Close Brothers

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Registered in England No. 520241

Preliminary Results for the year ended 31 July 2023

26 September 2023

Adrian Sainsbury, Chief Executive, said:

"We have performed well in the second half, with an acceleration of loan book growth, strong margins and a stable credit performance in our Banking business. We continued to attract new client assets in CBAM, with strong net inflows, although Winterflood's performance remains impacted by subdued trading activity. Despite the second half momentum, our financial results for the full year were significantly impacted by provisions in relation to Novitas announced in our Half Year 2023 results in March.

Our through-the-cycle business model and financial strength mean we can support customers even during these uncertain times. By leveraging our long-term relationships, the deep expertise of our people and our customer-centric approach we can deliver disciplined growth and are well positioned to resume our long-term track record of earnings growth and returns, building on the second half's momentum and a good start to the 2024 financial year."

Financial performance in the year

- Statutory operating profit before tax decreased to £112.0 million (2022: £232.8 million), including £114.6 million of provisions in relation to Novitas already reported in the first half. Excluding Novitas, adjusted operating profit decreased to £220.1 million (2022: £274.1 million) reflecting forward-looking impairment provisions and lower income from Winterflood
- We achieved 3% income growth in Banking reflecting good loan book growth and a strong net interest margin of 7.7% (2022: 7.8%). Pre-provisions, adjusted operating profit in Banking decreased 2% (up 2% excluding Novitas) to £324.1 million as income growth was offset by inflationary pressures and continued investment in the business
- Whilst we have not seen a significant impact from the external environment on credit performance, this uncertainty is reflected in higher forward-looking impairments. As a result, the bad debt ratio (excluding Novitas) was 0.9% (2022: 0.5%), slightly below our long-term average. The bad debt ratio including Novitas increased to 2.2% (2022: 1.2%)
- The loan book grew 5% to £9.5 billion (31 July 2022: £9.1 billion), with growth of 8% excluding our businesses in run-off, as we remained committed to lending consistently to customers in all market conditions
- We accelerated our growth strategy in Close Brothers Asset Management ("CBAM") and delivered strong net inflows of 9%, with a significant contribution from new hires
- Winterflood's performance was impacted by a continued slowdown in trading activity and challenging market conditions, but it remains well positioned to benefit when market conditions improve
- Total funding increased 7% to £12.4 billion (31 July 2022: £11.6 billion), as we sought to grow our retail deposit base and optimise our funding mix
- Our Common Equity Tier 1 ("CET1") ratio was 13.3% at 31 July 2023 (31 July 2022: 14.6%), significantly above our minimum regulatory requirement of 9.5%
- We propose a final dividend of 45.0p per share, resulting in a full-year dividend per share of 67.5p (2022: 66.0p). This reflects our underlying performance and the Board's confidence in the group's outlook

Moving forward on the delivery of our strategic priorities

- Our growth initiatives are delivering a significant contribution to loan book growth. We lent £164 million in the first year against our ambition to provide £1 billion of funding for battery electric vehicles by 2027. Our initiatives in the Commercial business are progressing well, with the recently hired specialist lending teams having written healthy levels of new business and building strong pipelines. We saw good demand for new offerings in Property Finance, including our specialist buy-to-let proposition to existing bridging finance customers

- In CBAM, our hiring strategy is proving successful with a strong pipeline and new bespoke investment managers significantly contributing to net inflows. Winterflood Business Services ("WBS") continued to grow with total assets under administration ("AuA") up 79% to £12.9 billion, above the previous £10 billion target
- We have a number of strategic cost management initiatives in progress and are evaluating further opportunities to improve efficiency. We remain focused on achieving positive operating leverage over the medium term
- We remain committed to optimising further our capital structure, targeting a CET1 capital ratio range of 12% to 13% over the medium term**,** in line with our capital management framework. The Board will assess the potential for further distributions to shareholders based on future opportunities

Outlook

We are making the most of opportunities and are encouraged by the momentum generated in Banking in the second half. We have seen a good start to the 2024 financial year and our underlying business is well positioned to maintain stable returns this year, as we sustain growth momentum and pricing discipline, with a resilient credit performance, despite the near-term cost pressure.

Our proven model and financial strength leave us well placed to resume our track record of earnings growth and returns by focusing on disciplined growth, cost efficiency and capital optimisation.

Key Financials[1]

	Full year 2023	Full year 2022	Change %
Adjusted operating profit[2]	**£113.5m**	£234.8m	(52)
Adjusted operating profit, pre provisions	**£317.6m**	£338.1m	(6)
Statutory operating profit before tax	**£112.0m**	£232.8m	(52)
Adjusted basic earnings per share[3]	**55.1p**	111.5p	(51)
Basic earnings per share[3]	**54.3p**	110.4p	(51)
Ordinary dividend per share	**67.5p**	66.0p	2
Return on opening equity	**5.0%**	10.6%	
Return on average tangible equity	**5.9%**	12.2%	
Net interest margin	**7.7%**	7.8%	
Bad debt ratio	**2.2%**	1.2%	

	31 July 2023	31 July 2022	Change %
Loan book	**£9.5bn**	£9.1bn	5
Total client assets	**£17.3bn**	£16.6bn	5
CET1 capital ratio (transitional)	**13.3%**	14.6%	
Total capital ratio (transitional)	**15.3%**	16.6%	

Key Financials (Excluding Novitas)

	Full year 2023	Full year 2022	Change %
Adjusted operating profit	**£220.1m**	£274.1m	(20)
Adjusted operating profit, pre provisions	**£307.4m**	£316.7m	(3)
Net interest margin	**7.6%**	7.5%	
Bad debt ratio	**0.9%**	0.5%	

	31 July 2023	31 July 2022	Change %
Loan book	**£9.5bn**	£8.9bn	6

1. Please refer to definitions on pages 24 to 26.
2. Adjusted operating profit is stated before amortisation and impairment of intangible assets on acquisition, goodwill impairment, exceptional item and tax.
3. Refer to note 4 for the calculation of basic and adjusted earnings per share.

Enquiries

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A virtual presentation to analysts and investors will be held today at 9.30 am BST followed by a Q&A session. A webcast and dial-in facility will be available by registering at https://webcasts.closebrothers.com/results/PrelimResults2023.

Basis of Presentation

Results are presented both on a statutory and an adjusted basis to aid comparability between periods. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Please refer to note 2 for further details on items excluded from the adjusted performance metrics.

Financial Calendar (Provisional)

The enclosed provisional financial calendar below is updated on a regular basis throughout the year. Please refer to our website www.closebrothers.com for up-to-date details. Going forward, the group has decided to discontinue the issuance of pre-close trading updates in order to align more closely with prevailing market and industry practice.

Event	Date
First quarter trading update	November 2023
Annual General Meeting	16 November 2023
Final dividend payment	24 November 2023
Half year end	31 January 2024
Interim results	March 2024
Third quarter trading update	May 2024
Financial year end	31 July 2024
Preliminary results	September 2024

About Close Brothers

Close Brothers is a leading UK merchant banking group providing lending, deposit taking, wealth management services and securities trading. We employ approximately 4,000 people, principally in the United Kingdom and Ireland. Close Brothers Group plc is listed on the London Stock Exchange and is a constituent of the FTSE 250.

Chief Executive's Statement

We have performed well in the second half, with an acceleration of loan book growth, strong margins and a stable credit performance in our Banking business. We continued to attract new client assets in CBAM, with strong net inflows, although Winterflood's performance remains impacted by subdued trading activity. Despite the second half momentum, our financial results for the full year were significantly impacted by provisions in relation to Novitas announced in our Half Year 2023 results in March.

This year has been marked by a challenging market backdrop, where mixed economic conditions in the UK have created substantial uncertainty for our consumer and SME customers. Although demand levels have remained robust, the uncertain external environment led to higher forward-looking impairment provisions and difficult conditions for our market-facing businesses, CBAM and Winterflood.

Whilst headwinds facing SME firms have abated somewhat, uncertainty and challenges for these firms persist, with interest rates rises and cost of funds remaining a key concern for many business owners. We recently published the Close Brothers Asset Finance Business Sentiment Index, which provides insights about our core customers' plans for the future. The research shows that SME business confidence continues to recover, and we are reassured to see a reversal of 2022's downward trends, with a cautious optimism continuing to return. Overall, the appetite to invest remained stable, with three-quarters of the firms aiming to seek funding for investment in the next 12 months.

We are confident that we have the right model to thrive in this environment and are confident in the opportunity it creates for us to lean in and support consumers and SME businesses.

Our through-the-cycle business model and financial strength mean we can support customers even during these uncertain times. By leveraging our long-term relationships, the deep expertise of our people and our customer-centric approach we can deliver disciplined growth and are well positioned to resume our long-term track record of earnings growth and returns, building on the second half's momentum and a good start to the 2024 financial year.

Financial Performance

The financial results were impacted by a significant increase in provisions in relation to Novitas incurred in the first half, as we have taken measures to address the issues relating to that business. As a result, statutory operating profit before tax decreased to £112.0 million (2022: £232.8 million). While we are disappointed with these developments and the impact they have had on our performance this year, the financial strength of the group leaves us well placed to move forward on the delivery of our strategic priorities. We evaluate continuously our businesses and initiatives against a set of criteria, our "Model Fit Assessment Framework", to ensure they are aligned with the key attributes of our model that have and will continue to generate long-term value. We are confident that there is no read-across from Novitas to other books in our portfolio and our prudent underwriting continues to be reflected in the asset quality and performance of the rest of our loan book.

In Banking, excluding Novitas, profit performance primarily reflected good loan book growth of 6% and strong net interest margin of 7.6%, more than offset by higher impairment charges to take into account the uncertain macroeconomic outlook and increased costs related to our investment programmes and inflation, including wage awards. Our Asset Management division delivered strong net inflows of 9%, although profit reduced, reflecting wider market conditions and costs related to our successful hiring strategy, as we accelerated our efforts to grow CBAM. Although performance at Winterflood reflected the continuation of challenging trading conditions, we remain confident in the track record of our trading business and are well positioned to retain our market position and benefit when investor appetite returns. Winterflood has made good progress on the diversification of its revenue streams and is exploring growth opportunities to balance the cyclicality seen in the trading business.

Our capital, funding and liquidity positions remained strong. The events impacting the global banking sector earlier this year highlighted the benefits of our prudent approach to managing financial resources, with our diverse funding base enabling us to adapt our position, based on market conditions and demand. Our funding base was further strengthened by the successful issuance of a £250 million senior unsecured bond in June 2023, and we maintained our prudent liquidity position, with the 12-month average liquidity coverage ratio ("LCR") of 1,143% substantially above regulatory requirements. Our common equity tier 1 ("CET1") capital ratio was 13.3% at 31 July 2023 (31 July 2022: 14.6%), significantly above the applicable minimum regulatory requirement of 9.5%. We remain committed to optimising further our capital structure, targeting a CET1 capital ratio range of 12% to 13% over the medium term. This will allow the group to maintain a buffer to minimum regulatory requirements while also

retaining flexibility to grow the business. We remain encouraged by the available opportunities to deploy capital to deliver disciplined growth, which remains a key strategic priority. We will continue to assess the potential for further distributions to shareholders based on future opportunities.

We are pleased to propose a final dividend of 45.0p per share, resulting in a full-year dividend per share of 67.5p (2022: 66.0p). This reflects our underlying performance and the Board's confidence in the group's outlook. We remain committed to our dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover.

Well placed to resume our track record of earnings growth and returns

We have made good progress against our strategic priorities and remain committed to resuming our track record of earnings growth and returns.

Our investment programmes are progressing well and enable us to protect the key attributes of our business model, maintain regulatory compliance and enhance efficiency, as well as future-proof our income generation capabilities. We continue to see tangible benefits from these investments. We advanced our strategic cost management initiatives, including our technology transformation programme focused on the rationalisation of IT infrastructure, as well as making operational enhancements in Retail. These actions aim to create capacity to accommodate growth, inflation and investment to support our business. We continue to evaluate additional opportunities for efficiency with a view to achieving positive operating leverage over the medium term. Furthermore, we undertook work across our businesses to ensure readiness for the implementation of the FCA's Consumer Duty, which came into force on 31 July, completing product reviews and enhancing frameworks to incorporate the new requirements.

We remain focused on delivering disciplined growth and continue to review a range of opportunities in line with our model, with our growth initiatives delivering a significant contribution to loan book growth in the year. Our recently hired agricultural equipment and materials handling teams in Asset Finance have written healthy levels of new business and are building strong pipelines. In Invoice Finance, we participated in our first syndication deal and the newly hired team, providing bespoke term loan structures to SME clients, closed their first deal this year. We saw good demand for the new initiatives in Property Finance, including our specialist buy-to-let proposition to existing bridging finance customers. We are delighted to have recently announced our agreement to acquire Bluestone Motor Finance (Ireland) DAC, which is aligned to our commitment to Ireland as a strategic market and provides a platform for us to build our Irish Motor Finance business. Following last year's announcement of our initial green growth ambition of providing funding for £1.0 billion of battery electric vehicles by 2027, we are pleased to have funded £164 million in the first year. These achievements are examples of our relationships, expertise and customer-centric approach being utilised to deliver disciplined growth.

In CBAM, our hiring strategy is proving successful, with a strong pipeline of new hires and significant contribution from new portfolio managers to the inflows. We also continue to build our pipeline of in-fill acquisitions to support the long-term growth potential of the business. In addition, WBS exceeded the targeted £10 billion of total AuA and is well positioned for further growth, both organically and supported by a solid pipeline of clients. We expect WBS to grow AuA to over £20 billion by 2026.

We continued to make progress against the group's sustainability agenda. We set our group-wide climate commitment, becoming signatories to the Net Zero Banking Alliance and Net Zero Asset Managers initiatives in September 2022, and I look forward to sharing our initial intermediate 2030 targets for the most carbon-intensive sectors in our loan book over the coming months. We remain focused on improving the quality of our emissions reporting, including our financed emissions.

Our people

We consistently focus on employee engagement to support the wellbeing and needs of our colleagues. I am delighted with the positive scores achieved in our most recent employee opinion survey, reflecting our teams' strong sense of belonging and our distinctive culture. I am particularly impressed that we have retained our high engagement score of 86%. Our colleagues play a key role in driving our organisation towards lasting success, and I would like to extend my gratitude to all our people for their dedication and resilience, especially in the face of the financial pressures brought about by higher inflation and the cost of living. Together, I am confident that we will continue to deliver on our purpose to help the people and businesses of Britain thrive over the long term.

Outlook

We are making the most of opportunities and are encouraged by the momentum generated in Banking in the second half. We have seen a good start to the 2024 financial year and our underlying business is well positioned to maintain stable returns this year, as we sustain growth momentum and pricing discipline, with a resilient credit performance, despite the near-term cost pressure.

Our proven model and financial strength leave us well placed to resume our track record of earnings growth and returns by focusing on disciplined growth, cost efficiency and capital optimisation.

Overview of Financial Performance

Summary Group Income Statement[1]

	2023 £ million	2022 £ million	Change %
Operating income	**932.6**	936.1	–
Operating expenses	**(615.0)**	(598.0)	3
Impairment losses on financial assets	**(204.1)**	(103.3)	98
Adjusted operating profit	**113.5**	234.8	(52)
Banking	**120.1**	227.2	(47)
Commercial	**15.9**	91.0	(83)
Of which: Novitas	***(106.6)***	*(39.3)*	*(171)*
Retail	**34.7**	61.0	(43)
Property	**69.5**	75.2	(8)
Asset Management	**15.9**	21.7	(27)
Winterflood	**3.5**	14.1	(75)
Group	**(26.0)**	(28.2)	(8)
Amortisation and impairment of intangible assets on acquisition	**(1.5)**	(2.0)	(25)
Statutory operating profit before tax	**112.0**	232.8	(52)
Tax	**(30.9)**	(67.6)	(54)
Profit after tax	**81.1**	165.2	(51)
Profit attributable to shareholders	**81.1**	165.2	(51)
Adjusted basic earnings per share[2]	**55.1p**	111.5p	(51)
Basic earnings per share[2]	**54.3p**	110.4p	(51)
Ordinary dividend per share	**67.5p**	66.0p	(2)
Return on opening equity	**5.0%**	10.6%	
Return on average tangible equity	**5.9%**	12.2%	

1. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in note 2.
2. Refer to note 4 for the calculation of basic and adjusted earnings per share.

Financial Performance

Adjusted operating profit and returns

Statutory operating profit before tax decreased to £112.0 million (2022: £232.8 million), primarily driven by higher impairment charges in relation to Novitas, with adjusted operating profit down 52% to £113.5 million (2022: £234.8 million). Excluding Novitas, adjusted operating profit reduced 20% to £220.1 million (2022: £274.1 million), mainly reflecting an increase in impairment charges and a reduction in income in Winterflood.

Return on average tangible equity ("RoTE") reduced to 5.9% (2022: 12.2%), with the loss after tax recorded by Novitas reducing the group's RoTE by 6.1%.

Adjusted operating profit in the Banking division reduced 47% to £120.1 million (2022: £227.2 million), primarily reflecting higher impairment charges related to Novitas. Growth in income, driven by good loan book growth and a strong net interest margin, was offset by higher costs as we continue to invest in the business and to reflect the inflationary environment. In the Asset Management division, we delivered strong net inflows, although adjusted operating profit reduced 27% to £15.9 million (2022: £21.7 million), driven by a modest decline in income, reflecting lower income from advice and other services, and higher costs, as we accelerated our new hiring strategy. Operating profit in Winterflood decreased by 75% to £3.5 million (2022: £14.1 million), with performance adversely impacted by the continued market-wide slowdown in trading activity, particularly in higher margin sectors, and difficult market conditions. Group net expenses, which include interest expense from debt issued by the holding company, as well as costs

related to the central functions such as finance, legal and compliance, risk and human resources, reduced to £26.0 million (2022: £28.2 million), mainly reflecting lower charges from share-based awards and a reduction in variable compensation.

Operating income

Operating income was broadly stable at £932.6 million (2022: £936.1 million), with growth in Banking offset by lower income in Asset Management and Winterflood. Income in the Banking division increased by 3%, reflecting good loan book growth and a strong net interest margin of 7.7% (2022: 7.8%), partly offset by the run-off of Novitas and the Irish Motor Finance business. In the Asset Management division, we saw an increase in investment management income resulting from growth in AuM delivered by our bespoke investment manager hires. This was more than offset by a decrease in income from advice and other services, which reflected the impact of difficult market conditions on client assets, and managements' strategic shift to focus on higher value clients. As a result, income in the Asset Management division decreased by 2%. Income in Winterflood reduced 21%, driven by lower trading revenues reflecting the continued market-wide slowdown in activity.

Operating expenses

Operating expenses increased 3% to £615.0 million (2022: £598.0 million) with higher staff costs and investment in Banking and CBAM more than offsetting lower variable costs in Winterflood. In the Banking division, whilst we remained focused on cost control, expenses rose 7%, mainly driven by salary increases and continued investment in strategic programmes. Costs increased 2% in Asset Management as lower variable compensation was more than offset by higher fixed staff costs in the inflationary environment, as well as reflecting the onboarding of new hires and technology spend, driven by the success of the hiring strategy and investment for future growth. Winterflood's costs fell 11% as the slowdown in trading activity led to lower staff compensation and settlement fees.

Overall, the group's expense/income ratio increased to 66% (2022: 64%), while the group's compensation ratio remained stable at 37% (2022: 37%) as the reduction in variable compensation across the group was offset by inflation-related wage increases and new hires.

