Close Brothers

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Half Year Results for the Six Months to 31 January 2022

15 March 2022

Adrian Sainsbury, group Chief Executive Officer, commented:

"We delivered a good performance in the first half of the 2022 financial year, with strong income growth in the Banking division and positive momentum in Asset Management, while Winterflood saw reduced trading opportunities following the exceptional highs experienced during the Covid-19 period. We are pleased to declare an interim dividend of 22.0p, returning to the pre-pandemic level and reflecting the group's strong underlying performance and continued confidence in our business model.

Looking ahead, we are mindful of the highly uncertain external environment, including the impact of increasing geopolitical tensions and rising inflation on our customers and wider financial market conditions. Nevertheless, we remain well placed to continue delivering on our long track record of profitability and disciplined growth."

Highlights

- **Group statutory operating profit increased 1%** to £128.9 million, with adjusted operating profit also up 1% to £129.8 million, reflecting 12% income growth in Banking and 14% in Asset Management, offset by a reduction in trading income in Winterflood
- **Adjusted operating profit in the Banking division was up 26%** to £120.2 million, reflecting **loan** book growth of 8.2% year-on-year (1.9% in the first six months of the 2022 financial year) at an annualised **net interest margin ("NIM") of 7.9%** (H1 2021: 7.7%)
- The annualised **bad debt ratio of 1.1%** (H1 2021: 1.3%) primarily reflected the impact of updated loss rate assumptions for the Novitas loan book. **Excluding Novitas, the annualised bad debt ratio was 0.2%** (H1 2021: 0.7%), reflecting the benefit of provision releases and strong underlying credit performance across our business
- The **Asset Management** division saw **positive momentum**, generating annualised **net inflows of 8%**, with adjusted operating profit up 18% to £14.5 million
- **Winterflood** saw **reduced trading opportunities** following the exceptional highs experienced during the Covid-19 period, with **operating profit** of £8.8 million (H1 2021: £34.2 million), and incurred **only one loss day**, in January, despite extreme market volatility. Winterflood remains **well placed** for when **investor appetite returns**
- The group maintained a strong capital, funding and liquidity position. Our **common equity tier 1 ("CET1") capital ratio was 15.1%** (31 July 2021: 15.8%), significantly above the applicable minimum regulatory requirements
- The group achieved a **return on opening equity ("RoE") of 12.2%** (H1 2021: 13.2%) and we have declared a **22.0p interim dividend, returning to the pre-pandemic level,** reflecting the group's strong underlying performance and continued confidence in our business model

Key Financials[1]

	First half 2022	First half 2021	Change %
Adjusted operating profit[2]	**£129.8m**	£128.5m	1
Operating profit before tax	**£128.9m**	£127.0m	1
Adjusted basic earnings per share[3]	**64.0p**	64.0p	-
Basic earnings per share[3]	**63.5p**	63.2p	-
Ordinary dividend per share	**22.0p**	18.0p	22
Return on opening equity	**12.2%**	13.2%	
Return on average tangible equity	**14.2%**	15.7%	
Net interest margin[4]	**7.9%**	7.7%	
Bad debt ratio[4]	**1.1%**	1.3%	

	31 January 2022	31 July 2021	Change %
Loan book	**£8.6bn**	£8.4bn	1.9
Total client assets	**£17.2bn**	£17.0bn	1.1
CET1 capital ratio (transitional)[5]	**15.1%**	15.8%	
Total capital ratio (transitional)[5]	**17.3%**	18.3%	

1 Please refer to definitions on pages 22 to 24.
2 Adjusted operating profit is stated before amortisation of intangible assets on acquisition of £0.9 million (H1 2021: £1.5 million).
3 Refer to Note 4 for the calculation of basic and adjusted earnings per share.
4 Net interest margin and bad debt ratio calculated on an annualised basis.
5 In line with the amended Capital Requirements Regulation ("CRR II"), effective on 23 December 2020, both the CET1 capital ratio and total capital ratio at 31 July 2021 included a c.50bps benefit related to software assets exempt from the deduction requirement for intangible assets from CET1. This benefit has been reversed with a corresponding reduction of the CET1 and total capital ratios upon implementation of PS17/21 on 1 January 2022.

Enquiries

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A virtual presentation to analysts and investors will be held today at 9.30 am GMT followed by a Q&A session. A webcast and dial-in facility will be available by registering at
https://webcasts.closebrothers.com/results/HalfYearResults2022

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.

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

During the first six months of the financial year, as colleagues, customers and clients continued to navigate restrictions and disruptions caused by Covid-19, the successful vaccination programme in the UK saw the economy start to recover. This meant increased business confidence levels and customer activity in our lending business, continued growth in Asset Management ("CBAM"), as well as mixed market conditions and volatility in the segments where Winterflood operates. Against this backdrop, we have maintained support for our people and customers while continuing to make the most of the opportunities arising and are well positioned to continue to do so as the pandemic subsides.

While the current external environment is clearly volatile, directly impacting our market-facing businesses, CBAM and Winterflood, we are confident in the quality of our lending. Our Banking loan book is predominantly secured, prudently underwritten and diverse. Approximately 99% of our loan book exposure is to the UK, Republic of Ireland and Channel Islands, with the remaining exposure to Western European countries. We remain encouraged by both the short and medium-term growth opportunities across the group.

Financial Performance

We delivered a good performance in the first half, with adjusted operating profit up 1% to £129.8 million (H1 2021: £128.5 million), corresponding to a return on opening equity of 12.2% (H1 2021: 13.2%). Our performance benefited from strong income growth in our lending business and positive momentum in Asset Management, offset by reduced trading opportunities in Winterflood following the exceptional highs experienced during the Covid-19 period.

The group's income was broadly stable at £471.6 million (H1 2021: £474.0 million). The Banking division achieved a 12% increase in income, reflecting good demand across our lending businesses, with loan book growth of 8.2% year-on-year, at an annualised net interest margin of 7.9% (H1 2021: 7.7%). Income grew 14% in Asset Management driven by favourable market conditions and strong net inflows, with managed assets up to £15.8 billion (31 July 2021: £15.6 billion). Winterflood saw a 49% reduction in income reflecting a moderation in retail trading activity and a change in the mix of trading volumes.

Costs were stable on the prior year period as investment across the Banking and Asset Management divisions was offset by a reduction in variable costs in Winterflood. In Banking, we delivered 2% positive operating leverage as income growth and rigorous control over business as usual ("BAU") costs more than offset continued investment to protect, grow and sustain the model. Asset Management also achieved positive operating leverage, with a 13% increase in costs, primarily reflecting higher staff costs and new hires to support the long-term growth strategy of the division.

The annualised bad debt ratio of 1.1% (H1 2021: 1.3%) primarily reflected impairment charges related to the Novitas Loans ("Novitas") loan book. Excluding those impairment charges, the bad debt ratio was 0.2% (H1 2021: 0.7%), benefiting from provision releases and reflecting a strong underlying credit performance across our business. As previously announced, 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 withdraw from the legal services financing market.

We have a prudent approach to funding and liquidity and maintained a strong balance sheet. Our business is highly capital generative and we have a significant headroom above the applicable minimum regulatory requirements, with a CET1 capital ratio of 15.1% at 31 January 2022 (31 July 2021: 15.8%, 15.3% excluding c.50bps benefit from software assets, which has now reversed).

We are pleased to declare an interim dividend of 22.0p per share, reflecting the group's strong underlying performance and continued confidence in our business model.

Keeping Our Model Safe While Taking it Forward

At our Investor Event in June 2021, we set out how we plan to build on the core strengths of our business and take it forward. We have made good progress against our strategic priorities to "Protect", "Grow" and "Sustain" our business model and continue to deliver on our purpose of *helping the people and businesses of Britain thrive over the long term*.

The disciplined application of our prudent underwriting and pricing of our lending is evidenced by our strong underlying credit performance and net interest margin.

We continued to invest to protect our business model and maintain our operational and financial resilience. Our multi-year investment programmes are progressing well and delivering tangible benefits across our businesses. This includes the successful extended product offering of our Savings franchise following our investment in the customer deposit platform. The total balance of our notice account product range is now at c.£1.2 billion, with Fixed Rate ISAs at c.£300 million, supporting lower cost of funds and funding diversification. I am also pleased with the benefits from our Motor Transformation programme, which has allowed us to maximise the opportunities in the second hand car market.

We remain focused on maximising the growth opportunities in each of our markets. In the first half of the year, we expanded our offering in Asset Finance with the addition of a specialist materials handling team. In Motor, we entered a new strategic partnership with AutoTrader, as we expand our routes to market. We also continue to grow income and client assets in Winterflood Business Services ("WBS").

We are also actively working to identify new opportunities to deliver disciplined growth, in line with the strategy set out at our Investor Event. I look forward to updating you on our progress in due course.

We would like to welcome Eddy Reynolds as the recently appointed chief executive of our Asset Management division. Eddy has over 30 years' experience in the fund and wealth management industries, bringing with him outstanding experience and knowledge, and will lead CBAM through the next stage of its development. On behalf of the executive committee and the board, I would like to thank Martin Andrew for his significant contribution to the group during his 16 years at CBAM.

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 continued to make good progress on helping to address the social, economic and environmental challenges facing our business, employees and customers.

In particular, to support our ambition *to help people and businesses transition towards a lower carbon future*, we are currently undertaking an 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. In the first half, we completed an initial assessment of the climate sensitivity of our loan book, incorporating scenario analysis for those parts of our business where we consider the impact to be most material and have plans to enhance further as data capabilities progress. Our risk standards and policies now have climate considerations embedded, which will be reviewed in line with business strategy and transition plans.

Outlook

Looking ahead, we are mindful of the highly uncertain external environment, including the impact of increasing geopolitical tensions and rising inflation on our customers and wider financial market conditions. Nevertheless, we remain well placed to continue delivering on our long track record of profitability and disciplined growth.

In Banking, we remain focused on maximising opportunities in the current cycle and delivering continued growth at strong margins. We remain confident in the long-term growth prospects of our businesses and will continue to assess opportunities to deliver disciplined growth.

In Asset Management, we will continue to invest to support the long-term growth potential of the business. While CBAM is sensitive to financial market conditions, we remain committed to driving growth both organically and through the continued selective hiring of advisers and investment managers, and through in-fill acquisitions.

As a daily trading business, Winterflood is highly sensitive to changes in the market environment, but remains well positioned to continue trading profitably, taking advantage of returning investor appetite. We remain focused on developing WBS and expect an accelerating growth trajectory for WBS over the next 12 months.

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
15 March 2022

OVERVIEW OF FINANCIAL PERFORMANCE

GROUP INCOME STATEMENT[1]

	First half 2022 £ million	First half 2021 £ million	Change %
Operating income	**471.6**	474.0	(1)
Adjusted operating expenses	**(293.5)**	(292.7)	-
Impairment losses on financial assets	**(48.3)**	(52.8)	(9)
Adjusted operating profit	**129.8**	128.5	1
Banking	**120.2**	95.1	26
Commercial	**37.7**	27.4	38
Retail	**42.5**	27.9	52
Property	**40.0**	39.8	1
Asset Management	**14.5**	12.3	18
Winterflood	**8.8**	34.2	(74)
Group	**(13.7)**	(13.1)	5
Amortisation of intangible assets on acquisition	**(0.9)**	(1.5)	(40)
Operating profit before tax	**128.9**	127.0	1
Tax	**(33.8)**	(32.2)	5
Profit after tax	**95.1**	94.8	-
Profit attributable to shareholders	**95.1**	94.8	-
Adjusted basic earnings per share[2]	**64.0p**	64.0p	-
Basic earnings per share[2]	**63.5p**	63.2p	-
Ordinary dividend per share	**22.0p**	18.0p	22
Return on opening equity	**12.2%**	13.2%	
Return on average tangible equity	**14.2%**	15.7%	

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. Further detail on the reconciliation between operating and adjusted measures can be found in Note 2.
2 Refer to Note 4 for the calculation of basic and adjusted earnings per share.

Operating profit and returns

Adjusted operating profit increased marginally to £129.8 million (H1 2021: £128.5 million), as higher adjusted operating profit in Banking and the Asset Management division were offset by a reduction in Winterflood. Statutory operating profit increased 1% to £128.9 million (H1 2021: £127.0 million). The group delivered a strong return on opening equity of 12.2% (H1 2021: 13.2%) and return on average tangible equity was 14.2% (H1 2021: 15.7%).

Adjusted operating profit in the Banking division increased 26% to £120.2 million (H1 2021: £95.1 million) reflecting strong income growth and reduced impairment charges, which more than offset higher investment. The Asset Management division achieved strong net inflows, with adjusted operating profit up 18% to £14.5 million (H1 2021: £12.3 million), with higher income more than offsetting a rise in expenses as we continue to invest to support the long-term growth potential of the business. Winterflood saw a reduction in trading income, resulting in a 74% reduction in operating profit to £8.8 million (H1 2021: £34.2 million). Group net expenses, which include the central functions such as finance, legal and compliance, risk and human resources, increased 5% on the prior year period to £13.7 million (H1 2021: £13.1 million) mainly reflecting increased staff costs and charges relating to share-based awards.

Operating income

Operating income reduced 1% to £471.6 million (H1 2021: £474.0 million), with strong growth in both Banking and Asset Management offset by a reduction in trading income in Winterflood. Income in the Banking division increased 12%, reflecting strong year-on-year growth of 8.2% in the loan book at a strong margin. Income in the Asset Management division rose by 14%, reflecting favourable market conditions and net inflows. Income in Winterflood reduced by 49%, driven by a moderation in activity and a change in the mix of trading volumes.

Adjusted operating expenses

Adjusted operating expenses were broadly flat on the prior year period at £293.5 million (H1 2021: £292.7 million) as increased investment across the Banking and Asset Management divisions was offset by a reduction in variable costs in Winterflood. In Banking, costs increased 10% as we continued to invest in key strategic programmes and incurred higher BAU costs, primarily reflecting an increase in performance-driven compensation and regulatory spend, as well as headcount growth. Costs increased 13% in Asset Management primarily reflecting higher staff costs and new hires as we invest in growing the business. Winterflood costs reduced 36% to reflect lower variable compensation. Overall, the group's expense/income ratio was in line with the prior year period at 62% (H1 2021: 62%) and the group's compensation ratio reduced to 37% (H1 2021: 39%).

