58**	**108**	187	55	242
	17,674	**12,679**	**30,353**	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 July 2021			31 July 2020		
	Covid-19 £ million	**Non-Covid-19 £ million**	**Forborne loans £ million**	Covid-19 £ million	Non-Covid-19 £ million	Forborne loans £ million
Extension outside terms	**123.5**	**121.9**	**245.4**	440.1	138.0	578.1
Refinancing	**1.2**	**5.3**	**6.5**	0.5	15.2	15.7
Moratorium	**329.7**	**16.1**	**345.8**	969.8	28.6	998.4
Other modifications	**0.4**	**16.9**	**17.3**	-	4.0	4.0
	454.8	**160.2**	**615.0**	1,410.4	185.8	1,596.2

Cautionary Statement

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

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