Impairment charges and IFRS 9 provisioning

Impairment charges increased significantly to £204.1 million (2022: £103.3 million), corresponding to a bad debt ratio of 2.2% (2022: 1.2%). This increase was driven primarily by impairment charges of £116.8 million taken in relation to Novitas (2022: £60.7 million), of which £114.6 million was incurred in the first half of the year. As a result, there was an increase in overall provision coverage to 3.9% (31 July 2022: 3.1%).

Excluding Novitas, the increase in impairment charges was primarily driven by higher provisions as a result of weaker macroeconomic variables and outlook, as well as an ongoing review of provisions and coverage across our loan portfolios and an increase in Motor Finance arrears, which have stabilised since the first half. The bad debt ratio, excluding Novitas, increased to 0.9% (2022: 0.5%) and the coverage ratio increased marginally to 2.1% (31 July 2022: 1.9%).

Since the previous financial year end, we have updated the macroeconomic scenarios to reflect the latest available information regarding the macroeconomic environment and outlook, although the weightings assigned to them remain unchanged. At 31 July 2023, there was a 30% weighting to the strong upside, 32.5% weighting to the baseline, 20% weighting to the mild downside, 10.5% weighting to the moderate downside and 7% weighting to the severe downside.

Whilst we have not seen a significant impact on credit performance at this stage, we continue to monitor closely the evolving impacts of rising inflation and cost of living on our customers. We remain confident in the quality of our loan book, which is predominantly secured or structurally protected, prudently underwritten, diverse, and supported by the deep expertise of our people.

Tax expense

The tax expense was £30.9 million (2022: £67.6 million), which corresponds to an effective tax rate of 27.6% (2022: 29.0%).

The standard UK corporation tax rate for the financial year is 21.0% (2022: 19.0%). However, an additional headline banking surcharge of 6.3% (2022: 8.0%) applies to banking company profits as defined in legislation (and only above a threshold amount), resulting in a c.5.5% surcharge impact. The effective tax rate is above the UK corporation tax rate primarily due to the surcharge applying to most of the group's profits.

Earnings per share

Profit attributable to shareholders reduced 51% to £81.1 million (2022: £165.2 million). As a result, adjusted basic earnings per share ("EPS") reduced to 55.1p (2022: 111.5p) and basic EPS reduced to 54.3p (2022: 110.4p). The loss after tax recorded by Novitas reduced the group's adjusted basic EPS by 56.4p.

Dividend

The board is proposing a final dividend of 45.0p per share, resulting in a full-year dividend per share of 67.5p (2022: 66.0p). Although the proposed level of dividend cover for 2023 is below our historical range, driven primarily by the adverse impact of increased provisions in relation to Novitas on our profitability, the proposed dividend reflects our underlying performance and the board's confidence in the group's outlook.

We remain committed to our dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover.

Subject to approval at the Annual General Meeting, the final dividend will be paid on 24 November 2023 to shareholders on the register at 20 October 2023.

Summary Group Balance Sheet

	31 July 2023 £ million	31 July 2022 £ million
Loans and advances to customers and operating lease assets[1]	**9,526.2**	9,098.9
Treasury assets[2]	**2,229.4**	1,855.1
Market-making assets[3]	**787.6**	887.2
Other assets	**1,007.1**	837.1
Total assets	**13,550.3**	12,678.3
Deposits by customers	**7,724.5**	6,770.4
Borrowings[4]	**2,839.4**	2,870.1
Market-making liabilities[3]	**700.7**	796.1
Other liabilities	**640.8**	584.2
Total liabilities	**11,905.4**	11,020.8
Equity	**1,644.9**	1,657.5
Total liabilities and equity	**13,550.3**	12,678.3

1. Includes operating lease assets of £223.4 million (31 July 2022: £185.4 million) that relate to Asset Finance and £47.8 million (31 July 2022: £54.6 million) to Invoice and Speciality Finance.
2. Treasury assets comprise cash and balances at central banks and debt securities held to support the Banking division.
3. Market-making assets and liabilities comprise settlement balances, long and short trading positions and loans to or from money brokers.
4. Borrowings comprise debt securities in issue, loans and overdrafts from banks and subordinated loan capital.

The group maintained a strong balance sheet and prudent approach to managing its financial resources. The fundamental structure of the balance sheet remains unchanged, with most of the assets and liabilities relating to our Banking activities. Customer 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 7% to £13.6 billion (31 July 2022: £12.7 billion), reflecting growth in the loan book, higher treasury assets due to an increased cash balance, an increase in other assets as higher collateral was held due to swap movements,

and a reduction in market-making assets. Total liabilities were also 8% higher at £11.9 billion (31 July 2022: £11.0 billion), driven primarily by higher customer deposits, partly offset by a reduction in market-making liabilities.

Total equity reduced 1% to £1.6 billion (31 July 2022: £1.7 billion), with profit in the year more than offset by dividend payments of £99.1 million (31 July 2022: £95.5 million). The group's return on assets decreased to 0.6% (2022: 1.3%).

Group Capital

	31 July 2023 £ million	31 July 2022 £ million
Common equity tier 1 capital	**1,310.8**	1,396.7
Total capital	**1,510.8**	1,596.7
Risk weighted assets	**9,847.6**	9,591.3
Common equity tier 1 capital ratio (transitional)[1]	**13.3%**	14.6%
Tier 1 capital ratio (transitional)	**13.3%**	14.6%
Total capital ratio (transitional)	**15.3%**	16.6%
Leverage ratio[2]	**11.4%**	12.0%

1. The impact of Novitas on the CET1 capital ratio at 31 July 2023 was –c.115bps, of which -c.85bps relates to retained earnings, -c.40bps relates to the IFRS 9 transitional arrangements and c.10bps relates to RWAs.
2. The leverage ratio is calculated as tier 1 capital as a percentage of total balance sheet assets excluding central bank claims, adjusting for certain capital deductions, including intangible assets, and off-balance sheet exposures, in line with the UK leverage framework under the UK Capital Requirements Regulation.

Movements in Capital and Other Regulatory Metrics

The CET1 capital ratio reduced from 14.6% to 13.3%, mainly driven by loan book growth in the year (–c.80bps), a decrease in IFRS 9 transitional arrangements (–c.45bps) and deduction of dividends paid and foreseen (–c.105bps), partly offset by capital generation through profit (c.85bps) and a decrease in risk weighted assets ("RWAs") associated with derivatives and credit valuation adjustment ("CVA") (c.30bps). The impact of Novitas on the CET1 capital ratio was –c.115bps and consists of impact on retained earnings (c.85bps) and IFRS 9 transitional arrangements (c.40bps), offset by a reduction in loan book RWAs (c.10bps).

CET1 capital decreased 6% to £1,310.8 million (31 July 2022: £1,396.7 million), reflecting a decrease in the transitional IFRS 9 add-back to capital of £51.1 million, the regulatory deduction of dividends paid and foreseen of £100.5 million and an increase in the intangible assets deducted from capital of £12.1 million. This was partially offset by the capital generation through profit of £81.1 million. Total capital decreased 5% to £1,510.8 million (31 July 2022: £1,596.7 million).

RWAs increased by 3% to £9.8 billion (31 July 2022: £9.6 billion), mainly driven by growth in the Commercial and Property loan books, partly offset by a decrease in RWAs associated with derivatives and CVA following changes to the derivatives calculation to recognise netting agreements and to implement the standardised approach to counterparty credit risk.

As a result, CET1, tier 1 and total capital ratios were 13.3% (31 July 2022: 14.6%), 13.3% (31 July 2022: 14.6%) and 15.3% (31 July 2022: 16.6%), respectively.

During the 2023 financial year higher countercyclical buffer rates for our UK and Irish exposures have come into force, increasing the group's applicable countercyclical buffer by c.190bps to 1.9%. At 31 July 2023, the applicable minimum CET1, tier 1 and total capital ratio requirements, excluding any applicable Prudential Regulation Authority ("PRA") buffer, were 9.5%, 11.2% and 13.4%, respectively. Accordingly, we continue to have headroom significantly above the applicable minimum regulatory requirements of c.380bps in the CET1 capital ratio, c.210bps in the tier 1 capital ratio and c.190bps in the total capital ratio.

The group applies IFRS 9 regulatory transitional arrangements which allow banks to add back to their capital base a proportion of the IFRS 9 impairment charges during the transitional period. Our capital ratios are presented on a transitional basis after the application of these arrangements. On a fully loaded basis, without their application, the CET1, tier 1 and total capital ratios would be 13.0%, 13.0% and 15.1%, respectively.

The leverage ratio, which is a transparent measure of capital strength not affected by risk weightings, remained strong at 11.4% (31 July 2022: 12.0%).

The PRA Consultation Paper 16/22 on Basel 3.1 standards was published in November 2022, with changes expected to be implemented or phased in from 2025-2030. As highlighted at the Half Year 2023 results, following initial analysis, we estimate that if implemented in its current form, it would represent an increase of up to c.10% in the group's RWAs calculated under the standardised approach. This is primarily as a result of the proposed removal of the SME supporting factor and the proposed approach to the classification of Retail SMEs and associated risk weights.

We continue to make positive progress in our preparations for a transition to the Internal Ratings Based ("IRB") approach. Following the submission of our initial application to the PRA in December 2020, our application has successfully transitioned to Phase 2 of the process. Additional documentation has been submitted to the regulator and engagement continues. Our Motor Finance, Property Finance and Energy portfolios, where the use of models is most mature, were submitted with our initial application, with work on subsequent portfolios in progress.

Capital Management Framework

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

The board remains committed to the group's dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover.

We remain committed to optimising further our capital structure, including the issuance of debt capital market securities if appropriate, targeting a CET1 capital ratio range of 12% to 13% over the medium term. This will allow the group to maintain a buffer to minimum regulatory requirements while also retaining the flexibility to grow the business. We remain encouraged by the available opportunities to deploy capital to deliver disciplined growth, which remains one of our key strategic priorities. The board will assess the potential for further distributions to shareholders based on future opportunities.

Group Funding1

	31 July 2023 £ million	31 July 2022 £ million
Customer deposits	**7,724.5**	6,770.4
Secured funding	**1,676.6**	1,598.7
Unsecured funding[2]	**1,308.6**	1,544.3
Equity	**1,644.9**	1,657.5
Total available funding[3]	**12,354.6**	11,570.9
Total funding as % of loan book[4]	**130%**	127%
Average maturity of funding allocated to loan book[5]	**21 months**	21 months

1. Numbers relate to core funding and exclude working capital facilities at the business level.
2. Unsecured funding excludes £44.3 million (31 July 2022: £22.1 million) of non-facility overdrafts included in borrowings and includes £190.0 million (31 July 2022: £295.0 million) of undrawn facilities.
3. Includes £250 million of funds raised via a senior unsecured bond with a five-year tenor by Close Brothers Group plc, the group's holding company, in June 2023, with proceeds currently held for general corporate purposes.
4. Total funding as a % of loan book includes £271.2 million (31 July 2022: £240.0 million) of operating lease assets in the loan book figure, as per the definition of "total funding as a % of loan book including operating lease assets" revised in the 2022 financial year.
5. Average maturity of total available funding, excluding equity and funding held for liquidity purposes.

Our Treasury function is focused on managing funding and liquidity to support the Banking businesses, as well as interest rate risk. This incorporates our Savings business, which provides simple and straightforward savings products to both individuals and businesses, whilst being committed to providing the highest level of customer service.

The volatile backdrop over the year, resulting in the failure of several domestic US banks and the sale of Credit Suisse, with a consequential impact on the availability of wholesale funding markets for significant periods, did not adversely affect the group due to our diverse funding sources, enabling us to adapt our position to changing market conditions and demand.

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. Our funding draws on a wide range of wholesale and deposit markets including several public debt securities at both group and operating company level, as well as public and private secured funding programmes and a diverse mix of customer deposits.

We increased total funding in the year by 7% to £12.4 billion (31 July 2022: £11.6 billion) which accounted for 130% (31 July 2022: 127%) of the loan book at the balance sheet date. Although the average cost of funding in Banking increased to 3.2% (2022: 1.2%) due to rapidly rising interest rates, we took actions to mitigate this pressure by optimising the group's liability mix based on funding needs, customer demand and market pricing. While we are well positioned to continue benefiting from our diverse funding base, we expect cost of funds to further increase in the next financial year as a result of higher interest rates and customer deposit pricing pressure, particularly in notice accounts.

Customer deposits increased 14% to £7.7 billion (31 July 2022: £6.8 billion) with non-retail deposits decreasing 5% to £3.5 billion (31 July 2022: £3.7 billion) and retail deposits increasing by 35% to £4.2 billion (31 July 2022: £3.1 billion), as we actively sought to grow our retail deposit base and optimise our funding mix in light of market conditions. Our retail deposits are predominantly term, with approximately 85% protected by the Financial Services Compensation Scheme. We remain focused on delivering fair outcomes for our customers and are on track for the implementation of the FCA's Consumer Duty, with our focus now on continuing to embed our compliance.

We continue to realise benefits from the investment made in the customer deposit platform. In May 2023, we expanded our product offering with the introduction of easy access accounts, complementing our fixed rate cash ISA and notice account range. We are focused on identifying opportunities to continue to expand our 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 5% to £1.7 billion (31 July 2022: £1.6 billion) as we renewed and extended our Premium Finance warehouse securitisation to £650 million (31 July 2022: £500 million). We maintained our current drawings under the Term Funding Scheme for Small and Medium-sized Enterprises ("TFSME") at £600 million (31 July 2022: £600 million). Over the next 12 months, £228 million of TFSME will mature, which we expect to replace in line with our diverse funding profile, dependent on market conditions and demand.

Unsecured funding, which includes senior unsecured and subordinated bonds and undrawn committed revolving facilities, reduced to £1.3 billion (31 July 2022: £1.5 billion) as we adapted our funding mix in light of market conditions. In June 2023, Close Brothers Group plc successfully issued a £250 million senior unsecured bond at an interest rate of 7.75% with the net proceeds to be used for general corporate purposes.

We have maintained a prudent maturity profile. The average maturity of funding allocated to the loan book was 21 months (31 July 2022: 21 months), ahead of the average loan book maturity at 16 months (31 July 2022: 17 months). This is in line with our "borrow long, lend short" principle, reflecting the timing and mix of funding raised over the year.

Our credit ratings remain strong, reflecting the group's profitability, capital position, diversified business model and consistent risk appetite. Moody's Investors Services ("Moody's") reaffirmed their rating for Close Brothers Group as "A2/P1" and Close Brothers Limited as "Aa3/P1", whilst upgrading the outlook from "negative" to "stable" for both in November 2022. Fitch Ratings ("Fitch") reaffirmed their rating for both Close Brothers Group and Close Brothers Limited as ''A-/F2'', whilst downgrading the outlook from ''stable'' to "negative" in March 2023.

Group Liquidity

	31 July 2023 £ million	31 July 2022 £ million
Cash and balances at central banks	**1,937.0**	1,254.7
Sovereign and central bank debt[1]	**186.1**	415.4
Covered bonds[1]	**106.3**	
Certificates of deposit	**–**	185.0
Treasury assets	**2,229.4**	1,855.1

1. There was £nil encumbered sovereign debt, central bank debt and covered bonds at 31 July 2023 (31 July 2022: £216.9 million).

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

We continued to maintain higher liquidity relative to the pre-Covid-19 position to provide additional flexibility given the uncertain UK economic outlook, whilst enabling us to maximise any opportunities available. Over the year, treasury assets increased 20% to £2.2 billion (31 July 2022: £1.9 billion) and were predominantly held on deposit with the Bank of England.

We regularly assess and stress test the group's liquidity requirements and continue to meet the liquidity coverage ratio regulatory requirements, with a 12-month average LCR to 31 July 2023 of 1,143% (31 July 2022: 924%). In addition to internal measures, we monitor funding risk based on the UK Capital Requirements Regulation ("CRR") rules for the net stable funding ratio ("NSFR") which became effective on 1 January 2022. The four-quarter average NSFR to 31 July 2023 was 126.0% (point in time at 31 July 2022: 118.3%).

Business Review

Banking

Key Financials[1]

	2023 £ million	2022 £ million	Change %
Operating income	**713.8**	693.1	3
Adjusted operating expenses	**(389.7)**	(362.6)	7
Impairment losses on financial assets	**(204.0)**	(103.3)	97
Adjusted operating profit	**120.1**	227.2	(47)
Adjusted operating profit, pre provisions	**324.1**	330.5	(2)
Net interest margin	**7.7%**	7.8%	
Expense/income ratio	**54.6%**	52.3%	
Bad debt ratio	**2.2%**	1.2%	
Return on net loan book	**1.3%**	2.6%	
Return on opening equity	**6.6%**	12.5%	
Closing loan book and operating lease assets	**9,526.2**	9,098.9	5

Key Financials (Excluding Novitas)

	2023 £ million	2022 £ million	Change %
Operating income	**694.9**	657.1	6
Adjusted operating expenses	**(381.0)**	(348.0)	9
Impairment losses on financial assets	**(87.2)**	(42.6)	105
Adjusted operating profit	**226.7**	266.5	(15)
Adjusted operating profit, pre provisions	**313.9**	309.1	2
Net interest margin	**7.6%**	7.5%	
Expense/income ratio	**54.8%**	53.0%	
Bad debt ratio	**0.9%**	0.5%	
Closing loan book and operating lease assets	**9,466.3**	8,939.5	6

1. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between statutory and adjusted measures can be found in note 2.

Continued demand and loan book growth, as we maintained our pricing discipline and margin in an uncertain market environment

This year has seen a heightened level of uncertainty in the market backdrop from a combination of factors, including the ongoing conflict in Ukraine, UK inflation reaching its highest level in more than 40 years and the Bank of England base rate rising to 5% in June 2023, which have all created challenges for our individual and SME customers. The deterioration in the external environment has also adversely impacted the economic variables our businesses are sensitive to, which has been reflected in higher forward-looking impairment provisions. Notwithstanding the economic uncertainty, we continued to support our customers and lend throughout the cycle on responsible terms, consistently applying our prudent underwriting and pricing discipline. We are confident that we have the right model to thrive in this environment and are confident in the opportunity it creates for us to lean in and support consumers and SME businesses.

Banking adjusted operating profit reduced 47% to £120.1 million (2022: £227.2 million), primarily reflecting higher impairment charges related to Novitas. On a pre-provision basis, adjusted operating profit reduced 2% to £324.1 million (2022: £330.5 million) as growth in income, driven by good loan book growth and a strong net interest margin, was offset by an increase in costs. Statutory operating profit decreased to £120.1 million (2022: £227.1 million).

Excluding Novitas, Banking adjusted operating profit decreased 15% to £226.7 million (2022: £266.5 million), primarily driven by higher impairment charges to reflect the uncertain macroeconomic outlook and increased costs, which more than offset income growth.

The loan book increased 5% over the year to £9.5 billion (31 July 2022: £9.1 billion), driven by strong demand in our Commercial businesses and high drawdowns in Property, partly offset by the reduction in the Novitas net loan book. Growth in our Premium Finance and UK Motor Finance books was more than offset by the run-off of the Republic of Ireland Motor Finance loan book. We saw an acceleration of growth in the second half of the year to 5%, following a 1% decline in the loan book in the first half of 2023.

Excluding our businesses in run-off, Novitas and the Republic of Ireland Motor Finance, the loan book grew 8% to £9.3 billion (31 July 2022: £8.6 billion).

Operating income increased 3% to £713.8 million (2022: £693.1 million), reflecting the loan book growth and strong net interest margin, partially offset by the run-off of Novitas and the Irish Motor Finance business. Excluding Novitas, operating income grew 6%.