Impairment charges and IFRS 9 provisioning

Impairment charges were £48.3 million (H1 2021: £52.8 million), corresponding to an annualised bad debt ratio of 1.1% (H1 2021: 1.3%). This primarily reflected the impact of updated assumptions for the Novitas loan book, informed by experience of credit performance, which resulted in £39.2 million (H1 2021: £24.0 million) of impairment charges related to this business. Excluding Novitas, the annualised bad debt ratio was 0.2% (H1 2021: 0.7%), reflecting the benefit of provision releases and strong underlying credit performance across our business.

Overall, there was a marginal increase in provision coverage to 3.4% (31 July 2021: 3.2%). Excluding provisions of £116.7 million (31 July 2021: £89.3 million) related to the Novitas loan book, the coverage ratio reduced slightly to 2.2% (31 July 2021: 2.3%), primarily reflecting provision releases driven by reduced forborne balances and improved macroeconomic scenarios and weightings.

Since the previous financial year end, we have updated the macroeconomic scenarios and the weightings assigned to them. At 31 January 2022, there was a 40% weighting to the baseline scenario, 30% to the upside and 30% to the downside scenarios, reflecting the improved but still uncertain outlook for the UK economy at the time (31 July 2021: 40% baseline, 20% upside, 40% downside).

We are mindful of the highly uncertain external environment, including the impact of increasing geopolitical tensions and rising inflation on our customers and credit performance. Nevertheless, we remain confident in the quality of our loan book, which is predominantly secured, prudently underwritten and diverse. Approximately 99% of our loan book exposure is to the UK, Republic of Ireland and Channel Islands, with the remaining exposure to Western European countries. We remain encouraged by both the short and medium-term growth opportunities across the group.

Tax expense

The tax expense in the first half of the year was £33.8 million (H1 2021: £32.2 million), which corresponded to an effective tax rate of 26.2% (H1 2021: 25.4%), with the increase primarily reflecting a higher proportion of the group's profits being subject to the banking surcharge.

This reflects the UK corporate tax rate of 19% and headline banking surcharge of 8% (which applies to a large proportion of our group profits, resulting in c.7% banking surcharge) at 31 January 2022.

The UK Government's October 2021 budget announced its intention to decrease the rate of banking surcharge from 8% to 3% with effect from 1 April 2023. This rate change was substantively enacted on 2 February 2022 and its impact is therefore not included in these half year results. Had this change been enacted before 31 January 2022, the group's deferred tax asset balance at 31 January 2022 would have decreased by approximately £6 million, with a corresponding tax expense recognised in the income statement, net of a smaller credit to other comprehensive income.

Earnings per share

Profit attributable to shareholders was stable on the prior year period at £95.1 million (H1 2021: £94.8 million). As a result, adjusted basic earnings per share ("EPS") was 64.0p (H1 2021: 64.0p) and basic EPS was 63.5p (H1 2021: 63.2p).

Dividend

The interim dividend of 22.0p (H1 2021: 18.0p) returned to the pre-pandemic level, reflecting the group's strong underlying performance and continued confidence in our business model. The interim dividend is due to be paid on 27 April 2022 to shareholders on the register at 25 March 2022.

While dividend decisions in the 2020 and 2021 financial years have reflected the unprecedented uncertainty caused by Covid-19, we aim to return to delivering long-term, progressive and sustainable dividend growth in the future, in line with our policy.

GROUP BALANCE SHEET

	31 January 2022 £ million	31 July 2021 £ million
Loans and advances to customers	**8,605.9**	8,444.5
Treasury assets[1]	**1,705.4**	1,788.2
Market-making assets[2]	**1,024.0**	801.6
Other assets	**1,204.5**	1,000.2
Total assets	**12,539.8**	12,034.5
Deposits by customers	**6,755.4**	6,634.8
Borrowings	**2,758.6**	2,600.9
Market-making liabilities[2]	**921.7**	690.6
Other liabilities	**495.9**	538.9
Total liabilities	**10,931.6**	10,465.2
Equity	**1,608.2**	1,569.3
Total liabilities and equity	**12,539.8**	12,034.5

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

The group maintained a strong balance sheet and 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 by 4% to £12.5 billion (31 July 2021: £12.0 billion). This reflects growth in the loan book and an increase in market-making assets. Total liabilities were also up 4% to £10.9 billion (31 July 2021: £10.5 billion) driven mainly by higher customer deposits and increased borrowings under the Term Funding Scheme with additional incentives for SMEs ("TFSME"). Both market-making assets and liabilities related to trading activity at Winterflood were up, reflecting elevated volumes and asset prices at the end of the period when settlement balances are calculated.

Total equity increased £38.9 million to £1.6 billion (31 July 2021: £1.6 billion), with profit in the first half of the year partially offset by dividend payments of £62.7 million (31 January 2021: £59.8 million). The group's return on assets was stable at 1.5% (H1 2021: 1.5%).

GROUP CAPITAL

	31 January 2022 £ million	31 July 2021[1] £ million
Common equity tier 1 capital	**1,405.7**	1,439.3
Total capital	**1,605.7**	1,662.7
Risk weighted assets	**9,306.3**	9,105.3
Common equity tier 1 capital ratio (transitional)	**15.1%**	15.8%
Tier 1 capital ratio (transitional)	**15.1%**	15.8%
Total capital ratio (transitional)	**17.3%**	18.3%
Leverage ratio[2]	**12.2%**	11.8%

1 In line with the amended CRR II, effective on 23 December 2020, both the CET1, tier 1 and total capital ratios at 31 July 2021 included a c.50bps benefit related to software assets exempt from the deduction requirement for intangible assets from CET1. This benefit has been reversed with a corresponding reduction of the CET1 and total capital ratios upon implementation of PS17/21 on 1 January 2022.
2 The leverage ratio is calculated as tier 1 capital as a percentage of total balance sheet assets excluding central bank claims, adjusting for certain capital deductions, including intangible assets, and off balance sheet exposures, in line with the UK Leverage Framework outlined in PS21/21. At 31 July 2021, the leverage ratio was calculated under the CRR framework and included central bank claims.

Strong capital position

The prudent management of capital is a core part of our business model. During periods of uncertainty, our strong capital position enables the group to continue supporting customers, clients and colleagues. Our business is also highly capital generative and our regulatory capital is significantly above the minimum applicable requirements.

Movements in capital and other regulatory metrics in the period

The CET1 capital ratio reduced from 15.8% to 15.1% primarily reflecting a change in the regulatory treatment of software assets, as well as the partial unwind of IFRS 9 transitional arrangements. These regulatory impacts accounted for c.50bps and c.25bps of the overall impact on the ratios, respectively. Excluding the impact of the software assets treatment and the transitional arrangements, the CET1 ratio remained stable in the first half at 14.2% (31 July 2021: 14.2%).

In the first half, CET1 capital decreased 2% to £1,405.7 million (31 July 2021: £1,439.3 million) primarily reflecting the regulatory change in the treatment of software assets, which increased the intangible assets deducted from CET1 capital by £50.2 million, and a decrease in the transitional IFRS 9 add back to capital of £20.5 million. This was partially offset by the capital generation through profit net of the regulatory deduction of dividends paid and foreseen of £48.9 million. Total capital decreased 3% to £1,605.7 million (31 July 2021: £1,662.7 million), also reflecting the regulatory change in the treatment of software assets and a small repayment of our subordinated debt.

Risk weighted assets ("RWAs") increased 2% to £9.3 billion (31 July 2021: £9.1 billion), mainly driven by an increase in the loan book and risk weighted assets related to derivatives held for hedging purposes, partly offset by the regulatory change in treatment of software assets.

As a result, CET1, tier 1 and total capital ratios were 15.1% (31 July 2021: 15.8%), 15.1% (31 July 2021: 15.8%) and 17.3% (31 July 2021: 18.3%), respectively.

At 31 January 2022, the applicable minimum CET1, tier 1 and total capital ratio requirements, excluding any applicable Prudential Regulation Authority ("PRA") buffer, were 7.6%, 9.3% and 11.5%, respectively. Accordingly, we continue to have headroom above the applicable minimum regulatory requirements of 750bps in the CET1 capital ratio, 580bps in the tier 1 capital ratio and 580bps in the total capital ratio.

In line with the amended CRR II, the CET1, tier 1 and total capital ratios at 31 July 2021 included a c.50bps benefit related to software assets exempt from the deduction requirement for intangible assets from CET1. This benefit has been reversed, with a corresponding reduction of the group's capital ratios 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. On a fully loaded basis, without their application, the CET1, tier 1 and total capital ratios would be 14.2%, 14.2% and 16.4%, respectively.

The leverage ratio, which is a transparent measure of capital strength, not affected by risk weightings, remains strong at 12.2% (31 July 2021: 11.8%). The leverage ratio increased on the position at the end of the 2021 financial year, due to a change in calculation under the UK leverage framework to exclude central banks reserves, partly offset by an increase in on-balance sheet assets.

We continue to make good progress on our preparations for a transition to the IRB approach. Following the submission of our initial application to the PRA in December 2020, we are progressing through the first phase of the PRA application process and are awaiting feedback from the PRA before moving to Phase 2. 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 January 2022 £ million	31 July 2021 £ million
Customer deposits	**6,755.4**	6,634.8
Secured funding	**1,441.1**	1,333.7
Unsecured funding[2]	**1,540.4**	1,539.5
Equity	**1,608.2**	1,569.3
Total available funding	**11,345.1**	11,077.3
Total funding as % of loan book	**132%**	131%
Average maturity of funding allocated to loan book[3]	**23 months**	24 months

1 Numbers relate to core funding and exclude working capital facilities at the business level.
2 Unsecured funding excludes £72.1 million (31 July 2021: £22.7 million) of non-facility overdrafts included in borrowings and includes £295.0 million (31 July 2021: £295.0 million) of undrawn facilities.
3 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 funding of 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 first half of the year to £11.3 billion (31 July 2021: £11.1 billion) which accounted for 132% (31 July 2021: 131%) of the loan book at the balance sheet date. The average cost of funding reduced to 1.1% (H1 2021: 1.5%) mainly driven by a reduction in market rates and re-pricing of customer deposits.

Customer deposits increased 2% to £6.8 billion (31 July 2021: £6.6 billion), with non-retail deposits stable at £3.9 billion (31 July 2021: £3.9 billion) and retail deposits increasing 6% to £2.8 billion (31 July 2021: £2.7 billion).

The investment in our customer deposit platform continues to drive benefits as we receive positive customer feedback and broaden our offering, and we now have around 50% of our retail customer base registered for our online portal. As part of our enhanced Savings proposition, our expanded Notice Account product range continues to see good demand and following the successful launch of Fixed Rate Cash Individual Savings Accounts ("ISAs") in December 2020, Fixed Rate ISA balances grew to c.£300 million. We remain focused on continuing to extend the deposit product range, which will support us in growing and diversifying our retail deposit base and further optimise our cost of funding and maturity profile.

Secured funding increased 8% to £1.4 billion (31 July 2021: £1.3 billion) as we increased our current drawings under the TFSME to £600 million (31 July 2021: £490 million). Our range of secured funding also includes securitisation of elements of our Premium and Motor Finance loan books.

Unsecured funding, which includes senior unsecured and subordinated bonds and undrawn committed revolving credit facilities, remained stable at £1.5 billion (31 July 2021: £1.5 billion).

We have maintained a prudent maturity profile. The average maturity of funding allocated to the loan book remained ahead of the loan book at 23 months (31 July 2021: 24 months), with the average loan book maturity at 17 months (31 July 2021: 17 months).

Our strong credit ratings remain unchanged with Moody's Investors Services ("Moody's") rating Close Brothers Group ''A2/P1'' and Close Brothers Limited ''Aa3/P1'' with a ''negative'' outlook, and Fitch Ratings ("Fitch") rating both Close Brothers Group and Close Brothers Limited ''A-/F2'', with a ''stable'' outlook.

GROUP LIQUIDITY

	31 January 2022 £ million	31 July 2021 £ million
Cash and balances at central banks	**1,178.2**	1,331.0
Sovereign and central bank debt[1]	**227.6**	192.5
Certificates of deposit	**299.6**	264.7
Treasury assets	**1,705.4**	1,788.2

1 Included in sovereign and central bank debt is £141.9 million encumbered UK Gilts (31 July 2021: £90.2 million).

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

Treasury assets, predominantly held on deposit with the Bank of England, reduced 5% to £1.7 billion (31 July 2021: £1.8 billion). Nevertheless, in light of the uncertain UK economic outlook, our liquidity levels remain elevated on the pre-Covid position to provide additional flexibility whilst enabling us to maximise any opportunities available.

We regularly assess and stress test the group's liquidity requirements and continue to meet the Liquidity coverage ratio ("LCR") regulatory requirements, with a 12-month average to 31 January 2022 LCR of 943% (12-month average to 31 July 2021: 1,003%). In addition to internal measures, we monitor funding risk based on the CRR II rules for the net stable funding ratio ("NSFR") which became effective on 1 January 2022. The NSFR as at 31 January 2022 was 117.3%.

BANKING

Key Financials

	First half 2022 £ million	First half 2021 £ million	Change %
Operating income	**345.7**	309.0	12
Adjusted operating expenses[1]	**(177.2)**	(161.0)	10
Impairment losses on loans and advances	**(48.3)**	(52.9)	(9)
Adjusted operating profit	**120.2**	95.1	26
Net interest margin	**7.9%**	7.7%	
Expense/income ratio	**51%**	52%	
Bad debt ratio	**1.1%**	1.3%	
Return on net loan book	**2.7%**	2.4%	
Return on opening equity	**13.6%**	11.7%	
Closing loan book	**8,605.9**	7,953.5	8
Average loan book and operating lease assets	**8,751.6**	8,004.9	9

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 H1 of the 2021 financial year to adjust for investment projects' ongoing costs that commenced prior to the 2022 financial year.

Disciplined loan book growth at strong margins

Banking adjusted operating profit increased 26% to £120.2 million (H1 2021: £95.1 million), reflecting strong income growth of 12% and lower impairment charges, more than offsetting continued investment, with the business delivering positive operating leverage. Statutory operating profit increased 28% to £120.1 million (H1 2021: £94.1 million).

The loan book grew 8.2% year-on-year to £8.6 billion (31 January 2021: £8.0 billion, 31 July 2021: £8.4 billion) as we experienced good new business levels in both Asset Finance and Motor Finance, as well as increased utilisations and sales volumes in Invoice Finance. This was partly offset by high repayments in Property, despite strong new business volumes. The return on net loan book increased to 2.7% (H1 2021: 2.4%).