The net interest margin decreased marginally to 7.7% (2022: 7.8%) principally due to reduced income from Novitas. Excluding Novitas, the net interest margin was stable at 7.6% (2022: 7.5%), reflecting both pricing discipline on new lending and actions taken to optimise the group's liability mix and funding costs in a rising rate environment. We are well positioned to maintain a strong net interest margin and pass on increases in cost of funds as we remain focused on asset pricing.

Adjusted operating expenses increased 7% to £389.7 million (2022: £362.6 million) as we continued to invest in strategic programmes. 57% (£15.4 million) of the increase related to higher staff costs, driven mainly by inflation-related salary rises and growth-driven hires. This was partly offset by lower performance-linked compensation due to the reduction in profit for the year. The expense/income ratio increased to 55% (2022: 52%) and the compensation ratio increased marginally to 30% (2022: 29%).

Business-as-usual ("BAU") costs rose 6% to £303.1 million (2022: £284.8 million), with over half of the increase driven by salary increases, as well as an uplift in property running costs to reflect the current inflationary environment[1]. Costs related to Novitas reduced to £8.7 million (2022: £14.6 million) as we continue to wind down the business.

Investment costs rose 23% to £77.9 million (2022: £63.2 million), of which £40.0 million (2022: £29.4 million) was driven mainly by spend on our strategic cost management initiatives, growth initiatives and operational resilience. Depreciation charges related to our investment projects rose to £37.9 million (2022: £33.8 million).

We see investment through the cycle as vital in protecting our model, enhancing efficiency and future-proofing our income generation capabilities. Our investments in cyber and data centres are part of a programme to continually enhance our business and operational resilience.

We have implemented a programme directly aligned to the requirements of the FCA's Consumer Duty, with workstreams including fair value assessments, enhanced product reviews and enhancing customer communications. Our focus is now on continuing to embed our compliance and implementing Consumer Duty changes for books of business not open to new customers.

1. Related ongoing costs resulting from investment projects are recategorised from investment costs to BAU costs after one year. For comparison purposes, £6.5 million has been recategorised from investment costs to BAU costs in the 2022 financial year to adjust for investment projects' ongoing costs that commenced prior to the 2023 financial year.

Across our businesses, we have been investing in our digital capabilities to support our relationship-based model and make our experts even more valuable. Our Asset Finance transformation programme will introduce a single platform, adding new functionality, improved customer insights and increased efficiency. In Motor Finance we have seen a significant increase in new business proposals through our digital channels and in Premium Finance, we are using technology to reduce the time taken to make credit underwriting decisions for large business applications and have introduced a digital payment link for customers in arrears. Our previous investment in our Customer Deposit platform has enabled us to grow our Savings proposition, introduce new offerings and increase customer numbers, whilst achieving good customer satisfaction scores.

We have intensified our focus on cost efficiency, particularly in light of recent inflationary pressures. We have a number of strategic cost management initiatives in progress, which aim to create capacity to accommodate growth, inflation and investment to support our business, and are evaluating additional opportunities for efficiency. Our multi-year technology transformation programme focused on strategic IT services is well under way. As part of this, we are moving to a new operating model, making use of third-party providers to reduce our cost base and create efficiencies. The programme will enhance the service we provide to our customers and increase our operational resilience and flexibility. Our Retail simplification programme is focused on transforming operations and reducing the cost of running the business, whilst enhancing the operational risk and control environment. The programme also aims to increase broker, customer and colleague satisfaction and loyalty. A new customer relationship platform has been introduced in Premium Finance, as well as case management and automation tools, which are leading to reduced case handling and credit decisioning times.

Whilst we remain focused on achieving positive operating leverage over the medium term, we expect costs for the 2024 financial year to increase between c.8-10%, primarily as a result of higher average salary awards at the end of the 2023 financial year and a normalisation of performance-linked compensation. As we progress our strategic cost management initiatives, investment costs and related depreciation are expected to increase and will be partly offset by efficiency savings.

In the 2025 financial year, we expect cost growth to more closely align with income growth, reflecting volume and activity-related expenses, a projected stabilisation of inflationary pressures, as well as further benefits from efficiency gains resulting from our strategic cost management initiatives. Investment spend is expected to stabilise, with depreciation costs related to our existing investment programmes peaking in the 2025 financial year.

Impairment charges increased significantly to £204.0 million (2022: £103.3 million), corresponding to a bad debt ratio of 2.2% (2022: 1.2%). This was driven primarily by increased provisions in relation to Novitas of £116.8 million (2022: £60.7 million), of which £114.6 million was incurred in the first half of the year.

Additionally, a further £87.2 million of impairment charges were recognised to take into account weaker macroeconomic variables and outlook, as well as higher arrears in the Motor Finance business as a result of cost of living pressures on customers. They also reflect an ongoing review of provisions and coverage across our loan portfolios and model refinements. Excluding Novitas, the bad debt ratio increased to 0.9% (2022: 0.5%), although remains slightly below our long-term bad debt ratio of 1.2%, and the coverage ratio increased marginally to 2.1% (31 July 2022: 1.9%). There was also an increase in overall provision coverage to 3.9% (31 July 2022: 3.1%).

Whilst we have not seen a significant impact on credit performance, we continue to monitor closely the evolving impacts of rising inflation and cost of living on our customers. We remain confident in the quality of our loan book, which is predominantly secured or structurally protected, prudently underwritten, diverse, and supported by the deep expertise of our people. We expect the bad debt ratio in the 2024 financial year to remain below our long-term average, based on current market conditions.

Accelerating our efforts to resolve issues relating to Novitas

The decision to wind down Novitas, a provider of finance for the legal sector we acquired in 2017, and to withdraw from the legal services financing market, followed a strategic review in July 2021 which concluded that the business was not aligned with the Close Brothers model. Some of the key attributes of our model such as in-house lending expertise, a strong track record of performance and underlying security of the loans, have proven not to be evident in Novitas.

The business continues to work with solicitors and insurers, to support existing customers and manage the existing book to ensure good customer outcomes. As announced in January 2023, we have accelerated our efforts to resolve the issues surrounding Novitas. We initiated formal legal action against one of the After the Event ("ATE") insurers regarding the potential recoverability

of funds in relation to failed cases and we are considering our position in respect of other insurers. As a result, an increased provision to reflect the expectation of a longer time frame to recovery for related loans was included in the £24.8 million of provisions taken in the first five months of the 2023 financial year. We have since entered into a settlement with another smaller ATE insurer.

In the first half of the year, we also undertook a review of certain cases being funded which had limited prospects of successfully progressing through the courts. As a result of this review, an additional provision of £89.8 million was recognised, which assumed a material increase in the Probability of Default ("PD") and Loss Given Default ("LGD") assumptions and a longer time frame to recovery across the majority of the portfolio. It also assumed reassessed estimates for recoverability of interest on the relevant loans, in line with accounting requirements.

Consequently, we recognised provisions of £114.6 million in relation to Novitas in the first half. While we will continue to review provisioning levels in light of future developments, including the experienced credit performance of the book and the outcome of the group's initiated legal action, we believe the provisions adequately reflect the remaining risk of credit losses for the Novitas loan book (£59.9 million net loan book at 31 July 2023).

In addition, in line with IFRS 9 requirements, a proportion of the expected credit loss is expected to unwind, over the estimated time to recovery period, to interest income. The group remains focused on maximising the recovery of remaining loan balances, either through successful outcome of cases or recourse to the customers' ATE insurers, whilst complying with its regulatory obligations and always focusing on ensuring good customer outcomes.

We expect net income related to Novitas to reduce from £18.9 million in 2023 to c.£9 million in 2024. Further disclosure on the impact of Novitas can be found in note six.

Continued focus on delivering disciplined growth

We remain focused on delivering disciplined growth whilst prioritising our margins and credit quality, with our growth initiatives delivering a significant contribution of loan book growth. We continue to actively work to identify incremental and new opportunities in line with our business model and overall remain confident in the growth outlook for the loan book over both the short and medium term. We are confident that we have the right model to thrive in this environment and are confident in the opportunity it creates for us to lean in and support consumers and SME businesses.

As the UK aligns towards a net zero economy, we recognise a significant opportunity for delivering disciplined growth. Our specialist energy team has provided finance for over 1,600MW of installed generation and storage capacity to date and we continue to broaden our expertise in green and transition assets. In line with our ambition to provide funding for £1.0 billion of battery electric vehicles by the end of the 2027 financial year, we have lent £164 million over the last year.

The Asset Finance business remains well positioned to capitalise on continued demand for finance from SMEs. Our new initiatives are proving successful, with the recently hired agricultural equipment and materials handling teams both having written healthy levels of new business over the year and building strong pipelines, as we continue to expand our coverage into adjacent asset classes and markets.

In Invoice Finance, we continue to focus on taking advantage of opportunities in the asset-based lending ("ABL") space, building on the success we have seen this year with our first syndication deal and our expansion to cover larger loan sizes. We have also expanded our offering with our new bespoke lending team, which offers loan structures to SMEs requiring growth and investment capital, and closed its first deal earlier this year.

The Motor Finance transformation programme, which has now concluded, has created the digital capabilities for us to enhance our proposition for dealers, partners and customers. We are currently rolling out a new dealer partner onboarding process and our partnership with iVendi has driven an uplift in proposal volumes. Our partnership with AutoTrader, providing dealers with data and insights to effectively manage their forecourts, continues to prove successful and we are leveraging the investment made in our commercial partner programme to support additional routes to market. In addition, we have expanded our credit policy to provide broader coverage of Alternatively Fuelled Vehicles ("AFVs") as they become more prevalent in the second hand car market. In September 2023, we announced our agreement to acquire Bluestone Motor Finance (Ireland) DAC, which will provide a platform for us to build our Motor Finance business in Ireland.

In Premium Finance, we continue to focus on our digital, data and insight capabilities to enhance our offering, with our Foresight model helping to support brokers' decisioning by providing unique customer behaviour insights. We are expanding our new business capabilities through the use of a customer relationship management platform and the launch of a programme to support commercial lines brokers with the promotion and sale of premium finance.

In Property, following the successful piloting of a specialist buy-to-let extension to our existing bridging finance customers, we are continuing to offer this product and wrote a healthy level of business during the year. We are seeing good demand for initiatives including our enhanced loan-to-value product for select customers, alongside our continued focus on growing our regional loan book. We are also looking to expand further our partnership with Travis Perkins, which enables SME housebuilders to access discounted building supplies and materials directly via a credit facility. Although the economic uncertainty is expected to continue to impact activity in the property market, our pipeline of undrawn commitments remains strong.

Loan Book Analysis

	31 July 2023 £ million	31 July 2022 £ million	Change %
Commercial	**4,821.3**	4,561.4	6
Commercial – Excluding Novitas	**4,761.4**	4,402.0	8
Asset Finance[1]	**3,387.1**	3,217.4	5
Invoice and Speciality Finance[1]	**1,434.2**	1,344.0	7
Invoice and Speciality Finance – Excluding Novitas[1]	**1,374.3**	1,184.6	16
Retail	**3,001.8**	3,064.0	(2)
Motor Finance[2]	**1,948.4**	2,051.2	(5)
Premium Finance	**1,053.4**	1,012.8	4
Property	**1,703.1**	1,473.5	16
Closing loan book and operating lease assets[3]	**9,526.2**	9,098.9	5
Closing loan book and operating lease assets – Excluding Novitas	**9,466.3**	8,939.5	6

1. The Asset Finance and Invoice and Speciality Finance loan books have been re-presented for 31 July 2022 to reflect the recategorisation of Close Brothers Vehicle Hire ("CBVH") from Invoice and Speciality Finance to Asset Finance.
2. The Motor Finance loan book includes £206.7 million (31 July 2022: £367.2 million) relating to the Republic of Ireland Motor Finance business, which is in run-off following the cessation of our previous partnership in the Republic of Ireland from 30 June 2022.
3. Includes operating lease assets of £223.4 million (31 July 2022: £185.4 million) that relate to Asset Finance and £47.8 million (31 July 2022: £54.6 million) to Invoice and Speciality Finance.

Continued demand across our Banking businesses with good loan book growth

The Commercial loan book grew 6% to £4.8 billion (31 July 2022: £4.6 billion), despite the roll-off of government supported lending under schemes such as the Coronavirus Business Interruption Loan Scheme ("CBILS"), supported by strong demand and growth initiatives. Excluding Novitas, the Commercial book increased 8% to £4.8 billion (31 July 2022: £4.4 billion). The net loan book of government supported lending over the pandemic period (covering lending under the CBILS, Coronavirus Large Business Interruption Loan Scheme and Bounce Back Loan Scheme) stood at £456 million at 31 July 2023 (31 July 2022: £748 million).

Asset Finance grew 5% as we saw strong new business volumes in our Leasing business, particularly from our Contract Hire and Energy portfolios, and good demand for our new initiatives including our agriculture offering. Invoice and Speciality Finance grew 7%, notwithstanding the reduction in the Novitas net loan book, as we saw strong new business and higher utilisation in Invoice Finance and good growth in our Irish business. The Invoice Finance business also completed its first syndication deal during the year. Excluding Novitas, the Invoice and Speciality Finance loan book increased 16%.

The Retail loan book contracted 2% to £3.0 billion (31 July 2022: £3.1 billion), driven mainly by the decline in the Republic of Ireland loan book. Motor Finance decreased 5% as the run-off of the Irish book more than offset 3% growth in the UK Motor book as we enhanced our proposition and focused on new routes to market through our commercial partners. Premium Finance grew 4% year-on-year, driven by an increase in new business volumes from individuals and larger premium sizes reflecting inflation.

The Republic of Ireland Motor Finance business accounted for 11% of the Motor Finance loan book (31 July 2022: 18%) and 2% of the Banking loan book (31 July 2022: 4%). As announced in September 2023, we have reached an agreement to acquire Bluestone Motor Finance (Ireland), with the acquisition expected to complete in the fourth quarter of calendar year 2023. This will provide a platform for us to build our Motor Finance business in Ireland, following the cessation of our previous partnership in that country last year.

The Property loan book grew 16%, despite uncertainty in the housing market, as we saw strong drawdowns from our healthy pipeline and normalising repayments from the elevated levels seen in the prior year, as the buoyant UK property market had

resulted in heightened unit sales by developers. We are seeing good demand for initiatives including our specialist buy-to-let extension and our enhanced loan-to-value product for select customers, alongside our continued focus on growing our regional loan book.

Banking: Commercial[1]

	2023 £ million	2022 £ million	Change %
Operating income	**347.8**	343.4	1
Adjusted operating expenses	**(194.4)**	(180.0)	8
Impairment losses on financial assets	**(137.5)**	(72.4)	90
Adjusted operating profit	**15.9**	91.0	(83)
Adjusted operating profit, pre provisions	**153.4**	163.4	(6)
Net interest margin	**7.4%**	7.8%	
Expense/income ratio	**56%**	52%	
Bad debt ratio	**2.9%**	1.7%	
Closing loan book and operating lease assets[2]	**4,821.3**	4,561.4	6

Commercial key metrics excluding Novitas[1]

	2023 £ million	2022 £ million	Change %
Operating income	**328.9**	307.4	7
Adjusted operating expenses	**(185.7)**	(165.4)	12
Impairment losses on financial assets	**(20.7)**	(11.7)	77
Adjusted operating profit	**122.5**	130.3	(6)
Adjusted operating profit, pre provisions	**143.2**	142.0	1
Net interest margin	**7.2%**	7.3%	
Expense/income ratio	**56%**	54%	
Bad debt ratio	**0.5%**	0.3%	
Closing loan book and operating lease assets[2]	**4,761.4**	4,402.0	8

1. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in note 2.
2. Operating lease assets of £223.4 million (31 July 2022: £185.4 million) relate to Asset Finance and £47.8 million (31 July 2022: £54.6 million) to Invoice and Speciality Finance.

Strong demand in Commercial as we continue to support our SME customers

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, as well as our Vehicle Hire business. The Invoice and Speciality Finance business provides debt factoring, invoice discounting and asset-based lending, as well as covering two of our specialist businesses, Brewery Rentals and Novitas. As previously announced, Novitas ceased lending to new customers in July 2021.

Despite the market uncertainty, our Commercial businesses saw good customer demand over the year, with Invoice Finance experiencing strong new business levels and an uptick in utilisation. We have focused on asset pricing discipline in line with our model, actively choosing to pass through higher rates on new lending where appropriate notwithstanding the competitive market. Our new initiatives have proven successful, with our agriculture and materials handling teams writing healthy levels of new business over the year and our first syndication deal completed.

Adjusted operating profit for Commercial declined significantly to £15.9 million (2022: £91.0 million), driven primarily by a significant increase in impairment charges related to Novitas. Statutory operating profit reduced to £15.8 million (2022: £90.9 million).

On a pre-provision basis, adjusted operating profit decreased 6% to £153.4 million (2022: £163.4 million) as an increase in costs more than offset income growth.

Excluding Novitas, adjusted operating profit decreased 6% to £122.5 million (2022: £130.3 million) as income growth was more than offset by higher costs.

Operating income increased 1% to £347.8 million (2022: £343.4 million), reflecting good loan book growth and higher average volumes in Invoice and Speciality Finance. The net interest margin decreased to 7.4% (2022: 7.8%), driven mainly by the reduction in Novitas income. Excluding Novitas, the net interest margin decreased marginally to 7.2% (2022: 7.3%), primarily reflecting the timing delay in passing through higher interest rates to customers compared to increased funding costs, partly offset by increased activity-driven fees and benefits of central funding mix actions taken in light of the rising interest rate environment.

Adjusted operating expenses grew 8% to £194.4 million (2022: £180.0 million), driven by investment spend in relation to the Asset Finance transformation programme and strategic growth initiatives, as well as higher staff costs to reflect the inflationary environment. This was partly offset by lower advisory costs in relation to Novitas. The expense/income ratio increased to 56% (2022: 52%) as higher costs more than offset the growth in income.

Impairment charges rose significantly to £137.5 million (2022: £72.4 million), with £116.8 million incurred in relation to Novitas, £114.6 million of which were recognised in the first half of the year. As a result, there was an increase in provision coverage to 5.2% (31 July 2022: 4.0%).

Excluding Novitas, impairment charges increased to £20.7 million (2022: £11.7 million), corresponding to a bad debt ratio of 0.5% (2022: 0.3%). This increase primarily reflected additional provisions to take into account weaker macroeconomic variables and outlook. The coverage ratio reduced marginally to 1.4% (31 July 2022: 1.6%).

Banking: Retail

	2023 £ million	2022 £ million	Change %
Operating income	**248.1**	237.0	5
Operating expenses	**(164.4)**	(151.6)	8
Impairment losses on financial assets	**(49.0)**	(24.4)	101
Operating profit	**34.7**	61.0	(43)
Operating profit, pre provisions	**83.7**	85.4	(2)
Net interest margin	**8.2%**	7.8%	
Expense/income ratio	**66%**	64%	
Bad debt ratio	**1.6%**	0.8%	
Closing loan book[1]	**3,001.8**	3,064.0	(2)

1. The Motor Finance loan book includes £206.7 million (31 July 2022: £367.2 million) relating to the Republic of Ireland Motor Finance business, which is in run-off following the cessation of our previous partnership in the Republic of Ireland from 30 June 2022.