The net interest margin of 7.9% increased on the prior year period (H1 2021: 7.7%), reflecting our continued focus on pricing discipline and a reduction in our cost of funds. Our specialist, relationship-driven model and consistent, disciplined pricing approach position us well to maintain a strong net interest margin for the remainder of the year, although we expect a slight negative impact from rising interest rates.

Operating income increased 12% to £345.7 million (H1 2021: £309.0 million), reflecting loan book growth at an increased net interest margin.

Adjusted operating expenses in Banking increased 10% to £177.2 million (H1 2021: £161.0 million) as we continued to invest to protect, grow and sustain the business model, whilst exercising rigorous control over our BAU costs. Investment costs increased 39% to £41.2 million (H1 2021: £29.7 million) as we progressed our strategic investment programmes and incurred related depreciation charges. BAU costs grew 4% to £136.0 million (H1 2021: £131.3 million), primarily reflecting an increase in performance-driven compensation and regulatory spend, as well as headcount growth.

We are seeing these programmes deliver tangible benefits across our businesses including lower cost of funds through our customer deposit platform and expanded product offering. Following the deployment of a new underwriting platform in our Motor business, we have seen an increased customer acceptance rate from 54% to 56% and, most importantly, at our existing underwriting criteria and risk appetite.

Although we achieved positive operating leverage in the period, we expect costs in the second half of the year to be c.5-7% higher than in the first half, reflecting planned spend on certain strategic investment programmes and depreciation, as well as wage inflation. We remain focused on delivering sustainable positive operating leverage in the medium term.

Overall, the compensation ratio reduced marginally to 29% (H1 2021: 30%) and the expense/income ratio reduced to 51% (H1 2021: 52%).

Impairment charges were £48.3 million (H1 2021: £52.9 million), corresponding to an annualised bad debt ratio of 1.1% (H1 2021: 1.3%). This primarily reflected the impact of updated assumptions for the Novitas loan book, informed by experience of credit performance, which resulted in £39.2 million (H1 2021: £24.0 million) of impairment charges related to this business. Excluding Novitas, the annualised bad debt ratio was 0.2% (H1 2021: 0.7%), substantially below our long-term average bad debt ratio of 1.0%, reflecting the benefit of provision releases and strong underlying credit performance across our business.

Overall, there was a marginal increase in provision coverage to 3.4% (31 July 2021: 3.2%). Excluding provisions related to the Novitas loan book, the coverage ratio reduced slightly to 2.2% (31 July 2021: 2.3%), primarily reflecting provision releases, driven by reduced forborne balances and improved macroeconomic scenarios and weightings.

Notwithstanding the highly uncertain external environment, 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.

Return on opening equity in the Banking division increased to 13.6% (H1 2021: 11.7%).

Loan Book Analysis

	31 January 2022 £ million	31 July 2021 £ million	Change %
Commercial	**4,128.4**	3,968.1	4.0
Asset Finance	**2,964.2**	2,844.6	4.2
Invoice and Speciality Finance[1]	**1,164.2**	1,123.5	3.6
Retail	**3,026.5**	2,974.3	1.8
Motor Finance	**2,001.5**	1,924.4	4.0
Premium Finance	**1,025.0**	1,049.9	(2.4)
Property	**1,451.0**	1,502.1	(3.4)
Closing loan book	**8,605.9**	8,444.5	1.9
Operating lease assets[2]	**229.9**	222.9	3.1
Closing loan book and operating lease assets	**8,835.8**	8,667.4	1.9

1 The Invoice and Speciality Finance loan book includes the Novitas net loan book, which was £162.1 million at 31 January 2022 (31 July 2021: £181.5 million).
2 Operating lease assets of £1.0 million (31 July 2021: £1.3 million) relate to Asset Finance and £228.9 million (31 July 2021: £221.6 million) to Invoice and Speciality Finance.

The loan book increased 8.2% year-on-year and 1.9% in the first half to £8.6 billion (31 January 2021: £8.0 billion, 31 July 2021: £8.4 billion), reflecting good growth in our Commercial and Motor Finance businesses, partly offset by a contraction in the Premium Finance and Property businesses.

The Commercial loan book increased 4% to £4.1 billion (31 July 2021: £4.0 billion), driven by 4% growth in Asset Finance, reflecting good demand and new business volumes, particularly in our Transport, Contract Hire and Energy businesses. Invoice and Speciality Finance also grew 4% as we saw strong sales volumes, increased utilisation and higher SME customer numbers.

The Retail loan book increased 2% to £3.0 billion (31 July 2021: £3.0 billion), with 4% growth in Motor Finance reflecting strong new business levels and benefits from investment in the Motor Finance transformation programme. This was partly offset by a seasonal decline in the Premium Finance book, as well as continued subdued demand for the funding of insurance policies from consumers.

Despite strong new business volumes in Property, the loan book reduced 3% to £1.5 billion (31 July 2021: £1.5 billion), with high repayment levels more than offsetting drawdowns, as the UK property market remained buoyant with heightened house sales volumes.

Well positioned to retain market position and deliver disciplined growth

We remain confident in the growth outlook for the loan book over both the short and medium term.

The Asset Finance business is well positioned to capitalise on continued demand for asset financing. Current growth initiatives include those aligned with the increasing focus on the renewable energy sector and electric car fleets and we have also recently hired a specialist materials handling team.

For Invoice Finance, we expect the growth trajectory to follow the economic recovery. We continue to tap the opportunities in the Asset Backed Lending ("ABL") space, raising the visibility of our offering via Private Equity sponsors, and the wider intermediary community. In Brewery Rentals, our direct-to-outlet container rental product, EkegPlus, has seen customer numbers doubling in the last three months, allowing the business to operate in a market segment previously unavailable to us.

In Motor Finance, 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. Our investment in the Motor Finance transformation programme has enabled us to further develop our proposition, providing unique data insights to dealers, and take advantage of heightened demand for used cars. We have also entered a new strategic partnership with AutoTrader as we expand our routes to market.

For Premium Finance, we would expect demand for the funding of motor insurance policies to recover following the removal of Covid-19 restrictions.

In Property, our pipeline of undrawn commitments remains strong, surpassing £1 billion in February. We continue to progress with our initiatives including a focus on identifying the next generation of developers, as well as expanding our regional presence and bridging finance offering.

We are also actively working to identify new growth opportunities, in line with the strategy set out at our Investor Event in June 2021.

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.

Banking: Commercial

	First half 2022 £ million	First half 2021 £ million	Change %
Operating income	**167.8**	136.6	23
Adjusted operating expenses	**(89.1)**	(76.2)	17
Impairment losses on financial assets	**(41.0)**	(33.0)	24
Adjusted operating profit	**37.7**	27.4	38
Net interest margin	**7.9%**	7.8%	
Expense/income ratio	**53%**	56%	
Bad debt ratio	**1.9%**	1.9%	
Closing loan book	**4,128.4**	3,509.4	18
Average loan book and operating lease assets	**4,274.7**	3,498.5	22

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

Adjusted operating profit in Commercial increased 38% to £37.7 million (H1 2021: £27.4 million), with higher income more than offsetting growth in costs and impairment charges. Statutory operating profit was £37.6 million (H1 2021: £26.5 million).

Operating income was up 23% to £167.8 million (H1 2021: £136.6 million), driven primarily by growth in the loan book, with the net interest margin increasing marginally to 7.9% (H1 2021: 7.8%) primarily reflecting the lower cost of funds.

Adjusted operating expenses increased 17% to £89.1 million (H1 2021: £76.2 million), reflecting costs in relation to the group's withdrawal from the legal services financing market and higher performance-driven compensation. It also reflected investment in the Asset Finance transformation programme and associated depreciation, which has enabled better insight and reporting tools and enhanced decision making. The expense/income ratio decreased to 53% (H1 2021: 56%) as growth in operating income more than offset the cost increase.

Impairment charges increased 24% to £41.0 million (H1 2021: £33.0 million), corresponding to a stable bad debt ratio of 1.9% (H1 2021: 1.9%). This primarily reflected a £39.2 million impairment charge related to the Novitas loan book (H1 2021: £24.0 million). Excluding Novitas, impairment charges were £1.8 million (H1 2021: £9.0 million), equating to a bad debt ratio of 0.1%, which is significantly below historical levels. This reflected the benefit of provision releases and a strong underlying credit performance of the Commercial loan book.

The provision coverage ratio increased to 4.5% (31 July 2021: 4.2%) as the increase in provisions against the Novitas loan book more than offset the reduction in provisions primarily associated with the reducing forborne balances. Excluding Novitas, the provision coverage ratio for the Commercial loan book was 1.9% (31 July 2021: 2.1%).

The Commercial loan book increased 4% in the first half of the year to £4.1 billion (31 July 2021: £4.0 billion). The Asset Finance book grew 4% to £3.0 billion (31 July 2021: £2.8 billion) reflecting good new business volumes across the businesses. The Invoice and Speciality Finance loan book also increased 4% to £1.2

billion (31 July 2021: £1.1 billion), reflecting strong sales volumes, increased SME customer numbers and improved utilisation, although this continued to track below pre-Covid-19 levels.

The Commercial loan book is predominantly secured and our loans are conservatively underwritten with prudent LTVs, supported by our specialist expertise in the underlying assets and long-standing industry relationships.

Banking: Retail

	First half 2022 £ million	First half 2021 £ million	Change %
Operating income	**119.7**	112.1	7
Adjusted operating expenses	**(71.9)**	(67.8)	6
Impairment losses on financial assets	**(5.3)**	(16.4)	(68)
Adjusted operating profit	**42.5**	27.9	52
Net interest margin	**8.0%**	7.9%	
Expense/income ratio	**60%**	60%	
Bad debt ratio	**0.4%**	1.2%	
Closing loan book	**3,026.5**	2,843.8	6
Average loan book	**3,000.4**	2,839.2	6

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

Adjusted operating profit for Retail increased 52% to £42.5 million (H1 2021: £27.9 million), with higher income and a significant reduction in impairment charges. Statutory operating profit was up 53% to £42.5 million (H1 2021: £27.8 million).

Operating income increased 7% to £119.7 million (H1 2021: £112.1 million), reflecting an increase in the loan book. The net interest margin rose marginally to 8.0% (H1 2021: 7.9%) driven by reduced cost of funds, partly offset by lower margin in Premium Finance, as a result of broker consolidation in the insurance sector and a change in mix of product lines, with the lower margin commercial portfolio growing more strongly.

Adjusted operating expenses increased 6% to £71.9 million (H1 2021: £67.8 million) mainly driven by ongoing investment programmes and the associated depreciation, as well as regulatory compliance costs. The expense/income ratio remained stable at 60% (H1 2021: 60%).

Impairment charges decreased 68% to £5.3 million (H1 2021: £16.4 million) with an annualised bad debt ratio reducing to 0.4% (H1 2021: 1.2%). This reflected a reduction in provisions associated with the reducing forborne balances and an improved macroeconomic outlook, which more than offset the impact of the cessation of the UK Government's Covid-19 job retention scheme and rising inflation on credit performance.

The provision coverage ratio remained stable at 2.2% (31 July 2021: 2.2%) reflecting loan book growth and movements in staging and coverage to reflect the performance of the forborne loan book.

The Retail loan book increased 2% in the first half of the year to £3.0 billion (31 July 2021: £3.0 billion). The Motor Finance book grew 4% to £2.0 billion (31 July 2021: £1.9 billion) with strong new business levels reflecting ongoing demand and rising prices in the used car market, and benefiting from investment in the Motor Finance transformation programme. The Republic of Ireland Motor Finance business accounted for 19% of the Motor Finance loan book (31 July 2021: 21%) and 4% of the Banking loan book (31 July 2021: 5%). From 30 June 2022, we will no longer write new business under our current partnership in the Republic of Ireland. We remain committed to the Irish market and are considering our long-term options.

The Premium Finance book declined 2% to £1.0 billion (31 July 2021: £1.0 billion), driven by seasonality in the business, as well as continued subdued activity in the consumer market. However, we have seen strong new business volumes as customers look to ease cash flow in the commercial market.

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

Banking: Property

	First half 2022 £ million	First half 2021 £ million	Change %
Operating income	**58.2**	60.3	(3)
Operating expenses	**(16.2)**	(17.0)	(5)
Impairment losses on financial assets	**(2.0)**	(3.5)	(43)
Operating profit	**40.0**	39.8	1
Net interest margin	**7.9%**	7.2%	
Expense/income ratio	**28%**	28%	
Bad debt ratio	**0.3%**	0.4%	
Closing loan book	**1,451.0**	1,600.3	(9)
Average loan book	**1,476.6**	1,667.3	(11)

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.

Operating profit in Property increased marginally on the prior year period at £40.0 million (H1 2021: £39.8 million), as lower income was offset by reduced costs and impairment charges.

Operating income reduced 3% to £58.2 million (H1 2021: £60.3 million) reflecting the reduction in the loan book, although the net interest margin increased to 7.9% (H1 2021: 7.2%), driven by lower costs of funds and an accounting reclassification.

Operating expenses decreased by 5% to £16.2 million (H1 2021: £17.0 million) as we maintained our rigorous focus on cost management. The expense/income ratio remained stable at 28% (H1 2021: 28%), with the reduction in income offset by lower costs.

Impairment charges reduced to £2.0 million (H1 2021: £3.5 million), resulting in an annualised bad debt ratio of 0.3% (H1 2021: 0.4%). The provision coverage ratio increased to 2.8% (31 July 2021: 2.6%) following a review of coverage across the portfolio.

Despite strong new business levels, the Property loan book reduced by £51.1 million to £1.5 billion (31 July 2021: £1.5 billion), with high repayment levels more than offsetting drawdowns, as the UK property market remained buoyant following a period of significant government support, resulting in heightened sales of units by developers. Our pipeline of undrawn commitments stood at £939 million at 31 January 2022 (31 July 2021: £933 million) and surpassed £1 billion in February. We also continue to see success from our regional initiative, with the regional loan book currently making up around 50% of the Property Finance portfolio.