Remained focused on prioritising our margins and underwriting discipline

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

We have seen a solid performance in our Retail businesses this year despite the challenging market backdrop. In Motor Finance, we have focused on prioritising our margin and pricing discipline in line with our model, passing through higher rates on new lending. As reported at the half year 2023 results and in line with comparable trends observed across the wider industry, we have seen arrears increase and then stabilise at a higher level in our Motor Finance loan book, reflecting cost of living pressures on our customers. Nonetheless, we remain comfortable with the quality of our portfolio, underpinned by our underwriting discipline and prudent level of provisions. In Premium Finance, volumes in our consumer business have increased year-on-year, benefiting from premium inflation in the second half of the year, with growth in average loan sizes.

Operating profit for Retail reduced to £34.7 million (2022: £61.0 million), as income growth was more than offset by higher costs and increased impairment charges.

Operating income rose 5% to £248.1 million (2022: £237.0 million), driven by growth in the UK Motor Finance loan book and an increase in the net interest margin to 8.2% (2022: 7.8%) despite higher funding costs, as we continued to focus on pricing discipline and benefited from central funding mix actions taken in light of the rising interest rate environment.

Operating expenses increased 8% to £164.4 million (2022: £151.6 million), primarily driven by investment in the Retail businesses to create efficiencies whilst delivering customer and control benefits, including depreciation costs related to these investments, as well as higher staff costs, particularly in legal and compliance. In Premium Finance, we have continued to invest in further

enhancing our processes in line with regulatory requirements. As a result, the expense/income ratio increased to 66% (2022: 64%).

Following the FCA's Motor Market review in 2019, the group continues to receive a number of complaints, some of which are with the Financial Ombudsman Service, and is subject to a number of claims through the courts regarding historical commission arrangements with intermediaries on its Motor Finance products. Whilst the review of these complaints and claims is ongoing, any potential financial impact remains uncertain.

Impairment charges rose to £49.0 million (2022: £24.4 million), corresponding to a bad debt ratio of 1.6% (2022: 0.8%). This was driven by the uncertain macroeconomic outlook and increased arrears and forbearance levels in Motor Finance, as well as an ongoing review of provisions and coverage. As a result, the provision coverage ratio increased to 2.9% (31 July 2022: 2.2%).

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 c.9% of the Motor Finance loan book at 31 July 2023 (c.11% at 31 July 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

	2023 £ million	2022 £ million	Change %
Operating income	**117.9**	112.7	5
Operating expenses	**(30.9)**	(31.0)	0
Impairment losses on financial assets	**(17.5)**	(6.5)	169
Operating profit	**69.5**	75.2	(8)
Operating profit, pre provisions	**87.0**	81.7	6
Net interest margin	**7.4%**	7.6%	
Expense/income ratio	**26%**	28%	
Bad debt ratio	**1.1%**	0.4%	
Closing loan book	**1,703.1**	1,473.5	16

Strong loan book growth driven by drawdowns from our healthy pipeline

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.

This year has seen a slowdown across the UK property market following a period of heightened activity, with rising interest rates negatively impacting buyer sentiment. Whilst we have seen a fall in housebuilding levels and some contraction in house prices, we have delivered a strong performance, with record drawdowns, growth in active customer numbers and our pipeline remaining healthy at over £1 billion. We have also focused on retaining our margin and pricing discipline as we adhere to our through-the-cycle lending approach.

Operating profit in Property declined 8% to £69.5 million (2022: £75.2 million), as an increase in impairment charges more than offset income growth. On a pre-provision basis, operating profit grew 6% to £87.0 million (2022: £81.7 million) as we achieved positive operating leverage in the business.

Operating income increased 5% to £117.9 million (2022: £112.7 million), driven by strong loan book growth and higher fee income. The net interest margin decreased to 7.4% (2022: 7.6%), reflecting higher cost of funds and the benefit of interest rate floors in the prior year.

Operating expenses were stable at £30.9 million (2022: £31.0 million) as we maintained our strict focus on cost discipline. As a result, the expense/income ratio reduced to 26% (2022: 28%).

Impairment charges increased to £17.5 million (2022: £6.5 million), resulting in a bad debt ratio of 1.1% (2022: 0.4%), as we recognised additional provisions to reflect weakening macroeconomic variables and outlook, in particular lower projected house prices, and an ongoing review of provisions and coverage. The provision coverage ratio remained stable at 2.4% (31 July 2022: 2.4%).

The Property loan book is conservatively underwritten, with typical LTVs below standard market levels. We work with experienced, professional developers, with a focus on mid-priced family housing, and have minimal exposure to the prime central London market, with our regional loan book making up over 50% of the Property Finance portfolio. 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[1]

	2023 £ million	2022 £ million	Change %
Investment management	**113.3**	110.4	3
Advice and other services[2]	**29.9**	36.1	(17)
Other income[3]	**1.6**	1.5	7
Operating income	**144.8**	148.0	(2)
Adjusted operating expenses	**(128.8)**	(126.3)	2
Impairment losses on financial assets	**(0.1)**	–	n/a
Adjusted operating profit	**15.9**	21.7	(27)
Revenue margin (bps)	**84**	87	
Operating margin	**11%**	15%	
Return on opening equity	**15.5%**	28.6%	

1. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in note 2.
2. Income from advice and self-directed services, excluding investment management income.
3. Other income includes net interest income and expense, income on principal investments and other income.

Acceleration of growth strategy, building on long-term track record and driving strong net inflows

Close Brothers Asset Management provides personal 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 advisers and investment managers, and through third-party financial advisers.

Adjusted operating profit in CBAM reduced 27% to £15.9 million (2022: £21.7 million), driven by a modest decline in income, reflecting lower income from advice and other services, and higher costs as we accelerated our hiring strategy. The operating margin reduced to 11% (2022: 15%). Statutory operating profit before tax was £14.4 million (2022: £19.8 million).

We saw an increase in investment management income resulting from growth in AuM delivered by our bespoke investment manager hires. This was more than offset by a decrease in income from advice and other services, which reflected the impact of difficult market conditions on client assets, and managements' strategic shift to focus on more higher value clients. As a result, income in the Asset Management division decreased by 2%. The revenue margin reduced to 84bps (2022: 87bps) due primarily to flows into lower margin investment management and non-advised products.

Adjusted operating expenses rose 2% as we exercised disciplined cost control whilst accelerating our growth strategy. We increased our rate of hiring, recruiting 15 bespoke investment managers during the year (2022: 10) and opened offices in Birmingham and Cheltenham to support new teams, whilst also implementing inflationary-driven salary increases and incurring spend on technology, which was partly offset by lower variable compensation. The expense/income ratio increased to 89% (2022: 85%), with the compensation ratio also increasing to 59% (2022: 56%). The acceleration of our hiring strategy will continue to be reflected in the cost trajectory going forward.

CBAM has achieved substantive compliance with the FCA's Consumer Duty requirements. In preparation for the implementation of the FCA's Consumer Duty, we completed a number of workstreams focused on mapping client journeys and enhancing our data collection and client communications, with Consumer Duty embedded into the CBAM strategy.

Strong net inflows notwithstanding market uncertainty

Continued uncertainty over the economic outlook has led to volatility in returns from equity markets over the year, negatively impacting investor sentiment. Nevertheless, we saw strong net inflows of £1.3 billion (2022: £844 million) and delivered a net inflow rate of 9% (2022: 5%). Our hiring strategy is proving successful, with a strong pipeline and the new bespoke investment managers contributing significantly to the overall inflow rate. We continue to invest in supporting the long-term growth potential of CBAM through both new hires and building our acquisition pipeline.

Total managed assets grew 7% to £16.4 billion (31 July 2022: £15.3 billion), driven by strong net inflows, partly offset by negative market performance. Total client assets, which includes both advised and managed assets, increased 5% to £17.3 billion (31 July 2022: £16.6 billion).

The integration of PMN Financial Management into CBAM has outperformed initial expectations, with the business having now been fully integrated and the migration of assets expected to be completed by July 2024.

Movement in Client Assets

	31 July 2023 £ million	31 July 2022 £ million
Opening managed assets	**15,302**	15,588
Inflows	**2,729**	2,330
Outflows	**(1,411)**	(1,486)
Net inflows	**1,318**	844
Market movements	**(201)**	(1,130)
Total managed assets	**16,419**	15,302
Advised only assets	**907**	1,272
Total client assets[1]	**17,326**	16,574
Net flows as % of opening managed assets	**9%**	5%

1. Total client assets include £4.9 billion of assets (31 July 2022: £5.1 billion) that are both advised and managed.

Fund Performance

Our funds and segregated bespoke portfolios are designed to provide attractive risk-adjusted returns for our clients, consistent with their long-term goals and investment objectives. Fund performance has been mixed, reflecting volatile markets across asset classes which has been the case throughout the year. As a result, we have seen some of our funds outperform their peer group, with others underperforming, mainly reflecting their exposure to exchange rate movements.

Our Sustainable Funds and Net Zero Commitment

In March 2023, we created the Sustainable Select Fixed Income fund through merging our existing Select Fixed Income fund and Sustainable Bond fund. This new fund utilises an updated sustainable investment methodology, making use of CBAM's experience and understanding of sustainable investment strategies gained over recent years to target a reduction in CO2 emissions intensity versus its benchmark.

Our Sustainable Select Fixed Income fund has seen good traction so far and we are exploring options for enhancing further our sustainable offering.

In line with our commitment to actively contribute towards the UK government's net zero climate goals, CBAM is a signatory of the Net Zero Asset Managers initiative and is on track to disclose its net zero targets by the end of September 2023.

Well Positioned for Future Growth

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.

Our focus remains on providing excellent service, building on the strength of our client relationships, whilst investing in new hires and building our pipeline of acquisitions to support the long-term growth potential of our business. While CBAM is sensitive to financial market conditions, we remain committed to driving growth both organically and through in-fill acquisitions.

Winterflood
Key Financials

	2023 £ million	2022 £ million	Change %
Operating income	**75.3**	95.2	(21)
Operating expenses	**(71.8)**	(81.1)	(11)
Operating profit	**3.5**	14.1	(75)
Average bargains per day (‘000)	**60**	81	
Operating margin	**5%**	15%	
Return on opening equity	**2.6%**	10.5%	
Loss days	**1**	8	

Performance impacted by continued slowdown in trading activity but well positioned to benefit when market conditions improve

Winterflood is a leading UK market maker, delivering high-quality execution services to execution platforms, 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”).

We have seen significant macroeconomic uncertainty over the year, with geopolitical and economic events, particularly the ongoing war in Ukraine and continual rises in the cost of debt, causing substantial market challenges. Interest rates are at their highest since the 2008 financial crisis and, collectively, this has negatively impacted investor confidence and appetite. Against this backdrop, the domestically focused UK indices have suffered sustained market declines, with the FTSE 250 and AIM All-Share index declining 5% and 17% respectively this year.

This year has seen subdued retail trading activity, particularly in higher margin sectors (AIM and Smaller Companies) as investors turned to safer and better performing sectors such as Fixed Income and Exchange-Traded Funds or withdrew from the market as they await more certainty in the macroeconomic environment. This sentiment inevitably led to reduced retail-driven trading situations and our volumes have fallen as a result. Average daily bargains reduced 26% to 60k (2022: 81k), although trading volumes remain marginally above pre-pandemic levels (2019: 56k) and we have maintained our market-leading position, trading over 280 billion shares in the year1.

Trading income reduced to £58.6 million (2022: £80.7 million) as diversification in trading sectors and the expertise of our traders, evidenced by only one loss day (2022: eight loss days), helped mitigate the difficult market environment.

Operating income decreased to £75.3 million (2022: £95.2 million), primarily driven by lower trading revenues. All trading sectors reported a decline on the prior year except Fixed Income, which benefited from volatility in bond markets following the fallout from the UK mini-budget and changes in investor risk appetite. We also saw a reduction in fee income generated by our Investment Trusts Corporate team as corporate activity slowed market-wide as the risk-off market sentiment impacted issuance and transaction volumes, with just one IPO launched this year. Our Investment Trusts Corporate business, which is corporate broker to over 50 investment trusts, delivered revenue of £2.5 million (2022: £3.9 million), largely representing retainer fee income.

We are at the forefront of initiatives to simplify participation in equity, debt and private markets for UK retail investors through our collaborations with PrimaryBid and JP Jenkins, and our proprietary solution, Winterflood Retail Access Platform (“WRAP”).

WBS has continued its positive trajectory, growing AuA to £12.9 billion (2022: £7.2 billion) despite sustained equity market declines. Net inflows were £5.5 billion (2022: £1.3 billion) following the successful completion of the planned migration of custody assets of Fidelity International in the first quarter of 2023. WBS grew income 45% to £14.8 million (2022: £10.2 million), with recurring income up 38% to £14.1 million. We are confident that WBS is well positioned for further growth, both organically and supported by a solid pipeline of clients, and expect WBS to grow AuA to over £20 billion by 2026.

Operating expenses reduced 11% to £71.8 million (2022: £81.1 million) due to decreased variable costs as the slowdown in activity led to lower staff compensation and settlement fees. The reduction in income was not fully offset by lower expenses, reflecting operational gearing in the business. Looking ahead, Winterflood’s variable cost base is expected to reflect a recovery in income as investor confidence returns.

Operating profit decreased 75% to £3.5 million (2022: £14.1 million) against a backdrop of difficult conditions and sustained market declines.

Winterflood has a long track record of trading profitably through a range of conditions and we remain well positioned to retain our market position and benefit when investor appetite returns. We continue to diversify our revenue streams and explore growth opportunities to balance the cyclicality in the trading business.

1. Bloomberg data covering 1 August 2022 to 31 July 2023.

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 in the year 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

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

Capital Requirements Regulation ("CRR"): Capital Requirements Regulation as implemented in the PRA Rulebook CRR Instrument and the PRA Rulebook CRR Firms: Leverage Instrument (collectively known as "CRR")

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

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

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

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

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

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

Credit impaired: Where one or more events that have a detrimental impact on the estimated future cash flows of a loan have occurred. Credit impaired events are more severe than SICR triggers. Accounts which are credit impaired will be allocated to Stage 3

Discounting: The process of determining the present value of future payments

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 interest rate ("EIR"): The interest rate at which revenue is recognised on loans and discounted to their carrying value over the life of the financial asset

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

Expected credit loss ("ECL"): 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

Exposure at default ("EAD"): The capital outstanding at the point of default

Financial Conduct Authority ("FCA"): A financial regulatory body in the UK, regulating financial firms and maintaining integrity of the UK's financial market

Forbearance: Forbearance occurs when a customer is experiencing financial 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

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

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

HM Revenue & Customs ("HMRC"): The UK's tax, payments and customs authority

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

International Financial Reporting Standards ("IFRS"): Globally accepted accounting standards issued by the IFRS Foundation and the International Accounting Standards Board

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

Loss given default ("LGD"): The amount lost on a loan if a customer defaults

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

Modelled expected credit loss provision: ECL = PD x LGD x EAD

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

Probability of default ("PD"): Probability that a customer will default on their loan

Prudential Regulation Authority ("PRA"): A financial regulatory body, responsible for regulating and supervising banks and other financial institutions in the UK

Recovery Loan Scheme: Launched in April 2021 as a replacement to CBILS. Under the terms of the scheme, businesses of any size that have been adversely impacted by the Covid-19 pandemic can apply to borrow up to £10 million, with accredited lenders receiving a government-backed guarantee of 80% on losses that may arise

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

Return on opening equity ("RoE"): Adjusted operating profit 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)

Secured debt: Debt backed or secured by collateral

Senior debt: Represents the type of debt that takes priority over other unsecured or more junior debt owed by the issuer. Senior debt is first to be repaid ahead of other lenders or creditors

Significant increase in credit risk ("SICR"): An assessment of whether credit risk has increased significantly since initial recognition of a loan using a range of triggers. Accounts which have experienced a significant increase in credit risk will be allocated to Stage 2

Standardised approach: Generic term for regulator-defined approaches for calculating credit, operational and market risk capital requirements as set out in the CRR

Subordinated debt: Represents debt that ranks below, and is repaid after claims of, other secured or senior debt owed by the issuer

Task Force on Climate-related Financial Disclosures ("TCFD"): Regulatory framework to improve and increase reporting of climate-related financial information, including more effective and consistent disclosure of climate-related risks and opportunities

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

Tier 2 capital: Additional regulatory capital that along with Tier 1 capital makes up a bank's total regulatory capital. Includes qualifying subordinated debt

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

Total funding as % of loan book: Total funding divided by net loans and advances to customers and operating lease assets

Total shareholder return ("TSR"): Measure of shareholder return including share price appreciation and dividends, which are assumed to be re-invested in the company's shares

Watch list: Internal risk management process for heightened monitoring of exposures that are showing increased credit risk

Consolidated Income Statement

for the year ended 31 July 2023

	Note	**2023 £ million**	2022 £ million
Interest income		**897.5**	690.0
Interest expense		**(304.9)**	(112.0)
Net interest income		**592.6**	578.0
Fee and commission income		**262.9**	259.5
Fee and commission expense		**(17.9)**	(17.2)
Gains less losses arising from dealing in securities		**58.6**	81.6
Other income		**114.2**	106.1
Depreciation of operating lease assets and other direct costs	10	**(77.8)**	(71.9)
Non-interest income		**340.0**	358.1
Operating income		**932.6**	936.1
Administrative expenses		**(615.0)**	(598.0)
Impairment losses on financial assets	6	**(204.1)**	(103.3)
Total operating expenses before amortisation of intangible assets on acquisition		**(819.1)**	(701.3)
Operating profit before amortisation of intangible assets on acquisition		**113.5**	234.8
Amortisation of intangible assets on acquisition	9	**(1.5)**	(2.0)
Operating profit before tax		**112.0**	232.8
Tax	3	**(30.9)**	(67.6)
Profit after tax		**81.1**	165.2
Profit attributable to shareholders		**81.1**	165.2
Basic earnings per share	4	**54.3p**	110.4p
Diluted earnings per share	4	**54.2p**	109.9p
Interim dividend per share paid	5	**22.5p**	22.0p
Final dividend per share	5	**45.0p**	44.0p

Consolidated Statement of Comprehensive Income

for the year ended 31 July 2023

	2023 £ million	2022 £ million
Profit after tax	**81.1**	165.2
Items that may be reclassified to income statement		
Currency translation gains/(losses)	**0.7**	(0.5)
Gains on cash flow hedging	**17.6**	30.6
Losses on financial instruments classified at fair value through other comprehensive income	**(3.9)**	(1.1)
Tax relating to items that may be reclassified	**(4.3)**	(7.9)
	10.1	21.1
Items that will not be reclassified to income statement		
Defined benefit pension scheme losses	**(5.7)**	(0.1)
Tax relating to items that will not be reclassified	**1.6**	0.3
	(4.1)	0.2
Other comprehensive income, net of tax	**6.0**	21.3
Total comprehensive income	**87.1**	186.5
Attributable to		
Shareholders	**87.1**	186.5

Consolidated Balance Sheet

at 31 July 2023

	Note	**31 July 2023 £ million**	31 July 2022 £ million
Assets			
Cash and balances at central banks		**1,937.0**	1,254.7
Settlement balances		**707.0**	799.3
Loans and advances to banks		**330.3**	165.4
Loans and advances to customers	6	**9,255.0**	8,858.9
Debt securities	7	**307.6**	612.8
Equity shares	8	**29.3**	28.4
Loans to money brokers against stock advanced		**37.6**	48.4
Derivative financial instruments		**88.5**	71.2
Intangible assets	9	**263.7**	252.0
Property, plant and equipment	10	**357.1**	322.5
Current tax assets		**42.3**	47.0
Deferred tax assets		**10.8**	32.5
Prepayments, accrued income and other assets		**184.1**	185.2
Total assets		**13,550.3**	12,678.3
Liabilities			
Settlement balances and short positions	11	**695.9**	796.1
Deposits from banks	12	**141.9**	160.5
Deposits from customers	12	**7,724.5**	6,770.4
Loans and overdrafts from banks	12	**651.9**	622.7
Debt securities in issue	12	**2,012.6**	2,060.9
Loans from money brokers against stock advanced		**4.8**	–
Derivative financial instruments		**195.9**	89.2
Accruals, deferred income and other liabilities		**303.0**	334.5
Subordinated loan capital		**174.9**	186.5
Total liabilities		**11,905.4**	11,020.8
Equity			
Called up share capital		**38.0**	38.0
Retained earnings		**1,608.5**	1,628.4
Other reserves		**(1.6)**	(8.9)
Total shareholders' equity		**1,644.9**	1,657.5
Total equity		**1,644.9**	1,657.5
Total equity and liabilities		**13,550.3**	12,678.3