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

ASSET MANAGEMENT

Key Financials

	First half 2022 £ million	First half 2021 £ million	Change %
Investment management	**57.4**	49.3	16
Advice and other services[1]	**19.0**	17.7	7
Other income[2]	**0.2**	0.1	100
Operating income	**76.6**	67.1	14
Adjusted operating expenses	**(62.1)**	(54.8)	13
Adjusted operating profit	**14.5**	12.3	18
Revenue margin (bps)	**89**	94	
Operating margin	**19%**	18%	
Return on opening equity	**38.3%**	32.5%	

1 Income from advice and self-directed services, excluding investment management income.
2 Other income includes net interest income and expense, income on principal investments and other income.

Continued positive momentum

Close Brothers Asset Management 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.

Adjusted operating profit in CBAM increased 18% to £14.5 million (H1 2021: £12.3 million), achieving positive operating leverage as growth in operating income more than offset the cost of continued investment to support the long-term growth potential of the business. Operating margin increased marginally to 19% (H1 2021: 18%), mainly driven by higher income from rising markets. Statutory operating profit before tax also increased to £13.7 million (H1 2021: £11.8 million).

Total operating income grew 14% to £76.6 million (H1 2021: £67.1 million), due to favourable market conditions and higher investment management income from growth in both managed and advised assets. The revenue margin reduced to 89bps (H1 2021: 94bps) driven by a higher level of flows into our investment-only products and lower initial advice and dealing fees.

Adjusted operating expenses increased 13% to £62.1 million (H1 2021: £54.8 million), primarily reflecting higher staff costs as we continued to invest in new hires to support the long-term growth strategy, as well as an increase in performance-related compensation. The expense/income ratio decreased marginally to 81% (H1 2021: 82%) and the compensation ratio reduced to 56% (H1 2021: 57%).

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, as well as the impact from rising wage inflation.

Strong net inflows

Equity markets have experienced a mixed performance during the first half of the year, with largely favourable conditions seen until the global equity market sell-off in January. Although the ongoing impact of Covid-19 continues to weigh on client sentiment and inflows across the industry, we maintained positive momentum with net inflows of £634 million (H1 2021: £267 million), delivering an annualised net inflow rate of 8% (H1 2021: 4%). This reflects higher investment-only inflows, including those from our recent portfolio manager hires and our financial advisers.

Total managed assets increased 1% to £15.8 billion (31 July 2021: £15.6 billion), as a result of strong net inflows, partially offset by negative market movements of £412 million, which came primarily during the global equity market declines seen in January. Total client assets increased 1% overall to £17.2 billion (31 July 2021: £17.0 billion).

Movement in Client Assets

	Six months to 31 January 2022 £ million	12 months to 31 July 2021 £ million	Six months to 31 January 2021 £ million
Opening managed assets	**15,588**	12,594	12,594
Inflows	**1,201**	2,284	1,029
Outflows	**(567)**	(1,367)	(762)
Net inflows	**634**	917	267
Market movements	**(412)**	2,077	934
Total managed assets	**15,810**	15,588	13,795
Advised only assets	**1,403**	1,435	1,132
Total client assets[1]	**17,213**	17,023	14,927
Net flows as % of opening managed assets[2]	**8%**	7%	4%

1 Total client assets include £5.9 billion of assets (31 July 2021: £6.0 billion) that are both advised and managed.
2 Net flows as % of opening managed assets calculated on an annualised basis.

Fund performance

Our funds and segregated bespoke portfolios are designed to provide attractive risk-adjusted returns for our clients, consistent with their long-term goals and investment objectives. Fund performance has been mixed over the last year, reflecting volatile equity markets. Over the three-year period to 31 January 2022, four of our 12 multi-asset funds outperformed the relevant peer group average, with eight of the 12 funds outperforming over the five-year period to 31 January 2022. Our bespoke strategy composites continued to perform well, largely outperforming their respective peer groups over three and five years, demonstrating a strong track record.

Our Approach to ESG and Sustainability

Responsible investing remains a key focus and we continue to broaden our range of sustainable investment propositions. Our sustainable funds (Close Sustainable Balanced Portfolio Fund and Close Sustainable Bond Portfolio Fund) are gaining further traction and we are considering more options for our clients to reflect their sustainable preferences in our segregated services. We have also enhanced our ESG research capabilities with the hire of a dedicated specialist.

Well positioned for future growth

Our focus remains on providing excellent service to our clients whilst investing in new hires and technology to support the long-term growth potential of the business. We have continued to make good progress on enhancing and consolidating our technology platform, which will further improve operating efficiency and strengthen our systems, creating a more scalable and future-proof platform. This investment in our technology platform will also result in improved onboarding and enhanced digital functionality.

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

We will continue to invest to support the long-term growth potential of the business. While CBAM is sensitive to financial market conditions, we remain committed to driving growth both organically and through the continued selective hiring of advisers and investment managers, and through in-fill acquisitions. Our recently appointed new chief executive, Eddy Reynolds, will lead CBAM through the next stage of its development.

WINTERFLOOD

Key Financials

	First half 2022 £ million	First half 2021 £ million	Change %
Operating income	**49.5**	98.0	(49)
Operating expenses	**(40.7)**	(63.9)	(36)
Impairment losses on financial assets	**-**	0.1	-
Operating profit	**8.8**	34.2	(74)
Average bargains per day (‘000)	**83**	97	
Operating margin	**18%**	35%	
Return on opening equity	**14.0%**	69.3%	

Reduced trading opportunities following the exceptional highs experienced in the Covid-19 period; well placed for when investor appetite returns

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 Winterflood Business Services (“WBS”).

Since the start of the 2022 financial year, concerns in relation to inflation and interest rates, the emergence of the omicron variant, as well as global geopolitical events have negatively impacted market conditions and retail investor sentiment.

Following the exceptional performance delivered by Winterflood from the start of the pandemic, the moderation in activity seen towards the end of the 2021 financial year continued into 2022, with trading performance declining in the first half. As a result, operating profit reduced 74% to £8.8 million (H1 2021: £34.2 million).

Operating income decreased 49% to £49.5 million (H1 2021: £98.0 million), but remained ahead of pre-pandemic levels (H1 2020: £47.9 million). The reduction in income reflected a moderation in retail trading activity and a change in the mix of trading volumes, although WBS continued to generate increased levels of income, up 24% on the prior year period.

Global equity markets have experienced substantial volatility in recent months, with the AIM index down 12.5% over the first half and January 2022 being the weakest January performance for the S&P since 2009, reflecting uncertainty in the external environment and concerns over slowing economic growth.

Although trading volumes have moderated, with average daily bargains at 83k (H1 2021: 97k), they remain elevated on pre-Covid levels (H1 2020: 57k). However, there has also been a change in the composition of trading volumes, with the higher margin sectors of AIM and Small Cap both down on the prior year, as investor appetite was subdued and retail-driven trading situations reduced.

Despite the extreme market volatility seen in the first half of the year, there was only one loss day, in January 2022 (H1 2021: no loss days), demonstrating the expertise of our traders and the strong focus on risk management.

Operating expenses decreased 36% to £40.7 million (H1 2021: £63.9 million) reflecting the variable nature of Winterflood's cost base, as the reduced revenue performance and trading volumes led to lower staff compensation. The expense/income ratio increased to 82% (H1 2021: 65%) as the reduction in income was not fully offset by the corresponding decrease in variable costs. The compensation ratio remained stable at 48% (H1 2021: 48%).

WBS, which provides outsourced dealing and custody services for asset managers and platforms, has delivered another strong performance, generating £5.1 million of income (H1 2021: £4.1 million, FY21: £9.1 million) and growing its assets under administration to £6.8 billion (31 January 2021: £5.0 billion, 31 July 2021: £6.2 billion). We are confident in accelerating the growth trajectory of WBS, with a good pipeline of clients expected to support further significant growth in assets under administration and income in this business.

As a daily trading business, Winterflood is highly sensitive to changes in the market environment, but remains well positioned to continue trading profitably, taking advantage of returning investor appetite. Winterflood continues to diversify its revenue streams and explore growth opportunities, balancing the cyclicality seen in the trading business.

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

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

Cost of funds: Interest expense incurred to support the lending activities divided by the average net loans and advances to customers and operating lease assets

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

Loss day: Where aggregate gross trading book revenues are negative at the end of a trading day

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 stable funding ratio ("NSFR"): Regulatory measure of the group's weighted funding as a percentage of weighted 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

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

While there have been no significant changes to our risk management approach in the period, we continue to closely monitor and manage the impacts of the Coronavirus pandemic. This includes both internal and external impacts, as well as wider macroeconomic ramifications, including the risks associated with higher inflation.

The group is also closely monitoring the current conflict in Ukraine, as well as any secondary impacts arising from it. At this time, direct risk exposure is not considered to be material.

The group's principal risks remain unchanged since the year end. A detailed description of each, including an overview of our risk management and mitigation approach, is disclosed on pages 56 to 69 of the 2021 Annual Report. The Annual Report can be accessed via the Investor Relations home page on the group's website at www.closebrothers.com.

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

Business risk – The group operates in an environment where it is exposed to an array of independent factors. Its profitability is impacted by the broader UK economic climate, changes in technology, regulation and customer behaviour, cost movements and competition from traditional and new participants, varying in both nature and extent across its divisions. Changes in these factors may affect the bank's ability to write loans at its desired risk and return criteria, result in lower new business volumes in Asset Management, impact levels of trading activity at Winterflood or result in additional investment requirements/higher costs of operation.

Capital risk – The group is required to hold sufficient regulatory capital (including equity and other loss-absorbing debt instruments) to enable it to operate effectively. This includes meeting minimum regulatory requirements, operating within risk appetites set by the board and supporting its strategic goals.

Conduct risk – The group's relationship-focused model amplifies the importance of exhibiting strong behaviours in order to ensure positive outcomes for customers. Failing to treat customers fairly, to safeguard client assets or to provide advice and products which are in clients' best interests, also have the potential to damage our reputation and may lead to legal or regulatory sanctions, litigation or customer redress. This applies to current, past and future business.

Credit risk – As a lender to businesses and individuals, the bank is exposed to credit losses if customers are unable to repay loans and outstanding interest and fees. The group also has exposure to counterparties with which it places deposits or trades.

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

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

Operational risk –The group is exposed to various operational risks through its day-to-day operations, all of which have the potential to result in financial loss or adverse impact. Losses typically crystallise as a result of inadequate or failed internal processes, people, models and systems, or as a result of external factors. Impacts to the business, customers, third parties and the markets in which we operate are considered within a maturing framework for resilient delivery of important business services.

Legal and regulatory risks are also considered as part of operational risk. Failure to comply with existing legal or regulatory requirements, or to adapt to changes in these requirements in a timely fashion, may have negative consequences for the group. Similarly, changes to regulation can impact our financial performance, capital, liquidity and the markets in which we operate.

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

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

Current group level emerging risks include economic and geopolitical uncertainty, the risk of financial loss resulting from the physical or transitional impacts of climate change, legal and regulatory change, the risk of technological change and new business models in response to evolving consumer expectations, evolving working practices and supply chain risks.

Following the successful transition of LIBOR related agreements to SONIA in 2021, the transition from LIBOR is no longer considered an emerging risk.

With regards to climate risk specifically, the group is continuing to enhance its risk management framework to ensure continued alignment with both new regulation and evolving market expectations. As part of this we are currently preparing enhanced climate disclosures in line with the recommendations of the Taskforce for Climate-related Financial Disclosures ("TCFD"), with group-level disclosures to be included as part of the 2022 Annual Report. We continue to closely monitor developments in this area as well as broader ESG themes which remain a key area of focus across the firm.

DIRECTORS' RESPONSIBILITY STATEMENT

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

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

The Directors of Close Brothers Group plc as at the date of this report are as listed on pages 68 and 69 of the company's Annual Report 2021. A list of current Directors is maintained on the company's website www.closebrothers.com.

On behalf of the board

Michael N. Biggs	**Adrian J. Sainsbury**
Chairman	Chief Executive

15 March 2022

INDEPENDENT REVIEW REPORT TO CLOSE BROTHERS GROUP PLC

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Close Brothers Group plc's condensed consolidated interim financial statements (the "interim financial statements") in the Half Year Results of Close Brothers Group plc for the 6 month period ended 31 January 2022 (the "period").

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

What we have reviewed

The interim financial statements comprise:

- the consolidated balance sheet as at 31 January 2022;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated cash flow statement for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

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

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

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

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

What a review of interim financial statements involves

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

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

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

PricewaterhouseCoopers LLP
Chartered Accountants
London
15 March 2022

CONSOLIDATED INCOME STATEMENT
for the six months ended 31 January 2022

	Note	Six months ended 31 January		Year ended 31 July
		2022	2021	2021
		Unaudited	Unaudited	Audited
	Note	**£ million**	£ million	£ million
Interest income		**341.1**	326.8	656.8
Interest expense		**(49.3)**	(61.2)	(119.3)
Net interest income		**291.8**	265.6	537.5
Fee and commission income		**128.6**	117.5	246.1
Fee and commission expense		**(8.0)**	(8.6)	(16.1)
Gains less losses arising from dealing in securities		**43.3**	91.2	165.2
Other income		**51.6**	42.9	89.4
Depreciation of operating lease assets and other direct costs		**(35.7)**	(34.6)	(69.5)
Non-interest income		**179.8**	208.4	415.1
Operating income	2	**471.6**	474.0	952.6
Administrative expenses		**(293.5)**	(292.7)	(592.1)
Impairment losses on financial assets	6	**(48.3)**	(52.8)	(89.8)
Total operating expenses before amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional item		**(341.8)**	(345.5)	(681.9)
Operating profit before amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional item		**129.8**	128.5	270.7
Amortisation and impairment of intangible assets on acquisition		**(0.9)**	(1.5)	(14.2)
Goodwill impairment		**-**	-	(12.1)
Exceptional item: HMRC VAT refund		**-**	-	20.8
Operating profit before tax		**128.9**	127.0	265.2
Tax	3	**(33.8)**	(32.2)	(63.1)
Profit after tax		**95.1**	94.8	202.1
Profit attributable to shareholders		**95.1**	94.8	202.1
Basic earnings per share	4	**63.5p**	63.2p	134.8p
Diluted earnings per share	4	**63.0p**	62.8p	133.6p
Ordinary dividend per share	5	**22.0p**	18.0p	60.0p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 31 January 2022