Consolidated Statement of Changes in Equity
for the year ended 31 July 2023

	Called up share capital £ million	Retained earnings £ million	Other reserves: FVOCI reserve £ million	Other reserves: Share-based payments reserve £ million	Other reserves: Exchange movements reserve £ million	Other reserves: Cash flow hedging reserve £ million	Total attributable to equity holders £ million	Non-controlling interests £ million	Total equity £ million
At 1 August 2021	38.0	1,555.5	0.8	(22.4)	(1.3)	(0.3)	1,570.3	(1.0)	1,569.3
Profit for the year	–	165.2	–	–	–	–	165.2	–	165.2
Other comprehensive income/(expense)	–	0.2	(0.7)	–	(0.2)	22.0	21.3	–	21.3
Total comprehensive income for the year	–	165.4	(0.7)	–	(0.2)	22.0	186.5	–	186.5
Dividends paid (note 5)	–	(95.5)	–	–	–	–	(95.5)	–	(95.5)
Shares purchased	–	–	–	(9.5)	–	–	(9.5)	–	(9.5)
Shares released	–	–	–	4.9	–	–	4.9	–	4.9
Other movements	–	4.1	–	(2.2)	–	–	1.9	1.0	2.9
Income tax	–	(1.1)	–	–	–	–	(1.1)	–	(1.1)
At 31 July 2022	**38.0**	**1,628.4**	**0.1**	**(29.2)**	**(1.5)**	**21.7**	**1,657.5**	**–**	**1,657.5**
Profit for the year	–	81.1	–	–	–	–	81.1	–	81.1
Other comprehensive (expense)/income	–	(4.1)	(2.8)	–	0.2	12.7	6.0	–	6.0
Total comprehensive income for the year	–	77.0	(2.8)	–	0.2	12.7	87.1	–	87.1
Dividends paid (note 5)	–	(99.1)	–	–	–	–	(99.1)	–	(99.1)
Shares purchased	–	–	–	(5.0)	–	–	(5.0)	–	(5.0)
Shares released	–	–	–	5.6	–	–	5.6	–	5.6
Other movements	–	2.3	–	(3.4)	–	–	(1.1)	–	(1.1)
Income tax	–	(0.1)	–	–	–	–	(0.1)	–	(0.1)
At 31 July 2023	**38.0**	**1,608.5**	**(2.7)**	**(32.0)**	**(1.3)**	**34.4**	**1,644.9**	**–**	**1,644.9**

Consolidated Cash Flow Statement

for the year ended 31 July 2023

	Note	2023 £ million	2022 £ million
Net cash inflow from operating activities	16(a)	**1,021.4**	158.7
Net cash (outflow)/inflow from investing activities			
Purchase of:			
Property, plant and equipment		**(8.7)**	(7.1)
Intangible assets – software		**(53.2)**	(51.3)
Subsidiaries	16(b)	**(0.5)**	(0.1)
Sale of:			
Subsidiaries	16(c)	**–**	0.1
		(62.4)	(58.4)
Net cash inflow before financing activities		**959.0**	100.3
Financing activities			
Purchase of own shares for employee share award schemes		**(5.0)**	(9.5)
Equity dividends paid		**(99.1)**	(95.5)
Interest paid on subordinated loan capital and debt financing		**(10.9)**	(10.4)
Payment of lease liabilities		**(16.2)**	(15.1)
Issuance of senior bond		**248.5**	–
Redemption of senior bond		**(250.0)**	–
Redemption of subordinated loan capital		**–**	(23.4)
Net increase/(decrease) in cash		**826.3**	(53.6)
Cash and cash equivalents at beginning of year		**1,383.0**	1,436.6
Cash and cash equivalents at end of year	16(d)	**2,209.3**	1,383.0

The Notes

1. Basis of Preparation and Accounting Policies

The financial information contained in this announcement does not constitute the statutory accounts for the years ended 31 July 2023 or 31 July 2022 within the meaning of section 435 of the Companies Act 2006, but is derived from those accounts. The accounting policies used are consistent with those set out in the Annual Report 2022.

The financial statements are prepared on a going concern basis. Whilst the financial information has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS"), this announcement does not itself contain sufficient information to comply with IFRS 9.

The financial information for the year ended 31 July 2023 has been derived from the financial statements of Close Brothers Group plc for that year. Statutory accounts for 2022 have been delivered to the Registrar of Companies and those for 2023 will be delivered following the company's Annual General Meeting. The group's auditor, PricewaterhouseCoopers LLP, will report on the 2023 accounts: their report is expected to be unqualified, and is not expected to draw attention to any matters by way of emphasis or contain statements under Section 498(2) or (3) of the Companies Act 2006.

Finance (No.2) Act 2023 was substantively enacted in June 2023, and introduced the Pillar Two global minimum tax rate of 15% and a UK domestic minimum top-up tax with effect from 1 January 2024. The group has adopted the IAS 12 exception from recognition and disclosure regarding the impact on deferred tax assets and liabilities arising from this legislation. The company has adopted the same exception under FRS 102.

Critical accounting judgements and estimates

The reported results of the group are sensitive to the judgements, estimates and assumptions that underlie the application of its accounting policies and preparation of its financial statements. UK company law and IFRS require the directors, in preparing the group's financial statements, to select suitable accounting policies, apply them consistently and make judgements, estimates and assumptions that are reasonable.

The group's estimates and assumptions are based on historical experience and reasonable expectations of future events and are reviewed on an ongoing basis. Actual results in the future may differ from the amounts estimated due to the inherent uncertainty.

The group's critical accounting judgements, made in applying its accounting policies, and the key sources of estimation uncertainty that may have a significant risk of causing a material adjustment within the next financial year are set out below.

The impact of climate change on the group's judgements, estimates and assumptions has been considered in preparing these financial statements. While no material impact has been identified, climate risk continues to be monitored on an ongoing basis.

Critical accounting judgements

The critical accounting judgements of the group relate to expected credit loss provisions calculated under IFRS 9 and are as follows.

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. Typically, the group assesses whether a significant increase in credit risk has occurred based on a quantitative and qualitative assessment, with a "30 days 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 probability of default ("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 each business to ensure that the increased risk since origination is appropriately captured;
- qualitative assessment: events or observed behaviour indicate credit deterioration. This includes a wide range of information that is reasonably available including individual credit assessments of the financial performance of borrowers as appropriate during routine reviews, plus forbearance and watch list information; or
- backstop criteria: the "30 days past due" backstop is met.

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 criterion is met or when a financial asset meets a "90 days past due" backstop. While some criteria are factual (e.g. administration, insolvency or bankruptcy), others require a judgemental 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

The key sources of estimation uncertainty of the group relate to expected credit loss provisions and goodwill and are as follows:

- Two key model estimates, being time to recover periods and recovery rates, underpinning the expected credit loss provision of Novitas. The key Novitas estimates in the prior year were case failure rates and recovery rates;
- Forward-looking macroeconomic information incorporated into expected credit loss models. This was also a key estimate in the prior year;
- Adjustments by management to model calculated expected credit losses due to limitations in the group's expected credit loss models or input data, which may be identified through ongoing model monitoring and validation of models. This is a new key estimate this year due to an increase in the size of the adjustment; and
- Estimate of future cash flow forecasts in the calculation of value in use for the testing of goodwill for impairment in relation to the Winterflood Securities cash generating unit. This is a new key estimate this year due to increased market uncertainty.

Novitas loans

Since 31 July 2022, there has been an increase in the expected credit loss provision in Novitas. The two assumptions requiring the most significant judgement relate to expected recovery rates and time to recovery periods in Novitas. During 2021 and 2022, expected case failure rates were considered a significant judgement. Due to the migration of loans to Stage 3, as explained below, expected case failure rates are no longer considered to be a significant judgement while time to recovery periods have become a significant judgement.

Case failure rates represent a forward-looking probability assessment of successful case outcomes through court proceedings or out of court settlements. Recovery rates represent the level of interest and capital that is covered by an insurance policy and expected to be recoverable once a case fails. Time to recovery periods represent management's view on timing using weighted probabilities.

Novitas provides funding to individuals who wish to pursue legal cases. The majority of the Novitas portfolio, and therefore provision, relates to civil litigation cases. To protect customers in the event that their case fails, it was a condition of the Novitas loan agreements that an individual purchased an After the Event ("ATE") insurance policy which covered the loan.

As previously announced, following a strategic review, 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. Since that time, the Novitas loan book has been in run-off, and the business has continued to work with solicitors and insurers, with a focus on supporting existing customers and managing the existing book to ensure good customer outcomes, where it is within Novitas' ability to do so.

In the first half of the financial year under review, management reviewed and updated its assumptions for expected case failure rates, expected time to recover periods and expected recovery rates to reflect experienced credit performance and ongoing dialogue with customers' insurers. This included initiating formal legal action against one of the ATE insurers regarding the potential recoverability of funds in relation to failed cases and considering its position in respect of other insurers. As a result, a number of updates were made to the expected credit loss provision calculation resulting in an increase of £70.8 million to £184.1 million (31 July 2022: £113.3 million). The increase to the expected credit loss provision is net of write-offs previously provided for and does not include write-offs and costs taken directly to the income statement.

Based on the current position, the majority of loans in the portfolio have been assessed as credit-impaired and have been migrated to Stage 3, with expected case failure rates increased accordingly. Expected credit losses for the portfolio have been calculated by comparing the gross loan balance to expected cash flows discounted at the original effective interest rate, over an appropriate time to recovery period. In line with IFRS 9, a proportion of the expected credit loss is expected to unwind, over the estimated time to recover period, to interest income, which reflects the requirement to recognise interest income on Stage 3 loans on a net basis.

Since 31 July 2022, a material increase in the expected case failure rate assumptions and decrease in the expected recovery rate assumptions have been recognised and the recoverability of interest on relevant loans has been reassessed.

Given that the majority of the Novitas portfolio is in Stage 3, the key sources of estimation uncertainty for the portfolio's expected credit loss provision are time to recover periods and recovery rates. On this basis management have assessed and completed sensitivity analysis when compared to the expected credit loss provision for Novitas of £184.1 million (31 July 2022: £113.3 million). At 31 July 2023, a 10% absolute deterioration or improvement in recovery rates would increase or decrease the ECL provision by £11.0 million. Separately, a 12-month improvement in the time to recover period will reduce the ECL provision by £12.1 million, while a 12-month delay in the time to recover period will increase the ECL provision by £10.0 million.

Forward-looking information

Determining expected credit losses under IFRS 9 requires the incorporation of forward-looking macroeconomic information that is reasonable, supportable and includes assumptions linked to economic variables that impact losses in each portfolio. The introduction of macroeconomic information introduces additional volatility to provisions.

In order to calculate forward-looking provisions, economic scenarios are sourced from Moody's Analytics. These scenarios cover a range of plausible economic conditions that are then used to project potential credit outcomes for each portfolio. An overview of these scenarios using key macroeconomic indicators is provided below. Ongoing benchmarking of the scenarios to other economic providers is carried out monthly to provide management with comfort on Moody's Analytics scenario paths.

Five different projected economic scenarios are currently considered to cover a range of possible outcomes. These include a baseline scenario, which reflects the best view of future economic events. In addition, one upside scenario and three downside scenario paths are defined relative to the baseline. Management assigns the scenarios a probability weighting to reflect the likelihood of specific scenarios, and therefore loss outcomes, materialising, using a combination of quantitative analysis and expert judgement.

The impact of forward-looking information varies across the group's lending businesses because of the differing sensitivity of each portfolio to specific macroeconomic variables. This is reflected through the development of bespoke macroeconomic models that recognise the specific response of each business to the macroeconomic environment.

The modelled impact of macroeconomic scenarios and their respective weightings is reviewed by business experts in relation to stage allocation and coverage ratios at the individual and portfolio level, incorporating management's experience and knowledge of customers, the sectors in which they operate, and the assets financed.

This includes assessment of the reaction of the ECL in the context of the prevailing and forecast economic conditions, for example where currently higher interest rates and inflationary conditions exist compared to recent periods.

Economic forecasts have evolved over the course of 2023 and reflect the continued economic challenges and uncertainty. Forecasts deployed in IFRS 9 macroeconomic models are updated on a monthly basis. At 31 July 2023, the latest baseline scenario forecasts GDP growth of 0.5% in calendar year 2023 and an average base rate of 4.9% across calendar year 2023. CPI is forecast to be 5.2% in calendar year 2023 in the baseline scenario, with 1.5% forecast in the protracted downside scenario over the same period.

At 31 July 2022, the scenario weightings were: 30% strong upside, 32.5% baseline, 20% mild downside, 10.5% moderate downside and 7% protracted downside. As economic forecasts are considered to appropriately recognise deterioration in the macroeconomic environment, no change has been made to the weightings ascribed to the scenarios since 31 July 2022.

Given the current economic uncertainty, further analysis has been undertaken to assess the appropriateness of the five scenarios used. This included benchmarking the baseline scenario to consensus economic views, as well as consideration of an additional forecast related to stagflation, which could be considered as an alternative downside scenario.

Compared to the scenarios in use in the expected credit losses calculation, the stagflation scenario includes a longer period of higher interest rates coupled with a shallower but extended impact on GDP. Due to the relatively short tenor of the portfolios the stagflation scenario is considered to be of less relevance than those deployed. This is supported by the fact that, due to the higher severity of recessionary factors in the existing scenarios, using the stagflation scenario instead of the moderate or protracted downside scenario would result in lower expected credit losses.

The final scenarios deployed reflect overall deterioration in the UK economic outlook relative to 31 July 2022, and factor in recent developments including dampened GDP growth for 2024 and 2025 and a Bank of England base rate peak in late 2023 following persistent high levels of inflation. Under the baseline scenario, UK headline CPI inflation continues to fall from its peak owing to sustained base rate increases and eased supply chain pressures. House price outlook includes contraction across all scenarios; however, house prices return to growth sooner than previously anticipated. Unemployment rate forecasts have marginally improved compared to 31 July 2022.

FY 2023 and FY 2022 scenario forecasts and weights

	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024
At 31 July 2023										
UK GDP Growth	0.5%	0.3%	1.3%	3.0%	(0.2%)	(2.3%)	(0.6%)	(4.8%)	(0.8%)	(6.2%)
UK Unemployment	4.1%	4.4%	3.9%	3.9%	4.2%	4.8%	4.4%	6.5%	4.5%	7.7%
UK HPI Growth	(6.3%)	(1.4%)	(0.4%)	8.3%	(9.1%)	(6.9%)	(10.8%)	(13.2%)	(12.6%)	(20.1%)
BoE Base Rate	4.9%	5.5%	4.9%	5.7%	4.8%	4.8%	4.7%	4.2%	4.5%	3.6%
Consumer Price Index	5.2%	2.2%	4.8%	2.2%	3.8%	1.2%	3.0%	(0.3%)	1.5%	(2.3%)
Weighting	**32.5%**		**30%**		**20%**		**10.5%**		**7%**	

	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
At 31 July 2022										
UK GDP Growth	3.4%	0.8%	4.1%	2.9%	2.7%	(1.8%)	2.4%	(4.4%)	2.1%	(5.9%)
UK Unemployment	3.8%	4.1%	3.6%	3.6%	4.0%	4.6%	4.1%	6.2%	4.2%	7.4%
UK HPI Growth	4.3%	2.6%	10.9%	12.7%	1.1%	(3.1%)	(0.5%)	(9.1%)	(2.4%)	(15.9%)
BoE Base Rate	1.1%	1.8%	1.1%	1.7%	1.3%	1.0%	1.4%	1.1%	1.5%	1.2%
Consumer Price Index	10.7%	2.8%	10.3%	2.8%	12.3%	0.4%	14.2%	0.2%	17.1%	(2.2%)
Weighting	**32.5%**		**30%**		**20%**		**10.5%**		**7%**	

Notes:
UK GDP growth: National Accounts Annual Real Gross Domestic Product, Seasonally Adjusted – year-on-year change (%)
UK unemployment: ONS Labour Force Survey, Seasonally Adjusted – Average (%)
UK HPI growth: Average nominal house prices, Land Registry, Seasonally Adjusted – Q4-to-Q4 change (%)
BoE base rate: Bank of England base rate – Average (%)
Consumer Price Index: ONS, All items, annual inflation – Q4-to-Q4 change (%)

	Five-year average (calendar year 2023 - 2027)				
	Baseline	Upside (strong)	Downside (mild)	Downside (moderate)	Downside (protracted)
At 31 July 2023					
UK GDP Growth	**0.9%**	**1.7%**	**0.5%**	**0.0%**	**(0.1%)**
UK Unemployment	**4.4%**	**3.9%**	**4.6%**	**6.4%**	**7.3%**
UK HPI Growth	**0.5%**	**2.1%**	**(1.1%)**	**(2.9%)**	**(5.4%)**
BoE Base Rate	**3.8%**	**3.8%**	**3.5%**	**2.8%**	**2.3%**
Consumer Price Index	**2.6%**	**2.6%**	**2.1%**	**1.6%**	**0.7%**
Weighting	**32.5%**	**30%**	**20%**	**10.5%**	**7%**

	Five-year average (calendar year 2022 - 2026)				
	Baseline	Upside (strong)	Downside (mild)	Downside (moderate)	Downside (protracted)
At 31 July 2022					
UK GDP Growth	1.2%	1.7%	0.8%	0.2%	(0.1%)
UK Unemployment	4.4%	3.8%	4.6%	6.4%	7.2%
UK HPI Growth	0.1%	1.8%	(1.3%)	(2.5%)	(4.6%)
BoE Base Rate	2.0%	2.0%	1.5%	0.9%	0.6%
Consumer Price Index	3.8%	3.8%	3.7%	3.6%	3.4%
Weighting	**32.5%**	**30%**	**20%**	**10.5%**	**7%**

Notes:
UK GDP growth: National Accounts Annual Real Gross Domestic Product, Seasonally Adjusted – CAGR (%)
UK unemployment: ONS Labour Force Survey, Seasonally Adjusted – Average (%)
UK HPI growth: Average nominal house prices, Land Registry, Seasonally Adjusted – CAGR (%)
BoE base rate: Bank of England base rate – Average (%)
Consumer Price Index: ONS, All items, annual inflation – CAGR (%)

The forecasts represent an economic view at 31 July 2023, after which the economic uncertainty has continued. These trends, including the risk of further interest rate rises, and their impact on scenarios and weightings, are subject to ongoing monitoring by management.

The tables above shows economic assumptions within each scenario, and the weighting applied to each at 31 July 2023. The metrics shown are key UK economic indicators, chosen to describe the economic scenarios. These are the main metrics used to set scenario paths, which then influence a wide range of additional metrics that are used in expected credit loss models. The first tables show the forecasts of the key metrics for the scenarios utilised for calendar years 2022 and 2023. The subsequent tables show averages and peak-to-trough ranges for the same key metrics over the five-year period from 2023 to 2027.