	Six months ended 31 January		Year ended 31 July
	2022	2021	2021
	Unaudited	Unaudited	Audited
	£ million	£ million	£ million
Profit after tax	**95.1**	94.8	202.1
Items that may be reclassified to income statement			
Currency translation losses	**(0.6)**	(0.4)	(1.1)
Gains on cash flow hedging	**16.4**	2.4	7.4
(Losses)/gains on financial instruments classified at fair value through other comprehensive income:			
Sovereign and central bank debt	**(1.0)**	0.3	0.9
Tax relating to items that may be reclassified	**(5.1)**	(0.7)	(1.2)
	9.7	1.6	6.0
Items that will not be reclassified to income statement			
Defined benefit pension scheme gains	**1.9**	0.5	0.5
Tax relating to items that will not be reclassified	**(0.5)**	(0.1)	(0.6)
	1.4	0.4	(0.1)
Other comprehensive income for the period, net of tax	**11.1**	2.0	5.9
Total comprehensive income	**106.2**	96.8	208.0
Attributable to:			
Shareholders	**106.2**	96.8	208.0

CONSOLIDATED BALANCE SHEET
at 31 January 2022

	Note	**31 January 2022 Unaudited £ million**	31 July 2021 Audited £ million
Assets			
Cash and balances at central banks		**1,178.2**	1,331.0
Settlement balances		**925.2**	699.6
Loans and advances to banks		**330.2**	136.3
Loans and advances to customers	6	**8,605.9**	8,444.5
Debt securities	7	**543.4**	477.3
Equity shares	8	**35.8**	31.9
Loans to money brokers against stock advanced		**48.1**	51.1
Derivative financial instruments		**31.1**	18.3
Goodwill and other intangible assets	9	**237.5**	232.6
Property, plant and equipment	10	**314.3**	309.9
Current tax assets		**40.4**	36.4
Deferred tax assets		**49.0**	56.0
Prepayments, accrued income and other assets		**200.7**	209.6
Total assets		**12,539.8**	12,034.5
Liabilities			
Settlement balances and short positions	11	**897.7**	690.6
Deposits by banks	12	**155.5**	150.6
Deposits by customers	12	**6,755.4**	6,634.8
Loans and overdrafts from banks	12	**672.2**	512.7
Debt securities in issue	12	**1,894.4**	1,865.5
Loans from money brokers against stock advanced		**24.0**	-
Derivative financial instruments		**47.2**	21.3
Accruals, deferred income and other liabilities		**293.2**	367.0
Subordinated loan capital	12	**192.0**	222.7
Total liabilities		**10,931.6**	10,465.2
Equity			
Called up share capital		**38.0**	38.0
Retained earnings		**1,587.9**	1,555.5
Other reserves		**(17.7)**	(23.2)
Total shareholders' equity		**1,608.2**	1,570.3
Non-controlling interests		**-**	(1.0)
Total equity		**1,608.2**	1,569.3
Total liabilities and equity		**12,539.8**	12,034.5

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 31 January 2022

			Other reserves						
	Called up share capital £ million	Retained earnings £ million	FVOCI reserve £ million	Share-based payments reserve £ million	Exchange movements reserve £ million	Cash flow hedging reserve £ million	Total attributable to equity holders £ million	Non-controlling interests £ million	Total equity £ million
At 1 August 2020 (audited)	38.0	1,435.0	0.2	(15.6)	(1.3)	(5.7)	1,450.6	(1.0)	1,449.6
Profit for the period	-	94.8	-	-	-	-	94.8	-	94.8
Other comprehensive income/(expense) for the period	-	0.4	0.2	-	(0.4)	1.8	2.0	-	2.0
Total comprehensive income/(expense) for the period	-	95.2	0.2	-	(0.4)	1.8	96.8	-	96.8
Dividends paid	-	(59.8)	-	-	-	-	(59.8)	-	(59.8)
Shares purchased	-	-	-	(12.0)	-	-	(12.0)	-	(12.0)
Shares released	-	-	-	7.1	-	-	7.1	-	7.1
Other movements	-	1.0	-	(2.9)	-	-	(1.9)	-	(1.9)
Income tax	-	0.6	-	-	-	-	0.6	-	0.6
At 31 January 2021 (unaudited)	38.0	1,472.0	0.4	(23.4)	(1.7)	(3.9)	1,481.4	(1.0)	1,480.4
Profit for the period	-	107.3	-	-	-	-	107.3	-	107.3
Other comprehensive (expense)/income for the period	-	(0.5)	0.4	-	0.4	3.6	3.9	-	3.9
Total comprehensive income for the period	-	106.8	0.4	-	0.4	3.6	111.2	-	111.2
Dividends paid	-	(26.8)	-	-	-	-	(26.8)	-	(26.8)
Shares purchased	-	-	-	(0.1)	-	-	(0.1)	-	(0.1)
Shares released	-	-	-	2.9	-	-	2.9	-	2.9
Other movements	-	2.7	-	(1.8)	-	-	0.9	-	0.9
Income tax	-	0.8	-	-	-	-	0.8	-	0.8
At 31 July 2021 (audited)	38.0	1,555.5	0.8	(22.4)	(1.3)	(0.3)	1,570.3	(1.0)	1,569.3
Profit for the period	-	95.1	-	-	-	-	95.1	-	95.1
Other comprehensive income/(expense) for the period	-	1.4	(0.7)	-	(0.6)	11.0	11.1	-	11.1
Total comprehensive income/(expense) for the period	-	96.5	(0.7)	-	(0.6)	11.0	106.2	-	106.2
Dividends paid	-	(62.7)	-	-	-	-	(62.7)	-	(62.7)
Shares purchased	-	-	-	(9.6)	-	-	(9.6)	-	(9.6)
Shares released	-	-	-	4.0	-	-	4.0	-	4.0
Other movements	-	(0.9)	-	1.4	-	-	0.5	1.0	1.5
Income tax	-	(0.5)	-	-	-	-	(0.5)	-	(0.5)
At 31 January 2022 (unaudited)	**38.0**	**1,587.9**	**0.1**	**(26.6)**	**(1.9)**	**10.7**	**1,608.2**	**-**	**1,608.2**

CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 31 January 2022

	Note	Six months ended 31 January		Year ended 31 July
		2022	2021	2021
		Unaudited	Unaudited	Audited
		£ million	£ million	£ million
Net cash inflow from operating activities	16(a)	**170.8**	733.2	119.1
Net cash (outflow)/inflow from investing activities				
Purchase of:				
Property, plant and equipment		**(3.4)**	(10.6)	(8.9)
Intangible assets – software		**(20.6)**	(22.2)	(47.9)
Subsidiaries	16(b)	**-**	(0.4)	(2.9)
Sale of:				
Subsidiaries	16(c)	**0.1**	2.1	2.3
		(23.9)	(31.1)	(57.4)
Net cash inflow before financing activities		**146.9**	702.1	61.7
Financing activities				
Purchase of own shares for employee share award schemes		**(9.6)**	(12.0)	(12.1)
Equity dividends paid		**(62.7)**	(59.8)	(86.6)
Interest paid on subordinated loan capital and debt financing		**(4.9)**	(7.1)	(13.6)
Payment of lease liabilities		**(6.9)**	(8.4)	(14.7)
Net (repayment)/issuance of subordinated loan capital		**(23.4)**	-	40.6
Net increase/(decrease) in cash		**39.4**	614.8	(24.7)
Cash and cash equivalents at beginning of period		**1,436.6**	1,461.3	1,461.3
Cash and cash equivalents at end of period	16(d)	**1,476.0**	2,076.1	1,436.6

THE NOTES

1. Basis of preparation and accounting policies

The half year results have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and the condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with the International Financial Reporting Standards ("IFRS") in conformity with the requirements of the Companies Act 2006. These include International Accounting Standard ("IAS") 34, Interim Financial Reporting, which specifically addresses the contents of interim financial statements. The interim financial statements incorporate the individual financial statements of Close Brothers Group plc and the entities it controls, using the acquisition method of accounting.

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

The financial information for the year ended 31 July 2021 contained within this half year report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of those statutory accounts, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and comply with IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the EU, has been delivered to the Registrar of Companies. PricewaterhouseCoopers LLP has reported on those accounts. The report of the auditor on those statutory accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

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

The accounting policies applied are consistent with those set out on pages 141 to 145 of the Annual Report 2021.

Critical accounting judgements and estimates

The reported results of the group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed on an ongoing basis. The group's critical accounting judgements and estimates, set out below, are fundamentally unchanged from those identified in the Annual Report 2021.

Critical accounting judgements

Expected credit losses

At 31 January 2022, the group's expected credit loss provision was £304.0 million (31 July 2021: £280.4 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, which have a material impact on the accounts. The most significant judgements 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 historical 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:

- 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 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, forbearance and watch list information, or other factors affecting the trading performance of our borrower; or

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

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 the 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 calculation 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 the 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 in this note. In some instances, expected credit loss models use a range of additional macroeconomic metrics and assumptions which are linked to the underlying characteristics of the business.

Model estimates
Across the Bank, 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.

The two assumptions requiring the most significant judgement relate to case failure rates and recovery rates in Novitas.

Novitas provides funding via intermediaries to individuals who wish to pursue legal cases. Over the course of the first half of this financial year, experience of credit performance has required the group to update a number of assumptions in the calculation of the expected credit loss provision for Novitas. This half year a significant portion of the expected credit loss provision reported in Commercial relates to the Novitas loan book.

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 experience of credit performance, 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 in Commercial 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 6.

Given these assumptions represent sources of estimation uncertainty, management has assessed and completed sensitivity analysis when compared to the expected credit loss provision for Novitas of £116.7 million. At 31 January 2022, a 5% absolute deterioration or improvement in case failure rates would increase or decrease the expected credit loss provision by £8.7 million. Separately, a 5% absolute deterioration or improvement in recovery rates would increase or decrease the expected credit loss provision by £5.7 million.

Forward-looking information

Determining expected credit losses under IFRS 9 requires the incorporation of forward-looking macroeconomic information that is reasonable and 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, baseline and alternative scenarios are externally sourced from Moody's and are selected by management for use in credit models to project potential credit conditions for each portfolio.

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 expected credit losses.

The impact of probability weighted forward-looking information varies across the group's lending businesses because of the differing sensitivity of each portfolio to specific macroeconomic variables. The modelled impact of macroeconomic scenarios and their respective weightings is overlaid with expert judgement in relation to 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 at least quarterly to review, and if appropriate, agree changes to the economic scenarios and probability weightings assigned thereto.

At 31 July 2021, the scenario weightings reflected the continued economic challenges and uncertainty, with 40% allocated to the baseline scenario, 20% to the upside scenario and 40% across the three downside scenarios.

At 31 January 2022, the level of economic uncertainty associated with Covid-19 continues to reduce following the booster rollout and lifting of Plan B restrictions. The increased optimism was partly tempered by the inflationary environment, and anticipated impact on cost of living. CRMC therefore approved an increase to the upside weighting, with the resulting weightings being 30% upside, 40% baseline, 15% downside (mild), 10% downside (moderate) and 5% downside (protracted).

In line with the approach taken throughout the pandemic, refreshed scenario forecasts have been deployed in the IFRS 9 model suite on a monthly basis. As at 31 January 2022, the latest baseline scenario forecasted GDP growth in 2022 of 5.1%, with unemployment of 4.8%.

The tables below show the key UK economic assumptions within each scenario, and the weighting applied to each at 31 January 2022. The numbers shown are the forecasts for 2022, 2023, and an average over the five-year period from 2022 to 2026. The weightings ascribed are the point in time weightings applied to each scenario at 31 January 2022.

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

	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	2022	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**
At 31 January 2022										
UK GDP Growth	**5.1%**	**4.0%**	**8.4%**	**3.4%**	**2.3%**	**4.4%**	**0.3%**	**4.3%**	**(0.8)%**	**3.6%**
UK Unemployment	**4.8%**	**4.5%**	**4.3%**	**3.4%**	**5.4%**	**5.6%**	**5.7%**	**6.6%**	**6.2%**	**7.6%**
HPI Growth	**2.1%**	**4.7%**	**8.7%**	**10.8%**	**(1.6)%**	**(2.6)%**	**(5.3)%**	**(10.6)%**	**(7.7)%**	**(13.2)%**
BoE Base Rate	**0.3%**	**0.7%**	**0.4%**	**0.8%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**
Weighting	**40%**		**30%**		**15%**		**10%**		**5%**	

	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%	

	5 year average (2022-2026)				
	Baseline	**Upside (strong)**	**Downside (mild)**	**Downside (moderate)**	**Downside (protracted)**
At 31 January 2022					
UK GDP Growth	**2.6%**	**3.1%**	**2.4%**	**2.3%**	**1.8%**
UK Unemployment	**4.5%**	**3.7%**	**5.4%**	**6.3%**	**7.0%**
HPI Growth	**4.0%**	**6.0%**	**1.1%**	**(2.0)%**	**(3.4)%**
BoE Base Rate	**1.1%**	**1.4%**	**0.6%**	**0.3%**	**0.3%**
Weighting	**40%**	**30%**	**15%**	**10%**	**5%**

	5 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%

The tables below provide a summary for the subsequent five-year period (Q1 2022 – Q4 2026) of the peak to trough range of values of the key UK economic variables used within the economic scenarios at 31 January 2022 and 31 July 2021:

	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	Peak	**Trough**	**Peak**	**Trough**	**Peak**	**Trough**	**Peak**	**Trough**	**Peak**	**Trough**
At 31 January 2022										
UK GDP Growth	**7.9%**	**0.9%**	**9.8%**	**0.9%**	**6.9%**	**(0.1)%**	**6.6%**	**(2.8)%**	**5.9%**	**(3.9)%**
UK Unemployment	**4.9%**	**4.4%**	**4.6%**	**3.3%**	**5.7%**	**4.9%**	**6.7%**	**4.9%**	**7.7%**	**5.1%**
HPI Growth	**6.5%**	**1.3%**	**13.3%**	**0.5%**	**4.5%**	**(5.0)%**	**8.1%**	**(12.3)%**	**7.5%**	**(15.4)%**
BoE Base Rate	**2.2%**	**0.3%**	**2.6%**	**0.3%**	**1.5%**	**0.3%**	**0.6%**	**0.3%**	**0.3%**	**0.3%**
Weighting	**40%**		**30%**		**15%**		**10%**		**5%**	

	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%	

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

- For the majority of our portfolios, the modelled 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 requirement is driven by the movement in risk metrics under each scenario and resulting impact on stage allocation.