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

The tables below provide a summary for the five-year period (calendar year 2023-2027) of the peak-to-trough range of values of the key UK economic variables used within the economic scenarios at 31 July 2023 and 31 July 2022:

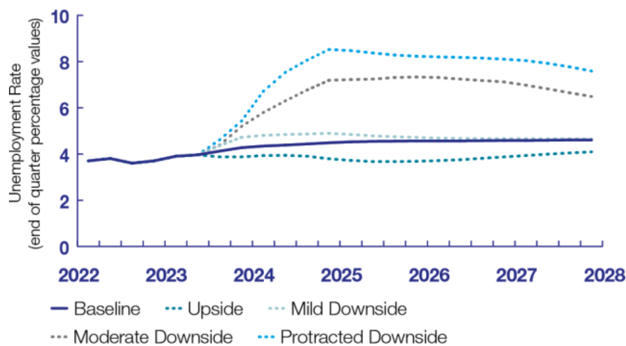
	Five-year period (calendar year 2023 - 2027)									
	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough
At 31 July 2023										
UK GDP Growth	4.6%	0.1%	8.7%	0.1%	2.5%	(3.0%)	0.3%	(5.9%)	0.3%	(8.1%)
UK Unemployment	4.6%	3.9%	4.1%	3.7%	4.9%	3.9%	7.3%	3.9%	8.5%	3.9%
UK HPI Growth	2.6%	(7.8%)	12.9%	(3.1%)	(0.5%)	(15.4%)	(0.5%)	(24.0%)	(0.5%)	(32.1%)
BoE Base Rate	5.8%	2.3%	5.9%	2.3%	5.4%	2.2%	5.2%	1.3%	5.2%	0.6%
Consumer Price Index	10.2%	1.8%	10.2%	1.8%	10.2%	0.8%	10.2%	(1.0%)	10.2%	(3.8%)
Weighting	**32.5%**		**30%**		**20%**		**10.5%**		**7%**	

	Five-year period (calendar year 2022 - 2026)									
	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough
At 31 July 2022										
UK GDP Growth	6.3%	0.4%	9.0%	0.4%	4.1%	(2.6%)	1.0%	(5.1%)	0.8%	(6.9%)
UK Unemployment	4.8%	3.7%	4.2%	3.5%	4.8%	3.7%	7.4%	3.7%	8.4%	3.7%
UK HPI Growth	2.0%	(5.0%)	16.7%	(1.1%)	2.0%	(11.7%)	2.0%	(17.9%)	2.0%	(26.0%)
BoE Base Rate	2.5%	0.5%	2.5%	0.5%	2.5%	0.1%	2.4%	0.1%	2.6%	0.1%
Consumer Price Index	10.7%	2.0%	10.3%	2.0%	12.3%	0.4%	14.2%	0.1%	17.1%	(2.2%)
Weighting	**32.5%**		**30%**		**20%**		**10.5%**		**7%**	

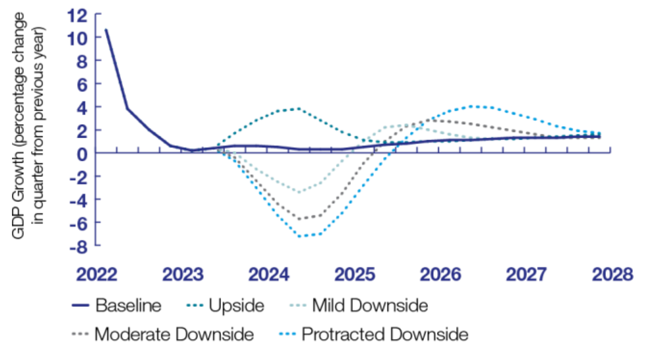
Notes:
UK GDP growth: Maximum and minimum quarterly GDP as a percentage change from start of period (%)
UK unemployment: Maximum and minimum unemployment rate (%)
UK HPI growth: Maximum and minimum average nominal house price as a percentage change from start of period (%)
BoE base rate: Maximum and minimum Bank of England base rate (%)
Consumer Price Index: Maximum and minimum inflation rate over the five-year period (%).

The following charts below represent the quarterly forecast data included in the above tables incorporating actual metrics up to 31 July 2023. The dark blue line shows the baseline scenario, while the other lines represent the various upside and downside scenarios.

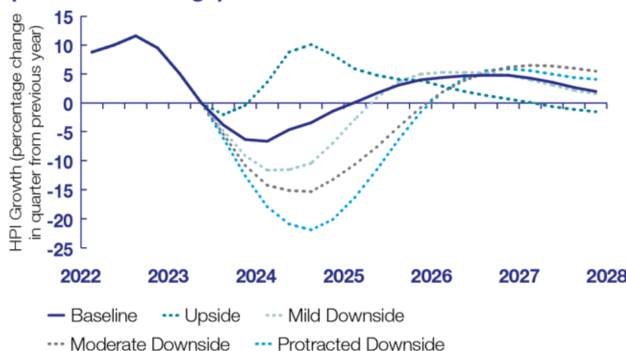
Unemployment Rate (%)



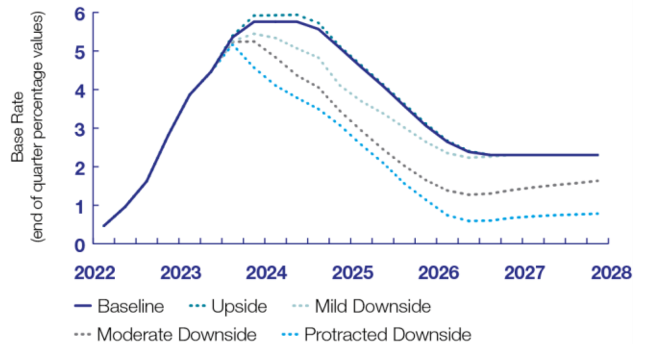
Real Gross Domestic Product (Annual % Change)



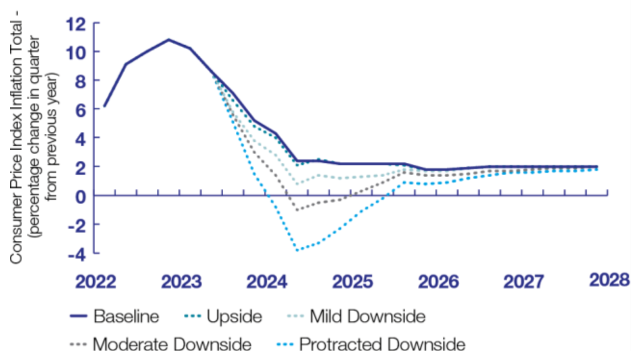
House Price Index – Current Prices (Annual % Change)



Bank of England Base Rate (%)



Consumer Price Index (Annual % Change)



Scenario sensitivity analysis

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 the 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.
- 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 does not apply further stress to the expected credit loss provision 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.
  - 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 July 2023, application of 100% weighting to the upside strong scenario would decrease the expected credit loss by £18.1 million whilst application of 100% weighting to the downside protracted scenario would increase the expected credit loss by £32.7 million, driven by the aforementioned changes in risk metrics and stage allocation of the portfolios.

When performing sensitivity analysis there is a high degree of estimation uncertainty. On this basis, 100% weighted expected credit loss provisions presented for the upside and downside scenarios should not be taken to represent the lower or upper range of possible and actual expected credit loss outcomes. The recalculated 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 July 2023; 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 July 2023 and 31 July 2022 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 geopolitical tensions and sustained cost of living pressures.

Use of Adjustments

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 developments where applicable.

Macroeconomic forecasts continue to react to a range of external factors including the ongoing conflict in Ukraine, government attempts to address cost of living and inflationary pressures, and long-term impacts of the pandemic. In response, our use of adjustments has evolved. In particular, adjustments have been applied in the second half of the year in response to improvements in macroeconomic forecasts that resulted in releases in modelled provisions. A number of these releases were considered premature or counterintuitive by management and adjustments have been made as a result. These adjustments recognise the ongoing uncertainty associated with the current environment.

The approach to adjustments continues to reflect the use of expert management judgement which incorporates management's experience and knowledge of customers, the areas in which they operate, and the underlying assets financed. The need for adjustments will continue to be monitored as new information emerges which might not be recognised in existing models. At 31 July 2023, £17.0 million (31 July 2022: £(2.8) million) of the expected credit loss provision was attributable to adjustments.

2. Segmental Analysis

The directors manage the group by class of business and present the segmental analysis on that basis. The group's activities are presented in five (2022: five) operating segments: Commercial, Retail, Property, Asset Management and Securities.

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

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

Summary income statement for the year ended 31 July 2023

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Summary income statement for the year ended 31 July 2023							
Net interest income/(expense)	**251.2**	**218.4**	**117.1**	**6.7**	**0.5**	**(1.3)**	**592.6**
Non-interest income	**96.6**	**29.7**	**0.8**	**138.1**	**74.8**	**–**	**340.0**
Operating income/(expense)	**347.8**	**248.1**	**117.9**	**144.8**	**75.3**	**(1.3)**	**932.6**
Administrative expenses	**(171.5)**	**(142.8)**	**(26.5)**	**(123.3)**	**(67.5)**	**(22.2)**	**(553.8)**
Depreciation and amortisation	**(22.9)**	**(21.6)**	**(4.4)**	**(5.5)**	**(4.3)**	**(2.5)**	**(61.2)**
Impairment losses on financial assets	**(137.5)**	**(49.0)**	**(17.5)**	**(0.1)**	**–**	**–**	**(204.1)**
Total operating expenses before amortisation of intangible assets on acquisition	**(331.9)**	**(213.4)**	**(48.4)**	**(128.9)**	**(71.8)**	**(24.7)**	**(819.1)**
Adjusted operating profit/(loss)[1]	**15.9**	**34.7**	**69.5**	**15.9**	**3.5**	**(26.0)**	**113.5**
Amortisation of intangible assets on acquisition	**–**	**–**	**–**	**(1.5)**	**–**	**–**	**(1.5)**
Operating profit/(loss) before tax	**15.9**	**34.7**	**69.5**	**14.4**	**3.5**	**(26.0)**	**112.0**
External operating income/(expense)	**451.1**	**308.6**	**170.3**	**144.2**	**75.3**	**(216.9)**	**932.6**
Inter segment operating (expense)/income	**(103.3)**	**(60.5)**	**(52.4)**	**0.6**	**–**	**215.6**	**–**
Segment operating income/(expense)	**347.8**	**248.1**	**117.9**	**144.8**	**75.3**	**(1.3)**	**932.6**

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

The Commercial operating segment above includes Novitas, which ceased lending to new customers in July 2021 following a strategic review. Novitas recorded an operating loss of £84.2 million (2022: loss of £39.3 million), driven by impairment losses of £116.8 million (2022: £60.7 million).

Novitas' income was £18.9 million (2022: £36.0 million) and expenses were £8.7 million (2022: £14.6 million). In line with IFRS 9's requirement to recognise interest income on Stage 3 loans on a net basis, income includes the partial unwinding over time of the expected credit loss recognised in the year following the transfer of the majority of loans to Stage 3.

Summary balance sheet information at 31 July 2023

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
Summary balance sheet information at 31 July 2023							
Total assets[1]	**4,821.3**	**3,001.8**	**1,703.1**	**177.9**	**870.5**	**2,975.7**	**13,550.3**
Total liabilities	**–**	**–**	**–**	**64.1**	**778.1**	**11,063.2**	**11,905.4**

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 of £59.9 million.
2. Balance sheet includes £2,977.4 million assets and £11,151.9 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

Equity is allocated across the group as set out below. Banking division equity, which is managed as a whole rather than on a segmental basis, reflects loan book and operating lease assets of £9,526.2 million, in addition to assets and liabilities of £2,977.4 million and £11,151.9 million respectively primarily comprising treasury balances which are included within the Group column above.

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Equity	**1,351.7**	**113.8**	**92.4**	**87.0**	**1,644.9**

Other segmental information for the year ended 31 July 2023

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group	Total
Other segmental information for the year ended 31 July 2023							
Employees (average number)[1]	**1,450**	**1,194**	**201**	**814**	**320**	**81**	**4,060**

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

Summary income statement for the year ended 31 July 2022

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Summary income statement for the year ended 31 July 2022							
Net interest income/(expense)	257.1	210.8	112.1	(0.7)	(1.1)	(0.2)	578.0
Non-interest income	86.3	26.2	0.6	148.7	96.3	–	358.1
Operating income/(expense)	343.4	237.0	112.7	148.0	95.2	(0.2)	936.1
Administrative expenses	(158.3)	(131.3)	(27.0)	(120.7)	(77.2)	(25.8)	(540.3)
Depreciation and amortisation	(21.7)	(20.3)	(4.0)	(5.6)	(3.9)	(2.2)	(57.7)
Impairment losses on financial assets	(72.4)	(24.4)	(6.5)	–	–	–	(103.3)
Total operating expenses before amortisation of intangible assets on acquisition	(252.4)	(176.0)	(37.5)	(126.3)	(81.1)	(28.0)	(701.3)
Adjusted operating profit/(loss)[1]	91.0	61.0	75.2	21.7	14.1	(28.2)	234.8
Amortisation of intangible assets on acquisition	(0.1)	–	–	(1.9)	–	–	(2.0)
Operating profit/(loss) before tax	90.9	61.0	75.2	19.8	14.1	(28.2)	232.8
External operating income/(expense)	391.7	268.3	129.4	148.1	95.2	(96.6)	936.1
Inter segment operating (expense)/income	(48.3)	(31.3)	(16.7)	(0.1)	–	96.4	–
Segment operating income/(expense)	343.4	237.0	112.7	148.0	95.2	(0.2)	936.1

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

Summary balance sheet information at 31 July 2022

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
Summary balance sheet information at 31 July 2022							
Total assets[1]	4,561.4	3,064.0	1,473.5	172.8	972.3	2,434.3	12,678.3
Total liabilities	–	–	–	70.5	880.6	10,069.7	11,020.8

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 of £159.4 million.
2. Balance sheet includes £2,425.0 million assets and £10,181.9 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

Equity is allocated across the group as set out below. Banking division equity, which is managed as a whole rather than on a segmental basis, reflects loan book and operating lease assets of £9,098.9 million, in addition to assets and liabilities of £2,425.0 million and £10,181.9 million respectively primarily comprising treasury balances which are included within the Group column above.

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Equity	1,342.0	102.3	91.7	121.5	1,657.5

Other segmental information for the year ended 31 July 2022

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group	Total
Other segmental information for the year ended 31 July 2022							
Employees (average number)[1]	1,348	1,153	190	722	318	79	3,810

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

3. Taxation

	2023 £ million	2022 £ million
Tax charged/(credited) to the income statement		
Current tax:		
UK corporation tax	**18.1**	53.7
Foreign tax	**2.3**	1.9
Adjustments in respect of previous years	**(8.2)**	(2.8)
	12.2	52.8
Deferred tax:		
Deferred tax charge for the current year	**11.4**	11.8
Adjustments in respect of previous years	**7.3**	3.0
	30.9	67.6
Tax on items not (credited)/charged to the income statement		
Current tax relating to:		
Share-based payments	**(0.2)**	–
Deferred tax relating to:		
Cash flow hedging	**4.9**	8.6
Defined benefit pension scheme	**(1.6)**	(0.3)
Financial instruments classified as fair value through other comprehensive income	**(1.1)**	(0.4)
Share-based payments	**0.3**	1.1
Currency translation gains/(losses)	**0.5**	(0.3)
	2.8	8.7
Reconciliation to tax expense		
UK corporation tax for the year at 21.0% (2022: 19.0%) on operating profit before tax	**23.5**	44.2
Effect of different tax rates in other jurisdictions	**(0.3)**	(0.3)
Disallowable items and other permanent differences	**1.6**	0.9
Banking surcharge	**6.2**	14.9
Deferred tax impact of decreased tax rates	**0.8**	7.7
Prior year tax provision	**(0.9)**	0.2
	30.9	67.6

The standard UK corporation tax rate for the financial year is 21.0% (2022: 19.0%). However, an additional 6.3% (2022: 8.0%) surcharge applies to banking company profits as defined in legislation (and only above a threshold amount). The 6.3% surcharge rate for the financial year arises due to the reduction in the surcharge from 8% to 3% from April 2023. The effective tax rate of 27.6% (2022: 29.0%) is above the UK corporation tax rate primarily due to the surcharge applying to most of the group's profits.

Movements in deferred tax assets and liabilities were as follows:

	Capital allowances £ million	Pension scheme £ million	Share-based payments and deferred compensation £ million	Impairment losses £ million	Cash flow hedging £ million	Intangible assets £ million	Other £ million	Total £ million
Group								
At 1 August 2021	36.1	(2.2)	15.5	8.8	0.1	(1.7)	(0.6)	56.0
(Charge)/credit to the income statement	(10.9)	–	(1.5)	(3.0)	–	0.4	0.2	(14.8)
Credit/(charge) to other comprehensive income	0.3	0.3	–	–	(8.6)	–	0.4	(7.6)
Charge to equity	–	–	(1.1)	–	–	–	–	(1.1)
At 31 July 2022	25.5	(1.9)	12.9	5.8	(8.5)	(1.3)	–	32.5
(Charge)/credit to the income statement	(12.1)	–	(3.9)	0.1	–	0.4	(3.2)	(18.7)
(Charge)/credit to other comprehensive income	(0.5)	1.6	–	–	(4.9)	–	1.1	(2.7)
Charge to equity	–	–	(0.3)	–	–	–	–	(0.3)
At 31 July 2023	**12.9**	**(0.3)**	**8.7**	**5.9**	**(13.4)**	**(0.9)**	**(2.1)**	**10.8**

The group's deferred tax asset comprises £0.7 million (31 July 2022: £12.5 million) due within one year and £10.1 million (31 July 2022: £20.0 million) due after more than one year.

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

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.

	2023	2022
Basic	**54.3p**	110.4p
Diluted	**54.2p**	109.9p
Adjusted basic[1]	**55.1p**	111.5p
Adjusted diluted[1]	**55.0p**	111.0p

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

	2023 £ million	2022 £ million
Profit attributable to shareholders	**81.1**	165.2
Adjustments:		
Amortisation of intangible assets on acquisition	**1.5**	2.0
Tax effect of adjustments	**(0.3)**	(0.4)
Adjusted profit attributable to shareholders	**82.3**	166.8

	2023 million	2022 million
Average number of shares		
Basic weighted	**149.4**	149.6
Effect of dilutive share options and awards	**0.2**	0.7
Diluted weighted	**149.6**	150.3

5. Dividends

	2023 £ million	2022 £ million
For each ordinary share		
Final dividend for previous financial year paid in November 2022: 44.0p (November 2021: 42.0p)	**65.6**	62.7
Interim dividend for current financial year paid in April 2023: 22.5p (April 2022: 22.0p)	**33.5**	32.8
	99.1	95.5

A final dividend relating to the year ended 31 July 2023 of 45.0p, amounting to an estimated £67.0 million, is proposed. This final dividend, which is due to be paid on 24 November 2023 to shareholders on the register at 20 October 2023, is not reflected in these financial statements.