- Expected credit losses based on a simplified approach, which do not utilise a macroeconomic model and require expert judgement, are excluded from the sensitivity analysis.

- The approach to adjustments has been refined since 31 July 2021, to provide a more comprehensive sensitivity of the total expected credit loss; most adjustments are included in the analysis at 31 January 2022.

- In addition to the above, key considerations for the sensitivity analysis are set out below, by segment:

  - In Commercial, the sensitivity analysis excludes Novitas, which is subject to a separate approach, as it is deemed more sensitive to credit factors than macroeconomic factors.

  - In Retail:
    - 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.

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

  - In Property, the sensitivity analysis excludes individually assessed provisions, and certain sub portfolios which are deemed more sensitive to credit factors than the macroeconomic scenarios.

Based on the above analysis, at 31 January 2022, application of 100% weighting to the upside strong scenario would decrease the expected credit loss by £11.1 million whilst application to the downside protracted scenario would increase the expected credit loss by £14.8 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 expected credit loss provision for each of the scenarios should be read in the context of the sensitivity analysis as a whole and in conjunction with the narrative disclosures provided in note 6. The modelled impact presented is based on gross loans and advances to customers at 31 January 2022; it does not incorporate future changes relating to performance, growth or credit risk. In addition, given the change in the macroeconomic conditions, underlying modelled provisions and methodology, and refined approach to adjustments, comparison between the sensitivity results at 31 January 2022 and 31 July 2021 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 impacted by Covid-19, geopolitical tensions and rising inflation.

2. Segmental analysis

The directors manage the group by class of business and we present the segmental analysis on that basis. The group's activities are presented in five (2021: five) operating segments: Commercial, Retail, Property, Asset Management and Securities (which comprises Winterflood only).

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

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

Summary Income Statement for the six months ended 31 January 2022

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Net interest income/(expense)	**127.9**	**106.9**	**58.0**	**(0.1)**	**(0.7)**	**(0.2)**	**291.8**
Non-interest income	**39.9**	**12.8**	**0.2**	**76.7**	**50.2**	**-**	**179.8**
Operating income	**167.8**	**119.7**	**58.2**	**76.6**	**49.5**	**(0.2)**	**471.6**
Administrative expenses	**(78.0)**	**(61.3)**	**(14.1)**	**(59.8)**	**(38.7)**	**(12.2)**	**(264.1)**
Depreciation and amortisation	**(11.1)**	**(10.6)**	**(2.1)**	**(2.3)**	**(2.0)**	**(1.3)**	**(29.4)**
Impairment losses on financial assets	**(41.0)**	**(5.3)**	**(2.0)**	**-**	**-**	**-**	**(48.3)**
Total adjusted operating expenses[1]	**(130.1)**	**(77.2)**	**(18.2)**	**(62.1)**	**(40.7)**	**(13.5)**	**(341.8)**
Adjusted operating profit/(loss)[1]	**37.7**	**42.5**	**40.0**	**14.5**	**8.8**	**(13.7)**	**129.8**
Amortisation and impairment of intangible assets on acquisition	**(0.1)**	**-**	**-**	**(0.8)**	**-**	**-**	**(0.9)**
Goodwill impairment	-	-	-	-	-	-	-
Exceptional item: HMRC VAT refund	-	-	-	-	-	-	-
Operating profit/(loss) before tax	**37.6**	**42.5**	**40.0**	**13.7**	**8.8**	**(13.7)**	**128.9**
External operating income/(expense)	**190.5**	**134.5**	**65.0**	**76.6**	**49.5**	**(44.5)**	**471.6**
Inter segment operating (expense)/income	**(22.7)**	**(14.8)**	**(6.8)**	**-**	**-**	**44.3**	**-**
Segment operating income	**167.8**	**119.7**	**58.2**	**76.6**	**49.5**	**(0.2)**	**471.6**

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

The Commercial operating segment above includes the group's Novitas business. Novitas ceased lending to new customers in July 2021 following a strategic review. In the period ended 31 January 2022, Novitas recorded impairment losses of £39.2 million (six months ended 31 January 2021: £24.0 million; year ended 31 July 2021: £73.2 million).

Balance Sheet Information at 31 January 2022

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
Total assets[1]	**4,358.3**	**3,026.5**	**1,451.0**	**165.3**	**1,115.1**	**2,423.6**	**12,539.8**
Total liabilities	**-**	**-**	**-**	**67.9**	**1,023.3**	**9,840.4**	**10,931.6**

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only. The Commercial operating segment includes the net loan book of Novitas, which was £162.1 million at 31 January 2022 (31 July 2021: £181.5 million). See note 6 for more detail on the Novitas loan book and associated impairment provision.

2 Balance sheet includes £2,388.2 million assets and £9,904.1 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

Equity is allocated across the group as shown below. Banking division equity, which is managed as a whole rather than on a segmental basis, reflects loan book and operating lease assets of £8,835.8 million, in addition to assets and liabilities of £2,388.2 million and £9,904.1 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	**1,319.9**	**97.4**	**91.8**	**99.1**	**1,608.2**

Summary Income Statement for the six months ended 31 January 2021

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

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

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	70.8	21.0	0.4	139.5	183.4	-	415.1
Operating income	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 adjusted operating expenses[1]	(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 expenses and adjusted operating profit/(loss) are stated before amortisation and impairment of intangible assets on acquisition, goodwill impairment, exceptional item and tax.

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.

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Equity[1]	1,288.6	61.6	91.4	127.7	1,569.3

1 Equity of the Banking division 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.

3. Taxation

	Six months ended 31 January		Year ended 31 July
	2022	2021	2021
	£ million	£ million	£ million
Tax charged/(credited) to the income statement			
Current tax:			
UK corporation tax	**32.1**	32.7	75.1
Foreign tax	**0.8**	0.6	1.5
Adjustments in respect of previous periods	**0.1**	0.4	(3.4)
	33.0	33.7	73.2
Deferred tax:			
Deferred tax charge for the current period	**0.9**	(1.1)	(13.6)
Adjustments in respect of previous periods	**(0.1)**	(0.4)	3.5
	33.8	32.2	63.1
Tax on items not (credited)/charged to the income statement			
Current tax relating to:			
Share-based payments	**(0.1)**	-	-
Deferred tax relating to:			
Cash flow hedging	**5.4**	0.6	2.0
Defined benefit pension scheme	**0.5**	0.1	0.6
Financial instruments classified at fair value through other comprehensive income	**(0.3)**	0.1	0.3
Share-based payments	**0.6**	(0.6)	(1.4)
Currency translation losses	**-**	-	(1.1)
Acquisitions	**-**	-	1.0
	6.1	0.2	1.4
Reconciliation to tax expense			
UK corporation tax for the period at 19.0% (six months ended 31 January 2021: 19.0%; year ended 31 July 2021: 19.0%) on operating profit	**24.5**	24.1	50.4
Effect of different tax rates in other jurisdictions	**(0.2)**	(0.2)	(0.3)
Disallowable items and other permanent differences	**0.6**	0.5	2.9
Banking surcharge	**8.8**	7.8	19.8
Deferred tax impact of increased tax rates	**0.1**	-	(9.8)
Prior year tax provision	**-**	-	0.1
	33.8	32.2	63.1

The effective tax rate for the period is 26.2% (six months ended 31 January 2021: 25.4%; year ended 31 July 2021: 23.8%).

The standard UK corporation tax rate for the financial year is 19.0% (six months ended 31 January 2021: 19.0%; year ended 31 July 2021: 19.0%). However, an additional 8% surcharge applies to the profits of banking companies as defined in legislation. The effective tax rate is above the UK corporation tax rate primarily due to the surcharge applying to the majority of the group's profits.

The UK Government's October 2021 budget announced its intention to decrease the rate of banking surcharge from 8% to 3% with effect from 1 April 2023. This rate change was substantively enacted on 2 February 2022 and its impact is therefore not included in these half year results. Had this change been enacted before 31 January 2022, the group's deferred tax asset balance at 31 January 2022 would have decreased by

approximately £6 million, with a corresponding tax expense recognised in the income statement, net of a smaller credit to other comprehensive income.

4. Earnings per share

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

	Six months ended 31 January		Year ended 31 July
	2022	2021	2021
Basic	**63.5p**	63.2p	134.8p
Diluted	**63.0p**	62.8p	133.6p
Adjusted basic[1]	**64.0p**	64.0p	140.4p
Adjusted diluted[1]	**63.5p**	63.6p	139.1p

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

	Six months ended 31 January		Year ended 31 July
	2022 £ million	2021 £ million	2021 £ million
Profit attributable to shareholders	**95.1**	94.8	202.1
Adjustments:			
Amortisation of intangible assets on acquisition	**0.9**	1.5	14.2
Goodwill impairment	**-**	-	12.1
Exceptional item: HMRC VAT refund	**-**	-	(20.8)
Tax effect of adjustment	**(0.2)**	(0.3)	2.9
Adjusted profit attributable to shareholders	**95.8**	96.0	210.5

	Six months ended 31 January		Year ended 31 July
	2022 million	2021 million	2021 million
Average number of shares			
Basic weighted	**149.7**	150.1	149.9
Effect of dilutive share options and awards	**1.2**	0.8	1.4
Diluted weighted	**150.9**	150.9	151.3

5. Dividends

	Six months ended 31 January		Year ended 31 July
	2022 £ million	2021 £ million	2021 £ million
For each ordinary share			
Interim dividend for previous financial year paid in April 2021: 18.0p (April 2020: £nil)	**-**	-	26.8
Final dividend for previous financial year paid in November 2021: 42.0p (November 2020: 40.0p)	**62.7**	59.8	59.8

An interim dividend relating to the six months ended 31 January 2022 of 22.0p, amounting to an estimated £32.8 million, is declared. This interim dividend, which is due to be paid on 27 April 2022 to shareholders on the register at 25 March 2022, is not reflected in these condensed half year financial statements.

6. Loans and advances to customers

The following table sets out the maturity analysis of gross loans and advances to customers. At 31 January 2022 loans and advances to customers with a maturity of two years or less was £6,518.5 million (31 July 2021: £6,326.6 million) representing 73.2% (31 July 2021: 72.5%) of total loans and advances to customers:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total gross loans and advances to customers £ million	Impairment provisions £ million	Total net loans and advances to customers £ million
At 31 January 2022	**81.4**	**2,317.0**	**2,368.0**	**1,752.1**	**2,221.6**	**169.8**	**8,909.9**	**(304.0)**	**8,605.9**
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

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

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

		Stage 2				
At 31 January 2022	**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	**3,557.6**	**493.9**	**98.8**	**592.7**	**173.5**	**4,323.8**
Of which: Novitas	117.3	21.5	78.4	99.9	61.6	278.8
Retail	**2,883.4**	**147.7**	**8.0**	**155.7**	**54.3**	**3,093.4**
Property	**1,222.9**	**49.4**	**39.5**	**88.9**	**180.9**	**1,492.7**
Total	**7,663.9**	**691.0**	**146.3**	**837.3**	**408.7**	**8,909.9**
Impairment provisions						
Commercial	**31.7**	**28.0**	**46.8**	**74.8**	**88.9**	**195.4**
Of which: Novitas	12.6	10.9	43.8	54.7	49.4	116.7
Retail	**19.1**	**8.3**	**2.0**	**10.3**	**37.5**	**66.9**
Property	**1.6**	**4.8**	**0.1**	**4.9**	**35.2**	**41.7**
Total	**52.4**	**41.1**	**48.9**	**90.0**	**161.6**	**304.0**
	%	**%**	**%**	**%**	**%**	**%**
Provision coverage ratio						
Commercial	**0.9%**	**5.7%**	**47.4%**	**12.6%**	**51.2%**	**4.5%**
Within which: Novitas	10.7%	50.7%	55.9%	54.8%	80.2%	41.9%
Retail	**0.7%**	**5.6%**	**25.0%**	**6.6%**	**69.1%**	**2.2%**
Property	**0.1%**	**9.7%**	**0.3%**	**5.5%**	**19.5%**	**2.8%**
Total	**0.7%**	**5.9%**	**33.4%**	**10.7%**	**39.5%**	**3.4%**

At 31 July 2021	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	3,417.2	549.4	74.0	623.4	99.9	4,140.5
Of which: Novitas	185.8	3.6	55.8	59.4	25.6	270.8
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
Total	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
Of which: Novitas	31.4	2.1	30.6	32.7	25.2	89.3
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
Total	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%
Within which: Novitas	16.9%	58.3%	54.8%	55.1%	98.4%	33.0%
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%
Total	1.1%	5.9%	26.4%	8.8%	35.2%	3.2%

Stage allocations of loans and advances to customers were applied in line with the definitions set out on page 142 of the Annual Report 2021, with adjustments made based on management judgement.

Over the course of the first half of this financial year, the staging profile of loans and advances to customers has remained broadly static, with no material movement in stage allocation. At 31 January 2022, 86.0% (31 July 2021: 85.2%) of loans and advances to customers were Stage 1, with the increase primarily due to a combination of new business growth, and continued curing of forborne loans. As a result, Stage 2 loans and advances to customers decreased to 9.4% (31 July 2021: 11.0%), reflecting the ongoing repayment and settlement of Covid-19 forbearance. The remaining 4.6% (31 July 2021: 3.8%) of loans and advances to customers was deemed to be credit impaired and classified as Stage 3.

Overall impairment provisions increased to £304.0 million (31 July 2021: £280.4 million), following regular reviews of staging and provision coverage for individual loans and portfolios. The movement in impairment provision was driven by Novitas, following updated assumptions on case failure and recovery rates. The increase was partially offset by reduced forborne balances and improved macroeconomic scenarios and weightings.

As a result, there has been a marginal increase in provision coverage to 3.4% (31 July 2021: 3.2%).

Provision Coverage Analysis by Business

In Commercial, the provision coverage ratio increased to 4.5% (31 July 2021: 4.2%), primarily driven by increased provision levels in Novitas.

In Commercial excluding Novitas, the provision coverage ratio decreased to 1.9% (31 July 2021: 2.1%) primarily reflecting provision releases, driven by reduced forborne loan balances, and improved macroeconomic scenarios and weightings.

In Novitas, the provision coverage ratio increased to 41.9% (31 July 2021: 33.0%), while the loan book remained broadly flat, with impairment provisions increasing following the updated assumptions on case failure and recovery rates.

In Retail, the provision coverage ratio remained stable at 2.2% (31 July 2021: 2.2%) reflecting the stable performance across the portfolios.