6. Loans and Advances to Customers

(a) Maturity analysis of loans and advances to customers

The following table sets out a maturity analysis of loans and advances to customers. At 31 July 2023 loans and advances to customers with a maturity of two years or less was £7,158.8 million (31 July 2022: £6,733.0 million) representing 74.3% (31 July 2022: 73.6%) of total gross loans and advances to customers:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total gross loans and advances to customers £ million	Impairment provisions £ million	Total net loans and advances to customers £ million
At 31 July 2023	**76.5**	**2,597.8**	**2,636.5**	**1,848.0**	**2,337.2**	**139.6**	**9,635.6**	**(380.6)**	**9,255.0**
At 31 July 2022	141.3	2,354.2	2,369.0	1,868.5	2,235.0	176.5	9,144.5	(285.6)	8,858.9

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

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

		Stage 2				
	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
At 31 July 2023						
Gross loans and advances to customers						
Commercial	**3,686.1**	**750.9**	**23.2**	**774.1**	**339.4**	**4,799.6**
Of which: Commercial excluding Novitas	3,685.1	749.6	23.2	772.8	97.7	4,555.6
Of which: Novitas	1.0	1.3	–	1.3	241.7	244.0
Retail	**2,839.1**	**159.1**	**18.4**	**177.5**	**74.6**	**3,091.2**
Property	**1,465.0**	**85.7**	**24.7**	**110.4**	**169.4**	**1,744.8**
	7,990.2	**995.7**	**66.3**	**1,062.0**	**583.4**	**9,635.6**
Impairment provisions						
Commercial	**25.1**	**13.9**	**2.4**	**16.3**	**208.1**	**249.5**
Of which: Commercial excluding Novitas	24.9	13.6	2.4	16.0	24.5	65.4
Of which: Novitas	0.2	0.3	–	0.3	183.6	184.1
Retail	**27.9**	**11.6**	**2.6**	**14.2**	**47.3**	**89.4**
Property	**5.1**	**1.4**	**0.3**	**1.7**	**34.9**	**41.7**
	58.1	**26.9**	**5.3**	**32.2**	**290.3**	**380.6**
Provision coverage ratio						
Commercial	**0.7%**	**1.9%**	**10.3%**	**2.1%**	**61.3%**	**5.2%**
Within which: Commercial excluding Novitas	0.7%	1.8%	10.3%	2.1%	25.1%	1.4%
Within which: Novitas	20.0%	23.1%	–	23.1%	76.0%	75.5%
Retail	**1.0%**	**7.3%**	**14.1%**	**8.0%**	**63.4%**	**2.9%**
Property	**0.3%**	**1.6%**	**1.2%**	**1.5%**	**20.6%**	**2.4%**
	0.7%	**2.7%**	**8.0%**	**3.0%**	**49.8%**	**3.9%**

	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
At 31 July 2022						
Gross loans and advances to customers						
Commercial	3,433.1	778.8	119.4	898.2	169.1	4,500.4
Of which: Commercial excluding Novitas	3,331.8	776.6	25.6	802.2	93.7	4,227.7
Of which: Novitas	101.3	2.2	93.8	96.0	75.4	272.7
Retail	2,937.6	121.4	9.4	130.8	65.5	3,133.9
Property	1,256.3	83.8	46.1	129.9	124.0	1,510.2
	7,627.0	984.0	174.9	1,158.9	358.6	9,144.5
Impairment provisions						
Commercial	25.6	14.3	52.0	66.3	87.1	179.0
Of which: Commercial excluding Novitas	16.8	13.3	2.5	15.8	33.1	65.7
Of which: Novitas	8.8	1.0	49.5	50.5	54.0	113.3
Retail	22.1	4.9	1.7	6.6	41.2	69.9
Property	2.6	4.2	1.2	5.4	28.7	36.7
	50.3	23.4	54.9	78.3	157.0	285.6
Provision coverage ratio						
Commercial	0.7%	1.8%	43.6%	7.4%	51.5%	4.0%
Within which: Commercial excluding Novitas	0.5%	1.7%	9.8%	2.0%	35.3%	1.6%
Within which: Novitas	8.7%	45.5%	52.8%	52.6%	71.6%	41.5%
Retail	0.8%	4.0%	18.1%	5.0%	62.9%	2.2%
Property	0.2%	5.0%	2.6%	4.2%	23.1%	2.4%
	0.7%	2.4%	31.4%	6.8%	43.8%	3.1%

In Commercial, the impairment coverage ratio increased to 5.2% (31 July 2022: 4.0%), reflecting the impacts of updated Novitas assumptions. The significant increase in credit provisions against the Novitas loan book reflects the latest assumptions on case failure, time to recover and recovery rates. Excluding Novitas, the Commercial provision coverage ratio decreased to 1.4% (31 July 2022: 1.6%) as additional provisions to take into account weaker macroeconomic variables and outlook were offset by write-offs on Stage 3 balances.

In Retail, the provision coverage ratio increased to 2.9% (31 July 2022: 2.2%) reflecting the uncertain macroeconomic outlook and increased arrears and forbearance levels in Motor Finance business as a result of continued cost of living pressures on customers.

In Property the provision coverage ratio was stable at 2.4% (31 July 2022: 2.4%), with write-offs on well-provided single names offset by deteriorating macroeconomic conditions and strong levels of new business.

(c) 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. Adjustments have been identified as a key source of estimation uncertainty as set out in Note 1.

This year, adjustments have been applied in response to improvements in macroeconomic forecasts that resulted in releases in modelled provisions. A number of these releases were considered premature or counterintuitive by management and adjustments have been made as a result. These adjustments recognise the ongoing uncertainty associated with the current environment. At 31 July 2023, £17.0 million (31 July 2022: £(2.8) million) of the expected credit loss provision was attributable to adjustments.

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

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

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

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

Repayments relating to loans which transferred between stages during the year are presented within the transfers between stages lines. Such transfers do not represent overnight reclassification from one stage to another. All other repayments are presented in a separate line.

ECL model methodologies may be updated or enhanced from time to time and the impacts of such changes are presented on a separate line. During the year, a number of enhancements were made to the models in the Premium business. The enhancements were made to address known model limitations and to ensure modelled provisions better reflect future loss emergence.

Enhancements to our model suite are a contributory factor to ECL movements and such factors have been taken into consideration when assessing any required adjustments to modelled output and ensuring appropriate provision coverage levels.

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

	Stage 1 £ million	**Stage 2 £ million**	**Stage 3[1] £ million**	**Total £ million**
Gross loans and advances to customers				
At 1 August 2022	**7,627.0**	**1,158.9**	**358.6**	**9,144.5**
New financial assets originated	**6,604.0**	**–**	**–**	**6,604.0**
Transfers to Stage 1	**276.2**	**(373.2)**	**(6.8)**	**(103.8)**
Transfers to Stage 2	**(1,068.6)**	**878.6**	**(16.1)**	**(206.1)**
Transfers to Stage 3	**(303.6)**	**(194.4)**	**421.5**	**(76.5)**
Net transfers between stages and repayments[2]	**(1,096.0)**	**311.0**	**398.6**	**(386.4)**
Repayments while stage remained unchanged and final repayments	**(5,118.8)**	**(403.5)**	**(100.4)**	**(5,622.7)**
Changes to model methodologies	**(25.6)**	**(4.0)**	**29.6**	**–**
Write offs	**(0.4)**	**(0.4)**	**(103.0)**	**(103.8)**
At 31 July 2023	**7,990.2**	**1,062.0**	**583.4**	**9,635.6**

1. A significant proportion of the Stage 3 movements is driven by Novitas with £174.4 million of transfers to Stage 3 and £37.4 million of write-offs. In addition, £49.2 million of Novitas movements are included within ‘Repayments while stage remained unchanged and final repayments’, comprising largely of accrued interest. The accrued interest is partly offset by ECL increases included within the adjacent ECL reconciliation, in line with IFRS 9’s requirement to recognise interest income on Stage 3 loans on a net basis.
2. 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
Gross loans and advances to customers				
At 1 August 2021	7,434.3	960.2	330.4	8,724.9
New financial assets originated	6,537.4	–	–	6,537.4
Transfers to Stage 1	196.2	(278.6)	(5.3)	(87.7)
Transfers to Stage 2	(1,056.3)	959.9	(21.4)	(117.8)
Transfers to Stage 3	(206.9)	(137.5)	278.6	(65.8)
Net transfers between stages and repayments[1]	(1,067.0)	543.8	251.9	(271.3)
Repayments while stage remained unchanged and final repayments	(5,241.7)	(354.2)	(157.8)	(5,753.7)
Changes to model methodologies	(33.3)	31.6	1.8	0.1
Write offs	(2.7)	(22.5)	(67.7)	(92.9)
At 31 July 2022	7,627.0	1,158.9	358.6	9,144.5

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

The gross carrying amount before modification of loans and advances to customers which were modified during the year while in Stage 2 or 3 was £152.3 million (2022: £288.3 million). No gain or loss (2022: £nil) was recognised as a result of these modifications. The gross carrying amount at 31 July 2023 of modified loans and advances to customers which transferred from Stage 2 or 3 to Stage 1 during the year was £14.8 million (31 July 2022: £110.2 million).

	Stage 1 £ million	Stage 2 £ million	Stage 3[1] £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 1 August 2022	**50.3**	**78.3**	**157.0**	**285.6**
New financial assets originated	**46.7**	**–**	**–**	**46.7**
Transfers to Stage 1	**1.2**	**(7.7)**	**(1.0)**	**(7.5)**
Transfers to Stage 2	**(8.7)**	**27.7**	**(5.7)**	**13.3**
Transfers to Stage 3	**(11.2)**	**(53.3)**	**227.2**	**162.7**
Net remeasurement of expected credit losses arising from transfers between stages and repayments[2]	**(18.7)**	**(33.3)**	**220.5**	**168.5**
Repayments and ECL movements while stage remained unchanged and final repayments	**(17.8)**	**(10.7)**	**(20.0)**	**(48.5)**
Changes to model methodologies	**(2.2)**	**(1.9)**	**2.3**	**(1.8)**
Charge to the income statement	**8.0**	**(45.9)**	**202.8**	**164.9**
Write offs	**(0.2)**	**(0.2)**	**(69.5)**	**(69.9)**
At 31 July 2023	**58.1**	**32.2**	**290.3**	**380.6**

1. A significant proportion of the Stage 3 movements is driven by Novitas with £147.6 million of transfers to Stage 3 and £11.9 million of write-offs.
2. 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	37.7	–	–	37.7
Transfers to Stage 1	1.3	(12.2)	(1.7)	(12.6)
Transfers to Stage 2	(17.1)	59.4	(9.9)	32.4
Transfers to Stage 3	(9.0)	(28.8)	123.2	85.4
Net remeasurement of expected credit losses arising from transfers between stages and repayments[1]	(24.8)	18.4	111.6	105.2
Repayments and ECL movements while stage remained unchanged and final repayments	(37.6)	(0.7)	(9.8)	(48.1)
Changes to model methodologies	(2.2)	(1.1)	1.9	(1.4)
Charge to the income statement	(26.9)	16.6	103.7	93.4
Write offs	(2.8)	(22.5)	(62.9)	(88.2)
At 31 July 2022	50.3	78.3	157.0	285.6

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

	2023 £ million	2022 £ million
Impairment losses relating to loans and advances to customers:		
Charge to income statement arising from movement in impairment provisions	**164.9**	93.4
Amounts written off directly to income statement, net of recoveries and other costs	**39.4**	8.5
	204.3	101.9
Impairment (gains)/losses relating to other financial assets	**(0.2)**	1.4
Impairment losses on financial assets recognised in income statement	**204.1**	103.3

Impairment losses on financial assets of £204.1 million (2022: £103.3 million) include £116.8 million in relation to Novitas (2022: £60.7 million).

The contractual amount outstanding at 31 July 2023 on financial assets that were written off during the period and are still subject to recovery activity is £32.3 million (31 July 2022: £17.3 million).

(e) Finance lease and hire purchase agreement receivables

	31 July 2023 £ million	31 July 2022 £ million
Net loans and advances to customers comprise		
Hire purchase agreement receivables	**3,671.3**	3,725.1
Finance lease receivables	**803.9**	694.4
Other loans and advances	**4,779.8**	4,439.4
At 31 July	**9,255.0**	8,858.9

The following table shows a reconciliation between gross investment in finance lease and hire purchase agreement receivables included in the net loans and advances to customers table above to present value of minimum lease and hire purchase payments.

	31 July 2023 £ million	31 July 2022 £ million
Gross investment in finance leases and hire purchase agreement receivables due:		
One year or within one year	**1,849.3**	1,740.2
>One to two years	**2,002.8**	1,927.1
>Two to three years	**972.5**	943.9
>Three to four years	**438.5**	475.1
>Four to five years	**115.5**	123.7
More than five years	**41.1**	36.2
	5,419.7	5,246.2
Unearned finance income	**(820.7)**	(731.4)
Present value of minimum lease and hire purchase agreement payments	**4,599.0**	4,514.8
Of which due:		
One year or within one year	**1,567.2**	1,496.9
>One to two years	**1,691.7**	1,654.4
>Two to three years	**830.2**	815.7
>Three to four years	**375.3**	410.0
>Four to five years	**99.2**	106.6
More than five years	**35.4**	31.2
	4,599.0	4,514.8

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £7,167.5 million (2022: £7,443.8 million). The average effective interest rate on finance leases approximates to 11.0% (2022: 9.9%). The present value of minimum lease and hire purchase agreement payments reflects the fair value of finance lease and hire purchase agreement receivables before deduction of impairment provisions.

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	**15.2**	**–**	**–**	**15.2**
Certificates of deposit	**–**	**–**	**–**	**–**
Sovereign and central bank debt	**–**	**186.1**	**–**	**186.1**
Covered bonds	**–**	**106.3**	**–**	**106.3**
At 31 July 2023	**15.2**	**292.4**	**–**	**307.6**

	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	12.4	–	–	12.4
Certificates of deposit	–	–	185.0	185.0
Sovereign and central bank debt	–	415.4	–	415.4
Covered bonds	–	–	–	–
At 31 July 2022	12.4	415.4	185.0	612.8

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

	2023 £ million	2022 £ million
Sovereign and central bank debt at 1 August	**415.4**	192.5
Additions	**269.7**	335.3
Redemptions	**(459.2)**	(80.0)
Currency translation differences	**(0.3)**	(1.2)
Movement in value	**(39.5)**	(31.2)
Sovereign and central bank debt at 31 July	**186.1**	415.4

Movements on the book value of covered bonds comprise:

	2023 £ million	2022 £ million
Covered bonds at 1 August	**–**	–
Additions	**105.4**	–
Movement in value	**0.9**	–
Covered bonds at 31 July	**106.3**	–

8. Equity Shares

	31 July 2023 £ million	31 July 2022 £ million
Long trading positions	**27.8**	27.1
Other equity shares	**1.5**	1.3
	29.3	28.4

9. Intangible Assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Group total £ million
Cost				
At 1 August 2021	142.9	272.8	51.0	466.7
Additions	–	56.0	–	56.0
Disposals	(0.3)	(29.3)	–	(29.6)
At 31 July 2022	142.6	299.5	51.0	493.1
Additions	–	50.5	–	50.5
Disposals	(0.1)	(16.8)	–	(16.9)
At 31 July 2023	**142.5**	**333.2**	**51.0**	**526.7**
Amortisation				
At 1 August 2021	47.9	142.4	43.8	234.1
Amortisation charge for the year	–	34.6	2.0	36.6
Disposals	–	(29.6)	–	(29.6)
At 31 July 2022	47.9	147.4	45.8	241.1
Amortisation charge for the year	–	36.1	1.5	37.6
Disposals	–	(15.7)	–	(15.7)
At 31 July 2023	**47.9**	**167.8**	**47.3**	**263.0**
Net book value at 31 July 2023	**94.6**	**165.4**	**3.7**	**263.7**
Net book value at 31 July 2022	94.7	152.1	5.2	252.0
Net book value at 1 August 2021	95.0	130.4	7.2	232.6

Software includes assets under development of £88.8 million (31 July 2022: £71.1 million).

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

In the 2023 financial year, £1.5 million (2022: £2.0 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £36.1 million (2022: £34.6 million) of the amortisation charge is included in administrative expenses shown in the consolidated income statement.

Impairment tests for goodwill

At 31 July 2023, goodwill has been allocated to eight (31 July 2022: eight) individual cash generating units ("CGUs"). Six (31 July 2022: six) are within the Banking division, one is the Asset Management division and the remaining one is Winterflood in the Securities division. Goodwill is allocated to the CGU in which the historical acquisition occurred and hence the goodwill originated. Further information on the performance of each division can be found in Note 2 'Segmental Analysis'. Goodwill impairment reviews are carried out annually by assessing the recoverable amount of the group's CGUs, which is the higher of fair value less costs to sell and value in use. The recoverable amounts for all CGUs were measured based on value in use.

A value in use calculation uses discounted cash flow forecasts based on the most recent three-year plans to determine the recoverable amount of each CGU. The key assumptions underlying management's three-year plans, which are based on past experience and forecast market conditions, are expected loan book growth rates and net return on loan book in the Banking CGUs, expected total client asset growth rate and revenue margin in the Asset Management CGU and expected market-making conditions in the Winterflood CGU.

Beyond the group's three-year planning horizon, estimates of future cash flows in the fourth and fifth years are made by management with due consideration given to the key assumptions set out above. After the fifth year, a terminal value is calculated using an annual growth rate of 2%, which is consistent with the UK government's long-term inflation target. In the prior year, management applied a more prudent 0% annual growth rate. The cash flows are discounted using a pre-tax estimated weighted average cost of capital. The methodology used to derive the discount rate for Winterflood was refined during the year. The discount rates used differ across the CGUs, reflecting the nature of the CGUs' business and the current market returns appropriate to the CGU that investors would require for a similar asset.

At 31 July 2023, the results of the review indicate there is no goodwill impairment. The inputs used in the value in use calculations are sensitive primarily to changes in the assumptions for future cash flows, discount rates and long-term growth rates. Having performed stress tested value in use calculations, the group believes that any reasonably possible change in the key assumptions which have been used would not lead to the carrying value of any CGU to exceed its recoverable amount.

Winterflood recorded lower profits in the year driven by difficult market conditions. The business has a long track record of trading profitably in a range of conditions and is well placed to take advantage when investor confidence recovers. Nevertheless, future market conditions remain uncertain and as such the value in use calculation for this CGU has been identified as a key source of estimation uncertainty as set out in Note 1.

The most significant uncertainty within the Winterflood value in use calculation relates to the expected future cash flows. A reduction in the year 4 and 5 cash flows to the level of year 3, combined with a further 40% reduction in the expected future cash flows in year 5 and all subsequent years, would result in a recoverable amount that is marginally above the carrying value of the CGU. This scenario is a demonstration of sensitivity only and is not considered probable by management.

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[1] £ million	Total £ million
Group						
Cost						
At 1 August 2021	25.2	74.8	360.7	0.2	71.7	532.6
Additions	0.6	4.3	67.8	–	13.6	86.3
Disposals	(4.9)	(16.5)	(30.3)	–	(6.8)	(58.5)
At 31 July 2022	20.9	62.6	398.2	0.2	78.5	560.4
Additions	1.0	7.5	93.1	0.2	24.7	126.5
Disposals	(0.4)	(4.6)	(42.2)	–	(9.2)	(56.4)
At 31 July 2023	**21.5**	**65.5**	**449.1**	**0.4**	**94.0**	**630.5**
Depreciation						
At 1 August 2021	15.7	47.5	137.8	0.1	21.6	222.7
Depreciation and impairment charges for the year	2.2	7.6	40.6	0.1	13.2	63.7
Disposals	(4.9)	(18.2)	(20.2)	–	(5.2)	(48.5)
At 31 July 2022	13.0	36.9	158.2	0.2	29.6	237.9
Depreciation and impairment charges for the year	2.4	8.3	45.5	–	14.4	70.6
Disposals	(0.4)	(4.3)	(25.8)	–	(4.6)	(35.1)
At 31 July 2023	**15.0**	**40.9**	**177.9**	**0.2**	**39.4**	**273.4**
Net book value at 31 July 2023	**6.5**	**24.6**	**271.2**	**0.2**	**54.6**	**357.1**
Net book value at 31 July 2022	7.9	25.7	240.0	–	48.9	322.5
Net book value at 1 August 2021	9.5	27.3	222.9	0.1	50.1	309.9

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

There was a gain of £3.3 million from the sale of assets held under operating leases for the year ended 31 July 2023 (2022: £3.2 million).