In Property, the provision coverage ratio increased slightly to 2.8% (31 July 2021: 2.6%) reflecting increased individually assessed provisions on Stage 3 loans, partially offset by the favourable impact of changes in the macroeconomic forecasts.

(b) Adjustments

By their nature, limitations in the group's expected credit loss models or input data may be identified through ongoing model monitoring and validation of models. In certain circumstances, management make appropriate adjustments to model-calculated expected credit losses. These adjustments are based on management judgements or quantitative back-testing to ensure expected credit loss provisions adequately reflect all known information. These adjustments are generally determined by considering the attributes or risks of a financial asset which are not captured by existing expected credit loss model outputs. Management adjustments are actively monitored, reviewed, and incorporated into future model development where applicable.

At 31 January 2022, £12.5 million of the expected credit loss provision was attributable to adjustments (31 July 2021: £38.9 million), which can be broadly segmented into three categories:

- Covid-19: Applied either to cases where the model does not take into account the change in risk profile of forborne loans, or at portfolio level, where the model does not factor in the pandemic environment, necessitating the need for expert judgement overlay;
- Government lending schemes: Applied where the model does not include the benefit of the government guarantee into the expected credit loss calculation; and
- Non-Covid-19: Adjustments held whilst model limitations are addressed.

The level of adjustments has reduced during the first half as Covid-19 forborne loans continue to be repaid and the economic outlook stabilises, reducing uncertainty in macroeconomic forecasts.

This approach has incorporated our experience, knowledge of our customers, the sectors in which they operate, and the assets which we finance. We will continue to monitor the use of, or need for, adjustments as new information emerges.

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

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

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

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

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

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers				
At 1 August 2021	**7,434.3**	**960.2**	**330.4**	**8,724.9**
New financial assets originated	**3,237.6**	**-**	**-**	**3,237.6**
Transfers to Stage 1	**234.3**	**(271.1)**	**(3.2)**	**(40.0)**
Transfers to Stage 2	**(494.1)**	**473.2**	**(18.1)**	**(39.0)**
Transfers to Stage 3	**(94.1)**	**(98.6)**	**173.8**	**(18.9)**
Net transfers between stages and repayments[1]	**(353.9)**	**103.5**	**152.5**	**(97.9)**
Repayments while stage remain unchanged and final repayments	**(2,620.0)**	**(250.7)**	**(63.5)**	**(2,934.2)**
Changes to model methodologies	**(33.3)**	**31.6**	**1.8**	**0.1**
Write offs	**(0.8)**	**(7.3)**	**(12.5)**	**(20.6)**
At 31 January 2022	**7,663.9**	**837.3**	**408.7**	**8,909.9**

	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 remain 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

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

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 1 August 2021	**80.0**	**84.2**	**116.2**	**280.4**
New financial assets originated	**18.7**	**-**	**-**	**18.7**
Transfers to Stage 1	**1.6**	**(12.7)**	**(1.2)**	**(12.3)**
Transfers to Stage 2	**(14.7)**	**49.3**	**(9.3)**	**25.3**
Transfers to Stage 3	**(4.5)**	**(20.0)**	**72.7**	**48.2**
Net remeasurement of expected credit losses arising from transfers between stages and repayments[1]	**(17.6)**	**16.6**	**62.2**	**61.2**
Repayments and ECL movements while stage remained unchanged and final repayments	**(25.5)**	**(8.5)**	**(8.1)**	**(42.1)**
Changes to model methodologies	**(2.2)**	**(1.1)**	**1.9**	**(1.4)**
Charge to the income statement	**(26.6)**	**7.0**	**56.0**	**36.4**
Write offs	**(1.0)**	**(1.2)**	**(10.6)**	**(12.8)**
At 31 January 2022	**52.4**	**90.0**	**161.6**	**304.0**

	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

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

	Six months ended 31 January		Year ended 31 July
	2022	2021	2021
	£ million	£ million	£ million
Impairment losses relating to loans and advances to customers:			
Charge to income statement arising from movement in impairment provisions	**36.4**	51.7	77.7
Amounts written off directly to income statement, net of recoveries and other costs	**10.7**	0.2	10.2
	47.1	51.9	87.9
Impairment losses relating to other financial assets	**1.2**	0.9	1.9
Impairment losses on financial assets recognised in income statement	**48.3**	52.8	89.8

Impairment losses on financial assets of £48.3 million include £39.2 million in relation to Novitas (six months ended 31 January 2021: £24.0 million; year ended 31 July 2021: £73.2 million).

7. Debt securities

	Fair value through profit or loss £ million	**Fair value through other comprehensive income £ million**	**Amortised cost £ million**	**Total £ million**
Long trading positions in debt securities	**16.2**	**-**	**-**	**16.2**
Certificates of deposit	**-**	**-**	**299.6**	**299.6**
Sovereign and central bank debt	**-**	**227.6**	**-**	**227.6**
At 31 January 2022	**16.2**	**227.6**	**299.6**	**543.4**

	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

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

	Six months ended 31 January 2022 £ million	Year ended 31 July 2021 £ million
Sovereign and central bank debt at beginning of period	**192.5**	72.2
Additions	**60.5**	313.7
Redemptions	**(10.0)**	(191.0)
Currency translation difference	**(2.0)**	(5.2)
Changes in fair value	**(13.4)**	2.8
Sovereign and central bank debt at end of period	**227.6**	192.5

8. Equity shares

	31 January 2022 £ million	31 July 2021 £ million
Long trading positions	**34.5**	30.8
Other equity shares	**1.3**	1.1
	35.8	31.9

9. Goodwill and other intangible assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Total £ million
Cost				
At 1 August 2020	153.0	233.3	67.5	453.8
Additions	-	20.6	-	20.6
Disposals and write offs	-	(0.6)	-	(0.6)
At 31 January 2021	153.0	253.3	67.5	473.8
Additions	2.0	25.6	4.2	31.8
Disposals and write offs	(12.1)	(6.1)	(20.7)	(38.9)
At 31 July 2021	142.9	272.8	51.0	466.7
Additions	-	24.2	-	24.2
Disposals and write offs	(0.1)	(4.2)	-	(4.3)
At 31 January 2022	**142.8**	**292.8**	**51.0**	**486.6**
Amortisation and impairment				
At 1 August 2020	47.9	115.5	50.3	213.7
Amortisation charge for the period	-	13.7	1.5	15.2
Disposals and write offs	-	-	-	-
At 31 January 2021	47.9	129.2	51.8	228.9
Amortisation charge for the period	-	15.7	1.5	17.2
Impairment charge for the period	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
Amortisation charge for the period	-	18.3	0.9	19.2
Disposals and write offs	-	(4.2)	-	(4.2)
At 31 January 2022	**47.9**	**156.5**	**44.7**	**249.1**
Net book value at 31 January 2022	**94.9**	**136.3**	**6.3**	**237.5**
Net book value at 31 July 2021	95.0	130.4	7.2	232.6
Net book value at 31 January 2021	105.1	124.1	15.7	244.9
Net book value at 1 August 2020	105.1	117.8	17.2	240.1

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

In the six months ended 31 January 2022, £0.9 million (six months ended 31 January 2021: £1.5 million; year ended 31 July 2021: £3.0 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £18.3 million (six months ended 31 January 2021: £13.7 million; year ended 31 July 2021: £29.4 million) of the amortisation charge is included in administrative expenses shown in the consolidated income statement.

10. Property, plant and equipment

	Leasehold property £ million	Fixtures, fittings and equipment £ million	Assets held under operating leases £ million	Motor vehicles £ million	Right of use assets £ million	Total £ million
Cost						
At 1 August 2020	25.5	60.1	341.4	0.1	60.4	487.5
Additions	0.7	11.8	24.1	0.2	8.8	45.6
Disposals and write offs	-	(0.1)	(17.9)	-	(2.5)	(20.5)
At 31 January 2021	26.2	71.8	347.6	0.3	66.7	512.6
Additions	0.4	5.4	36.5	(0.1)	8.8	51.0
Disposals and write offs	(1.4)	(2.4)	(23.4)	-	(3.8)	(31.0)
At 31 July 2021	25.2	74.8	360.7	0.2	71.7	532.6
Additions	0.7	2.9	33.7	-	6.4	43.7
Disposals and write offs	(3.9)	(4.3)	(12.2)	-	(5.2)	(25.6)
At 31 January 2022	**22.0**	**73.4**	**382.2**	**0.2**	**72.9**	**550.7**
Depreciation						
At 1 August 2020	14.8	42.9	119.5	0.1	13.0	190.3
Depreciation charge for the period	1.1	3.3	22.9	-	7.5	34.8
Disposals and write offs	-	(0.3)	(12.4)	-	(1.8)	(14.5)
At 31 January 2021	15.9	45.9	130.0	0.1	18.7	210.6
Depreciation charge for the period	1.2	3.5	21.9	-	6.3	32.9
Disposals and write offs	(1.4)	(1.9)	(14.1)	-	(3.4)	(20.8)
At 31 July 2021	15.7	47.5	137.8	0.1	21.6	222.7
Depreciation charge for the period	1.1	3.6	20.6	0.1	6.3	31.7
Disposals and write offs	(3.8)	(4.1)	(6.1)	-	(4.0)	(18.0)
At 31 January 2022	**13.0**	**47.0**	**152.3**	**0.2**	**23.9**	**236.4**
Net book value at 31 January 2022	**9.0**	**26.4**	**229.9**	**-**	**49.0**	**314.3**
Net book value at 31 July 2021	9.5	27.3	222.9	0.1	50.1	309.9
Net book value at 31 January 2021	10.3	25.9	217.6	0.2	48.0	302.0
Net book value at 1 August 2020	10.7	17.2	221.9	-	47.4	297.2

11. Settlement balances and short positions

	31 January 2022 £ million	31 July 2021 £ million
Settlement balances	**880.1**	674.2
Short positions held for trading:		
Debt securities	**6.7**	7.0
Equity shares	**10.9**	9.4
	17.6	16.4
	897.7	690.6

12. Financial liabilities

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

	On demand £ million	**Within three months £ million**	**Between three months and one year £ million**	**Between one and two years £ million**	**Between two and five years £ million**	**After more than five years £ million**	**Total £ million**
Deposits by banks	**1.5**	**50.0**	**104.0**	**-**	**-**	**-**	**155.5**
Deposits by customers	**126.6**	**1,623.9**	**3,497.0**	**1,165.9**	**342.0**	**-**	**6,755.4**
Loans and overdrafts from banks	**57.1**	**15.1**	**-**	**-**	**600.0**	**-**	**672.2**
Debt securities in issue	**0.2**	**31.5**	**286.6**	**614.0**	**577.4**	**384.7**	**1,894.4**
Subordinated loan capital[1]	**-**	**1.6**	**-**	**-**	**-**	**190.4**	**192.0**
At 31 January 2022	**185.4**	**1,722.1**	**3,887.6**	**1,779.9**	**1,519.4**	**575.1**	**9,669.5**

1 Comprises issuances of £200.0 million with contractual maturity date of 2031 and optional prepayment date of 2026.

	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
Subordinated loan capital[2]	0.8	0.6	-	-	-	221.3	222.7
At 31 July 2021	601.3	1,643.2	3,615.6	1,385.0	1,254.7	886.5	9,386.3

1 Debt securities in issue of £(0.6) million due on demand include an adjustment relating to the group's fair value hedges.
2 Comprises issuances of £175.0 million and £45.0 million with contractual maturity dates of 2027 and 2026 and optional prepayment dates of 2022 and 2021 respectively.

Assets pledged and received as collateral

The group pledges assets for repurchase agreements and securities borrowing agreements which are generally conducted under terms that are customary to standard borrowing contracts.

The group is a participant of the Bank of England's Term Funding Scheme with Additional Incentives for SMEs ("TFSME"). Under these schemes, asset finance loan receivables of £563.1 million (31 July 2021: £571.3 million), UK gilts with a market value of £290.7 million (31 July 2021: £90.2 million) and retained notes relating to Motor Finance loan receivables of £45.6 million (31 July 2021: £72.1 million) were positioned as collateral with the Bank of England, against which £600.0 million of cash was drawn (31 July 2021: £490.0 million).

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

The group has securitised without recourse and restrictions £1,313.1 million (31 July 2021: £1,386.0 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £886.6 million (31 July 2021: £915.7 million). This includes the £45.6 million (31 July 2021: £72.1 million) retained notes positioned as collateral with the Bank of England. As the group has retained exposure to substantially all the credit risk and rewards of the residual benefit of the underlying assets it continues to recognise these assets in loans and advances to customers in its consolidated balance sheet.

13. Capital

The table below summarises the composition of regulatory capital and Pillar 1 risk weighted assets at those financial period ends. The information presented in this note is outside the scope of the independent review performed by PricewaterhouseCoopers LLP.

	31 January 2022 £ million	31 July 2021 £ million
Common equity tier 1 ("CET1") capital		
Called up share capital	**38.0**	38.0
Retained earnings[1]	**1,587.9**	1,555.5
Other reserves recognised for CET1 capital	**13.1**	13.1
Regulatory adjustments to CET1 capital		
Intangible assets, net of associated deferred tax liabilities[2]	**(236.0)**	(180.7)
Foreseeable dividend[3]	**(46.2)**	(62.7)
Investment in own shares	**(41.5)**	(36.0)
Pension asset, net of associated deferred tax liabilities	**(6.6)**	(5.4)
Prudent valuation adjustment	**(0.3)**	(0.3)
IFRS 9 transitional arrangements[4]	**97.3**	117.8
CET1 capital	**1,405.7**	1,439.3
Tier 2 capital – subordinated debt	**200.0**	223.4
Total regulatory capital[5]	**1,605.7**	1,662.7
Risk weighted assets (notional)[5]		
Credit and counterparty risk	**8,132.8**	7,945.8
Operational risk[6]	**1,038.5**	1,038.5
Market risk[6]	**135.0**	121.0
	9,306.3	9,105.3
CET1 capital ratio[5]	**15.1%**	15.8%
Total capital ratio[5]	**17.3%**	18.3%

1 Retained earnings for the period ended 31 January 2022 include all profits (both verified and unverified) for the six month period.

2 In line with the amended Capital Requirements Regulation ("CRR II"), effective on 23 December 2020, both the CET1 capital ratio and total capital ratio at 31 July 2021 included a c.50bps benefit related to software assets exempt from the deduction requirement for intangible assets from CET1. This benefit has been reversed with a corresponding reduction of the CET1 and total capital ratio upon implementation of PS17/21 on 1 January 2022.

3 Under the Regulatory Technical Standard on own funds, a deduction has been recognised for a foreseeable dividend. In accordance with this standard, for 31 January 2022 a foreseeable dividend has been determined based on the average payout ratio over the previous three years applied to the retained earnings for the period. For 31 July 2021 a foreseeable dividend was determined as the proposed final dividend.

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

5 Shown after applying IFRS 9 transitional arrangements and the CRR transitional and qualifying own funds arrangements. At 31 January 2022 the fully loaded CET1 capital ratio is 14.2% (31 July 2021: 14.2% excluding the benefit from the treatment of software assets) and total capital ratio is 16.4% (31 July 2021: 16.7% excluding the benefit from the treatment of software assets).

6 Operational and market risks include a notional adjustment at 8% in order to determine notional risk weighted assets.

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

	31 January 2022 £ million	31 July 2021 £ million
Equity	**1,608.2**	1,569.3
Regulatory adjustments to CET1 capital:		
Intangible assets, net of associated deferred tax liabilities	**(236.0)**	(180.7)
Foreseeable dividend[1]	**(46.2)**	(62.7)
IFRS 9 transitional arrangements	**97.3**	117.8
Pension asset, net of associated deferred tax liabilities	**(6.6)**	(5.4)
Prudent valuation adjustment	**(0.3)**	(0.3)
Other reserves not recognised for CET1 capital:		
Cash flow hedging reserve	**(10.7)**	0.3
Non-controlling interests	**-**	1.0
CET1 capital	**1,405.7**	1,439.3

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised for a foreseeable dividend. In accordance with this standard, for 31 January 2022 a foreseeable dividend has been determined based on the payout ratio for the previous year applied to the retained earnings for the period. For 31 July 2021 a foreseeable dividend was determined as the proposed final dividend.

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

	Six months ended 31 January		Year ended 31 July
	2022 £ million	2021 £ million	2021 £ million
CET1 capital at beginning of period	**1,439.3**	1,254.0	1,254.0
Profit in the period attributable to shareholders	**95.1**	94.8	202.1
Dividends paid and foreseen	**(46.2)**	(51.2)	(89.5)
Change in software assets treatment[1]	**(50.2)**	45.1	50.2
IFRS 9 transitional arrangements	**(20.5)**	18.8	17.5
(Increase)/decrease in intangible assets, net of associated deferred tax liabilities	**(5.0)**	(5.0)	6.0
Other movements in reserves recognised for CET1 capital	**-**	(1.2)	0.9
Other movements in adjustments to CET1 capital	**(6.8)**	(5.1)	(1.9)
CET1 capital at end of period	**1,405.7**	1,350.2	1,439.3

1 In line with the amended CRR ("CRR II"), effective on 23 December 2020, both the CET1 capital ratio and total capital ratio at 31 July 2021 included a c.50bps benefit related to software assets exempt from the deduction requirement for intangible assets from CET1. This benefit has been reversed with a corresponding reduction of the CET1 and total capital ratio upon implementation of PS17/21 on 1 January 2022.

14. Contingent liabilities

Financial Services Compensation Scheme (“FSCS”)

As disclosed in note 23 of the Annual Report 2021, the group is exposed to the FSCS which provides compensation to customers of financial institutions in the event that an institution is unable, or is likely to be unable, to pay claims against it.

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

15. Related party transactions

Related party transactions, including salary and benefits provided to directors and key management, did not have a material effect on the financial position or performance of the group during the period. There were no changes to the type and nature of the related party transactions disclosed in the Annual Report 2021 that could have a material effect on the financial position and performance of the group in the six months to 31 January 2022.

16. Consolidated cash flow statement reconciliation

	Six months ended 31 January 2022 £ million	Six months ended 31 January 2021 £ million	Year ended 31 July 2021 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities			
Operating profit before tax	**128.9**	127.0	265.2
Tax paid	**(38.2)**	(24.0)	(69.7)
Depreciation and amortisation	**50.9**	50.0	123.4
(Increase)/decrease in:			
Interest receivable and prepaid expenses	**1.5**	(1.1)	4.6
Net settlement balances and trading positions	**(18.3)**	(36.2)	8.5
Net loans to/from money broker against stock advanced	**27.0**	31.6	(23.2)
(Decrease)/increase in interest payable and accrued expenses	**(62.5)**	(12.2)	27.2
Net cash inflow from trading activities	**89.3**	135.1	336.0
(Increase)/decrease in:			
Loans and advances to banks not repayable on demand	**(1.8)**	1.7	9.6
Loans and advances to customers	**(199.6)**	(385.2)	(906.6)
Assets held under operating leases	**(26.0)**	(18.1)	(43.9)
Certificates of deposit	**(34.9)**	106.4	21.2
Sovereign and central bank debt	**(52.5)**	(23.7)	(126.6)
Other assets less other liabilities	**25.2**	32.7	74.8
(Decrease)/increase in:			
Deposits by banks	**8.2**	(9.4)	3.9
Deposits by customers	**132.1**	537.1	745.1
Loans and overdrafts from banks	**159.5**	38.8	14.8
Issuance/(redemption) of debt securities	**71.3**	317.8	(9.2)
Net cash inflow/(outflow) from operating activities	**170.8**	733.2	119.1
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and equity shares held for investment			
Cash consideration paid	**-**	(0.4)	(2.9)
(c) Analysis of net cash inflow in respect of the sale of subsidiaries and discontinued operations			
Cash consideration received	**0.1**	2.1	2.3

	31 January 2022 £ million	31 January 2021 £ million	31 July 2021 £ million
(d) Analysis of cash and cash equivalents[1]			
Cash and balances at central banks	**1,160.2**	1,894.6	1,314.7
Loans and advances to banks repayable on demand	**315.8**	181.5	121.9
	1,476.0	2,076.1	1,436.6

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

During the period ended 31 January 2022, the non-cash changes on debt financing amounted to £3.8 million (31 January 2021: £6.5 million; 31 July 2021: £18.2 million) arising from interest accretion and fair value hedging movements.

17. 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 January 2022		31 July 2021	
	Fair value £ million	**Carrying value £ million**	Fair value £ million	Carrying value £ million
Subordinated loan capital	**194.1**	**192.0**	226.5	222.7
Debt securities in issue	**1,879.1**	**1,894.4**	1,908.9	1,865.5

The group holds financial instruments that are measured at fair value subsequent to initial recognition. Each instrument has been categorised within one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. These levels are based on the degree to which the fair value is observable and are defined in note 28 "Financial risk management" of the Annual Report 2021. The table below shows the classification of financial instruments held at fair value into the valuation hierarchy:

	Level 1 £ million	**Level 2 £ million**	**Level 3 £ million**	**Total £ million**
At 31 January 2022				
Assets				
Debt securities:				
Long trading positions in debt securities	**14.5**	**1.7**	**-**	**16.2**
Sovereign and central bank debt	**227.6**	**-**	**-**	**227.6**
Equity shares	**8.0**	**27.5**	**0.3**	**35.8**
Derivative financial instruments	**-**	**31.1**	**-**	**31.1**
Contingent consideration	**-**	**-**	**-**	**-**
	250.1	**60.3**	**0.3**	**310.7**
Liabilities				
Short positions:				
Debt securities	**5.8**	**0.9**	**-**	**6.7**
Equity shares	**4.9**	**5.9**	**0.1**	**10.9**
Derivative financial instruments	**-**	**47.2**	**-**	**47.2**
Contingent consideration	**-**	**-**	**2.9**	**2.9**
	10.7	**54.0**	**3.0**	**67.7**

	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

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 2021.

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

There were no significant transfers between Level 1, 2 and 3 during the six months ended 31 January 2022 (six months ended 31 January 2021: none).

There were no significant movements in financial instruments categorised as Level 3 during the six months ended 31 January 2022 (six months ended 31 January 2021: none).

There were no gains or losses recognised in the consolidated income statement relating to Level 3 financial instruments held at 31 January 2022 (31 January 2021: £0.5 million loss; 31 July 2021: £0.1 million loss).

18. Additional support for customers

Forbearance

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

Covid-19 related forbearance

Since the onset of the global pandemic the resulting impact on our customers led to the granting of support by way of concessions classified as Covid-19-related. Such concessions took varying forms across our lending businesses, for example payment holidays and fee concessions. In these circumstances the granting of such a concession did not in itself constitute a significant increase in credit risk and expert judgement was applied to our typical staging criteria, with an approach tailored to each of our lending businesses accordingly.

The cure periods and approach associated with these concessions remain consistent with those set out on page 181 of the Annual Report 2021.

Non-Covid-19 forbearance

The Bank has historically offered a range of concessions to support customers which vary depending on the product and the customer's status. Such concessions include an extension outside terms (for example a higher loan to value or overpayments) and refinancing, which may incorporate an extension of the loan tenor and capitalisation of arrears. Furthermore, other forms of forbearance such as a moratorium, covenant waivers, and rate concessions are also offered.

Loans are classified as forborne at the time a customer in financial difficulty is granted a concession and the loan will remain treated and recorded as forborne until exit conditions are met.

The forbearance approach, including cure periods and exit conditions remain consistent with those set out on page 181 of the Annual Report 2021.

Forbearance analysis

At 31 January 2022, the gross carrying amount of loans with forbearance measures decreased by £266.6 million to £348.4 million (31 July 2021: £615.0 million) driven by continued repayment, curing, and settlement of Covid-19 forborne loans. The Covid-19 population has reduced to £179.8 million (31 July 2021: £454.8 million), with Covid-19 concessions no longer offered, except for a small number of Property loans that drew before or during the first national lockdown and may have been subject to construction delays.

Covid-19 forbearance continues to account for the majority of overall forbearance (31 January 2022: 51.6% of the forborne book; 31 July 2021: 74.0%). The reduction reflects the continued performance of this cohort, alongside new forbearance requests being classified as non-Covid-19.

An analysis of forborne loans as at 31 January 2022 is shown in the table below:

	Gross loans and advances to customers £ million	Forborne loans £ million	Forborne loans as a percentage of gross loans and advances to customers %	Provision on forborne loans £ million	Number of customers supported
31 January 2022	**8,909.9**				
Covid-19 forbearance		**179.8**	**2.0%**	**23.1**	**4,897**
Non-Covid-19 forbearance		**168.6**	**1.9%**	**44.5**	**15,522**
	8,909.9	**348.4**	**3.9%**	**67.6**	**20,419**
31 July 2021	8,724.9				
Covid-19 forbearance		454.8	5.2%	47.3	17,674
Non-Covid-19 forbearance		160.2	1.8%	35.5	12,679
	8,724.9	615.0	7.0%	82.8	30,353

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

	31 January 2022			31 July 2021		
	Covid-19 £ million	**Non-Covid-19 £ million**	**Total forborne loans £ million**	Covid-19 £ million	Non-Covid-19 £ million	Total forborne loans £ million
Commercial	**86.0**	**17.4**	**103.4**	287.4	19.8	307.2
Retail	**18.8**	**17.5**	**36.3**	49.2	9.2	58.4
Property	**75.0**	**133.7**	**208.7**	118.2	131.2	249.4
	179.8	**168.6**	**348.4**	454.8	160.2	615.0

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

	31 January 2022			31 July 2021		
	Covid-19	**Non-Covid-19**	**Total number of customers supported**	Covid-19	Non-Covid-19	Total number of customers supported
Commercial	**876**	**116**	**992**	2,291	136	2,427
Retail	**4,001**	**15,344**	**19,345**	15,333	12,485	27,818
Property	**20**	**62**	**82**	50	58	108
	4,897	**15,522**	**20,419**	17,674	12,679	30,353

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

	31 January 2022			31 July 2021		
	Covid-19	**Non-Covid-19**	**Total forborne loans**	Covid-19	Non-Covid-19	Total forborne loans
Extension outside terms	**75.6**	**117.3**	**192.9**	123.5	121.9	245.4
Refinancing	**0.3**	**4.6**	**4.9**	1.2	5.3	6.5
Moratorium	**103.9**	**26.2**	**130.1**	329.7	16.1	345.8
Other modifications	**-**	**20.5**	**20.5**	0.4	16.9	17.3
	179.8	**168.6**	**348.4**	454.8	160.2	615.0

Government lending schemes

In addition to the Covid-19 specific forbearance measures covered in this note, as an accredited lender, we offered many of our customers facilities under the UK government-introduced Coronavirus Business Interruption Loan Scheme ("CBILS"), the Coronavirus Large Business Interruption Loan Scheme ("CLBILS") and a small number of facilities under the Bounce Back Loan Scheme ("BBLS"), thereby enabling us to maximise our support for small businesses. We saw strong demand for these loans with 6,449 loans totalling £1,278.4 million approved. As at 31 January 2022, there are 5,648 remaining facilities, with balances of £911.0 million.

We also have accreditation to offer products under the Recovery Loan Scheme ("RLS"), and schemes in the Republic of Ireland. To date, 234 applications totalling £115.1 million are live, with a further 92 applications totalling £56.4 million received and approved.

We maintain a regular reporting cycle of these facilities to monitor performance. To date, a small number of claims have been made under the government guarantee.

19. Interest rate risk

The group's exposure to interest rate risk arises in the Banking division, which this note accordingly relates to. Interest rate risk in the group's other divisions is considered to be immaterial. The group has a simple and transparent balance sheet and a low appetite for interest rate risk which is limited to that required to operate efficiently.

The group's governance, policy and approach in relation to interest rate risk remains unchanged from that described on page 186 of the Annual Report 2021.

The table below sets out the assessed impact on our base case (no stress) Earnings at Risk ("EaR") due to a parallel shift in interest rates:

	31 January 2022 £ million	31 July 2021 £ million
0.5% increase	**(9.1)**	(11.6)
0.5% decrease	**10.8**	8.3

EaR at 31 January 2022 has reduced to £9.1m under a 0.5% increase in interest rate due to a reduction in basis risk following the group's IBOR transition and a reduction in optionality following the base rate rise in December 2021.

The table below sets out the assessed impact on our base case Economic Value ("EV") due to a shift in interest rates:

	31 January 2022 £ million	31 July 2021 £ million
0.5% increase	**(2.3)**	(4.2)
0.5% decrease	**4.3**	4.3

Cautionary Statement

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

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