11. Settlement Balances and Short Positions

	31 July 2023 £ million	31 July 2022 £ million
Settlement balances	**686.0**	780.7
Short positions in:		
Debt securities	**3.5**	7.5
Equity shares	**6.4**	7.9
	9.9	15.4
	695.9	796.1

12. Financial Liabilities

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
Deposits by banks	**10.3**	**43.6**	**88.0**	**–**	**–**	**–**	**141.9**
Deposits by customers	**175.1**	**1,836.4**	**3,745.9**	**1,305.0**	**662.1**	**–**	**7,724.5**
Loans and overdrafts from banks	**31.8**	**20.1**	**228.0**	**262.0**	**110.0**	**–**	**651.9**
Debt securities in issue	**–**	**30.4**	**228.7**	**197.8**	**1,261.8**	**293.9**	**2,012.6**
At 31 July 2023	**217.2**	**1,930.5**	**4,290.6**	**1,764.8**	**2,033.9**	**293.9**	**10,530.9**

	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	6.1	52.0	102.4	–	–	–	160.5
Deposits by customers	120.9	1,645.2	3,615.6	1,058.8	329.9	–	6,770.4
Loans and overdrafts from banks	12.1	10.7	–	228.0	371.9	–	622.7
Debt securities in issue	–	26.7	855.3	249.4	567.0	362.5	2,060.9
At 31 July 2022	139.1	1,734.6	4,573.3	1,536.2	1,268.8	362.5	9,614.5

As outlined below at 31 July 2023 the group accessed £600.0 million (31 July 2022: £600.0 million) and £5.0 million (31 July 2022: £nil) cash under the Bank of England's Term Funding Scheme with Additional Incentives for SMEs and Indexed Long-Term Repo respectively. Cash from these schemes is included within loans and overdrafts from banks. Residual maturities of the schemes are as follows:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
At 31 July 2023	**–**	**7.6**	**228.0**	**262.0**	**110.0**	**–**	**607.6**
At 31 July 2022	–	0.6	–	228.0	372.0	–	600.6

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") and the Indexed Long-Term Repo ("ILTR").

Under these schemes, asset finance loan receivables of £863.4 million (31 July 2022: £626.1 million), UK gilts with a market value of £nil (31 July 2022: £72.6 million), UK T-Bills with a market value of £nil (31 July 2022: £144.3 million) and retained notes relating to Motor Finance loan receivables of £83.4 million (31 July 2022: £24.3 million) were positioned as collateral with the Bank of England, against which £600.0 million (31 July 2022: £600.0 million) of cash was drawn from the TFSME and £5.0 million (31 July 2022: £nil) from the ILTR.

The term of the TFSME transactions is four years from the date of each drawdown but the group may choose to repay earlier at its discretion. The term of the ILTR transaction is six months and cannot be repaid earlier. 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 £1,436.3 million (31 July 2022: £1,626.8 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £1,187.4 million (31 July 2022: £1,156.0 million restated). This includes the £83.4 million (31 July 2022: £24.3 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 on its consolidated balance sheet.

13. Capital – unaudited

	31 July 2023 £ million	31 July 2022 £ million
CET1 capital		
Shareholders' equity per balance sheet	**1,644.9**	1,657.5
Adjustments to CET1 capital		
Intangible assets, net of associated deferred tax liabilities	**(262.8)**	(250.7)
Foreseeable dividend[1]	**(67.0)**	(65.6)
Investment in own shares	**(34.4)**	(21.7)
Pension asset, net of associated deferred tax liabilities	**(1.0)**	(5.3)
Prudent valuation adjustment	**(0.4)**	(0.5)
Insufficient coverage for non-performing exposures[2]	**(0.4)**	–
IFRS 9 transitional arrangements[3]	**31.9**	83.0
CET1 capital[4]	**1,310.8**	1,396.7
Tier 2 capital – subordinated debt	**200.0**	200.0
Total regulatory capital[4]	**1,510.8**	1,596.7
RWAs (notional)		
Credit and counterparty credit risk	**8,655.4**	8,389.0
Operational risk[5]	**1,084.0**	1,085.8
Market risk[5]	**108.2**	116.5
	9,847.6	9,591.3
CET1 capital ratio[4]	**13.3%**	14.6%
Total capital ratio[4]	**15.3%**	16.6%

1. Under CRR Article 26, a deduction has been recognised at 31 July 2023 and 31 July 2022 for a foreseeable dividend, being the proposed final dividend as set out in note 5 to the financial statements.
2. In line with CRR, effective on 1 January 2022, the CET1 capital includes a regulatory deduction where there is insufficient coverage for non-performing exposures, amounting to £0.4 million at 31 July 2023 (31 July 2022: £0.0 million).
3. The group has elected to apply IFRS 9 transitional arrangements for 31 July 2023, which allow the capital impact of expected credit losses to be phased in over the transitional period.
4. Shown after applying IFRS 9 transitional arrangements and the CRR transitional and qualifying own funds arrangements in force at the time. Without their application, at 31 July 2023 the CET1 capital ratio would be 13.0% and total capital ratio 15.1% (31 July 2022: CET1 capital ratio 13.8% and total capital ratio 15.9%).
5. Operational and market risk include an adjustment at 8% in order to determine notional RWAs.

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

	2023 £ million	2022 £ million
CET1 capital at 1 August	**1,396.7**	1,439.3
Profit in the period attributable to shareholders	**81.1**	165.2
Dividends paid and foreseen	**(100.5)**	(98.4)
Change in software assets treatment[1]	**–**	(50.2)
IFRS 9 transitional arrangements	**(51.1)**	(34.8)
(Increase)/decrease in intangible assets, net of associated deferred tax liabilities	**(12.1)**	(19.7)
Other movements in reserves recognised for CET1 capital	**(7.3)**	0.1
Other movements in adjustments from CET1 capital	**4.0**	(4.8)
CET1 capital at 31 July	**1,310.8**	1,396.7

1. Upon implementation of CRR, effective on 1 January 2022, the CET1 ratio no longer included the benefit related to software assets which were previously exempt from the deduction requirement for intangible assets from CET1.

14. Defined Benefit Pension Scheme

During the year, the group's only defined benefit pension scheme ("the scheme") entered into a buy-in transaction with an insurance company covering all members of the scheme. A buy-in is a bulk annuity policy that matches the scheme's assets and liabilities. It represents a significant de-risking of the investment portfolio and hence a significant reduction in the group's long-term exposure to pension funding risk. As a result of this transaction, the pension surplus on the group's balance sheet has fallen to £1.3 million (31 July 2022: £7.2 million) relating to the cash held by the scheme, with the fair value of the insurance policy matched to the fair value of the scheme's liabilities. The loss of the pension surplus represents the one-off premium paid for the insurance policy and is recognised within other comprehensive income.

15. Contingent Liabilities

Motor Finance commission arrangements

The Group has received a number of complaints, some of which are with the Financial Ombudsman Service, and is subject to a number of claims through the courts regarding historic commission arrangements with intermediaries on its Motor Finance products. This follows the FCA's Motor Market Review in 2019. Depending on the outcome of the court's rulings and/or regulatory findings on the matter, these complaints and claims may give rise to a potential future obligation to compensate customers. It is not currently possible to estimate the financial impact, if any, or scope of these or any future related claims.

16. Consolidated Cash Flow Statement Reconciliation

	2023 £ million	2022 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit before tax	**112.0**	232.8
Tax paid	**(7.4)**	(63.4)
Depreciation, amortisation and impairment	**108.2**	100.3
Impairment losses on financial assets	**204.1**	103.3
(Increase)/decrease in:		
Interest receivable and prepaid expenses	**(6.8)**	19.8
Net settlement balances and trading positions	**(11.4)**	17.2
Net loans from money brokers against stock advanced	**15.6**	2.7
Decrease in interest payable and accrued expenses	**(16.5)**	(32.2)
Net cash inflow from trading activities	**397.8**	380.5
Cash (outflow)/inflow arising from changes in:		
Loans and advances to banks not repayable on demand	**(21.1)**	(5.3)
Loans and advances to customers	**(584.3)**	(515.0)
Assets let under operating leases	**(73.2)**	(54.5)
Certificates of deposit	**185.0**	79.7
Sovereign and central bank debt	**191.2**	(255.3)
Covered bonds	**(105.4)**	–
Deposits by banks	**(22.1)**	11.8
Deposits by customers	**942.5**	142.7
Loans and overdrafts from banks	**29.2**	110.0
Debt securities in issue (net)	**14.4**	270.5
Derivative financial instruments (net)	**70.4**	–
Other assets less other liabilities	**(3.0)**	(6.4)
Net cash inflow from operating activities	**1,021.4**	158.7
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and non-controlling interests		
Cash consideration paid	**(0.5)**	(0.1)
(c) Analysis of net cash inflow in respect of the sale of subsidiaries		
Cash consideration received	**–**	0.1
(d) Analysis of cash and cash equivalents[1]		
Cash and balances at central banks	**1,918.4**	1,236.0
Loans and advances to banks	**290.9**	147.0
At 31 July	**2,209.3**	1,383.0

1. Excludes £58.0 million (2022: £37.1 million) of Bank of England and other cash reserve accounts.

During the year ended 31 July 2023, the non-cash changes on debt financing amounted to £0.9 million (31 July 2022: £9.6 million) arising largely from interest accretions and fair value hedging movements.

17. Fair Value of Financial Assets and Liabilities

The fair values of the group's subordinated loan capital and debt securities in issue are set out below.

	31 July 2023		31 July 2022	
	Fair value £ million	**Carrying value £ million**	Fair value £ million	Carrying value £ million
Subordinated loan capital	**165.8**	**174.9**	180.0	186.5
Debt securities in issue	**2,008.0**	**2,012.6**	2,071.4	2,060.9

The fair value of gross loans and advances to customers at 31 July 2023 is estimated to be £9,046.2 million (carrying value: £9,255.0 million). The fair value of deposits by customers is estimated to be £7,668.7 million (carrying value: £7,724.5 million). These estimates are based on highly simplified assumptions and inputs and may differ to actual amounts received or paid. The differences between fair value and carrying value are not considered to be significant, and are consistent with management's expectations given the nature of the Banking business and the short average tenor of the instruments. However, the differences have increased in comparison to the prior year in line with market interest rates.

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

	Level 1 £ million	**Level 2 £ million**	**Level 3 £ million**	**Total £ million**
At 31 July 2023				
Assets				
Debt securities:				
Long trading positions in debt securities	**13.6**	**1.6**	**–**	**15.2**
Sovereign and central bank debt	**186.1**	**–**	**–**	**186.1**
Covered bonds	**106.3**	**–**	**–**	**106.3**
Equity shares	**3.9**	**25.1**	**0.3**	**29.3**
Derivative financial instruments	**–**	**77.4**	**11.1**	**88.5**
Contingent consideration	**–**	**–**	**2.0**	**2.0**
	309.9	**104.1**	**13.4**	**427.4**
Liabilities				
Short positions:				
Debt securities	**2.3**	**1.2**	**–**	**3.5**
Equity shares	**1.7**	**4.6**	**0.1**	**6.4**
Derivative financial instruments	**–**	**184.7**	**11.2**	**195.9**
Contingent consideration	**–**	**–**	**2.8**	**2.8**
	4.0	**190.5**	**14.1**	**208.6**

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2022				
Assets				
Debt securities:				
Long trading positions in debt securities	11.0	1.4	–	12.4
Sovereign and central bank debt	415.4	–	–	415.4
Covered bonds	–	–	–	–
Equity shares	4.1	24.0	0.3	28.4
Derivative financial instruments	–	71.2	–	71.2
Contingent consideration	–	–	1.7	1.7
	430.5	96.6	2.0	529.1
Liabilities				
Short positions:				
Debt securities	5.8	1.7	–	7.5
Equity shares	2.2	5.6	0.1	7.9
Derivative financial instruments	–	89.2	–	89.2
Contingent consideration	–	–	3.0	3.0
	8.0	96.5	3.1	107.6

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 2022.

Instruments classified as Level 3 predominantly comprise over-the-counter derivatives, which is new this year, and contingent consideration payable and receivable in relation to the acquisition and disposal of subsidiaries.

The valuation of Level 3 derivatives is similar to Level 2 derivatives and includes the use of discounted future cash flow models, with the most significant input into these models being interest rate yield curves developed from quoted rates. The fair value of contingent consideration is determined on a discounted expected cash flow basis. The group believes that there is no reasonably possible change to inputs used in the valuation of these positions which would have a material effect on the group's consolidated income statement.

During the year, £1.6 million of derivative financial assets and £1.8 million of derivative financial liabilities were transferred from Level 2 to 3. There were no other significant transfers between Level 1, 2 and 3 in 2023 and 2022.

There were no overall gains or losses recognised in the consolidated income statement relating to level 3 instruments held at the year end (2022: £0.2 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.

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

The Banking division offers 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 LTV or overpayments) and refinancing, which may incorporate an extension of the loan tenor and capitalisation of arrears. Furthermore, other forms of forbearance such as moratorium, covenant waivers and rate concessions are also offered.

Forbearance analysis

At 31 July 2023 the gross carrying amount of exposures with forbearance measures was £214.6 million (31 July 2022: £208.9 million). The key driver of this increase has been movement of high-value individual exposures in Property and higher volumes of business-as-usual forbearance in our Motor Finance business resulting from enduring cost-of-living pressures on customers.

The reduction in volumes across all segments is driven by the continued run-off of Covid-19 related concessions, lower volumes in Premium Finance related to short loan tenors and general resilience across all portfolios.

As the number of customers supported via Covid-19 related concessions has continued to reduce (noting no new Covid-19 forbearance arrangements have been offered in the period), the low outstanding volumes have been consolidated into the single forbearance total in the following analyses.

An analysis of forborne loans is shown in the table below:

	Gross loans and advances to customers £ million	Forborne loans £ million	Forborne loans as a percentage of gross loans and advances to customers %	Provision on forborne loans £ million	Number of customers supported
31 July 2023	**9,635.6**	**214.6**	**2.2%**	**56.1**	**6,996**
31 July 2022	9,144.5	208.9	2.3%	44.3	11,043

The following is a breakdown of forborne loans by segment:

	31 July 2023 £ million	31 July 2022 £ million
Commercial	**38.0**	62.3
Retail	**28.8**	23.0
Property	**147.8**	123.6
	214.6	208.9

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

	31 July 2023 Number of customers supported	31 July 2022 Number of customers supported
Commercial	**243**	518
Retail	**6,700**	10,467
Property	**53**	58
	6,996	11,043

The following is a breakdown of forborne loans by concession type:

	31 July 2023 £ million	31 July 2022 £ million
Extension outside terms	**105.8**	113.0
Refinancing	**10.4**	3.0
Moratorium	**66.1**	69.9
Other modifications	**32.3**	23.0
	214.6	208.9

Government lending schemes

Over the pandemic period, following accreditation, customers' facilities were offered under the UK government-introduced Coronavirus Business Interruption Loan Scheme ("CBILS"), the Coronavirus Large Business Interruption Loan Scheme ("CLBILS") and the Bounce Back Loan Scheme ("BBLS"), thereby enabling the Banking division to maximise its support to small businesses. At 31 July 2023, there are 4,364 (31 July 2022: 5,445) remaining facilities, with a residual balance of £456.3 million (31 July 2022: £747.5 million) following commencement of repayments across the Property, Asset Finance & Leasing and Invoice & Speciality Finance businesses.

The Banking division also received accreditation to offer products under the Recovery Loan Scheme ("RLS"), and schemes in the Republic of Ireland. Applications for facilities under phase 2 of the RLS closed in June 2022 and recently facilities have been offered under the new RLS phase 3. At 31 July 2023, there are 943 (31 July 2022: 560) live facilities, with balances of £276.2 million (31 July 2022: £166.0 million), and a further 58 (31 July 2022: 73) approved facilities with limits of £14.3 million (31 July 2022: £15.6 million)

The Banking division maintains a regular reporting cycle of these facilities to monitor performance. To date, a number of claims have been made and payments received under the government guarantee.

19. Interest rate risk

The group recognises three main sources of interest rate risk in the banking book ("IRRBB") which could adversely impact future income or the value of the balance sheet:

- repricing risk – the risk presented by assets and liabilities that reprice at different times and rates;
- embedded optionality risk – the risk presented by contract terms embedded into certain assets and liabilities; and
- basis risk – the risk presented by a mismatch in the reference interest rate for assets and liabilities.

IRRBB is assessed and measured by applying key behavioural and modelling assumptions including, but not limited to, those related to fixed rate loans subject to prepayment risk, the behaviour of non-maturity assets and liabilities, the treatment of own equity and the expectation of embedded interest rate options. This assessment is performed across a range of regulatory prescribed and internal interest rate shock scenarios approved by the bank's Asset and Liability Committee.

Two measures are used for measuring IRRBB, namely Earnings at Risk ("EaR") and Economic Value ("EV"):

- EaR measures short-term impacts to earnings, highlighting any earnings sensitivity should rates change unexpectedly.
- EV measures longer-term earnings sensitivity due to rate changes, highlighting the potential future sensitivity of earnings, and any risk to capital.

No material exposure exists in the other parts of the group, and accordingly the analysis below relates to the Banking division and company.

EaR impact

The table below sets out the assessed impact on net interest income over a 12-month period from interest rate changes. The results shown are for an instantaneous and parallel change in interest rates at 31 July 2023:

	31 July 2023 £ million	31 July 2022 £ million
0.5% increase	**4.5**	4.3
2.5% increase	**22.6**	22.3
0.5% decrease	**(4.5)**	(1.0)
2.5% decrease	**(22.8)**	16.7

EV impact

The table below sets out the assessed impact on our base case EV, which measures the impact on equity value of an instantaneous and parallel change in interest rates at 31 July 2023:

	31 July 2023 £ million	31 July 2022 £ million
0.5% increase	**4.4**	1.5
2.5% increase	**21.5**	8.4
0.5% decrease	**(4.4)**	(1.2)
2.5% decrease	**(21.9)**	3.3

The group's EV at 31 July 2023 reflects its policy to ensure exposure to interest rate shocks is managed within the group's risk appetites. In a rising rate environment, the distance to the interest rate floors increases and so the benefit of the floors on the group's lending decreases. This explains the movement seen for the parallel rate up and down 2.5% scenarios. The EV measure is a combination of our repricing profile, which is positively correlated to rising rates, offset partially by embedded optionality to cover interest rate floors within the bank's lending and borrowing activities. The prior year comparatives have been restated to include EV risk within the company as compared to Bank only in prior years.

Cautionary Statement

Certain statements included or incorporated by reference within this report may constitute “forward-looking statements” in respect of the group’s operations, performance, prospects and/or financial condition. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. 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. There are also a number of factors that could cause actual future operations, performance, financial conditions, results or developments to differ materially from the plans, goals and expectations expressed or implied by these forward-looking statements and forecasts. These factors include, but are not limited to, those contained in this report. 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.

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