Close Brothers

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Registered in England No. 520241

Preliminary Results for the year ended 31 July 2020

22 September 2020

Highlights

- The group delivered a resilient performance overall, reflecting the disciplined application of our business model in a challenging environment
- The loan book remained broadly stable at £7.62 billion (31 July 2019: £7.65 billion), reflecting an increase in activity since the easing of lockdown restrictions in June and July
- While we remained focused on our pricing and underwriting discipline, income in the year was impacted by lower activity levels and forbearance measures, resulting in a net interest margin of 7.5% (2019: 7.9%)
- Impairment charges increased to £183.7 million (2019: £48.5 million) primarily reflecting the forward-looking recognition of impairment charges under IFRS 9 to incorporate the impact of Covid-19, resulting in a full year bad debt ratio of 2.3% (2019: 0.6%)
- Adjusted operating profit in the Banking division decreased 61% to £99.2 million (2019: £253.7 million) primarily due to higher impairment charges
- The Asset Management division generated net inflows of 9% as we continued to attract client assets and new hires despite the challenging market conditions. Adjusted operating profit decreased 6% to £20.4 million (2019: £21.8 million)
- Winterflood delivered an excellent trading performance, making the most of significantly higher volumes since the Covid-19 outbreak and achieved operating profit of £47.9 million (2019: £20.0 million), up 140%
- The group maintained a strong capital, funding and liquidity position. Our common equity tier 1 ("CET1") capital ratio of 14.1% (31 July 2019: 13.0%) provides over 600bps of headroom above the minimum requirement
- The board is proposing a 40.0p dividend in respect of the full financial year. This reflects the board's confidence in the group's business model and strong financial position, notwithstanding the current uncertain environment

Key Financials[1]	Full year 2020	Full year 2019	Change %
Adjusted operating profit[2]	**£144.0m**	£270.5m	(47)
Operating profit before tax	**£140.9m**	£264.7m	(47)
Adjusted basic earnings per share	**74.5p**	136.7p	(46)
Basic earnings per share	**72.8p**	133.5p	(45)
Ordinary dividend per share	**40.0p**	66.0p	(39)
Return on opening equity	**8.0%**	15.7%	
Return on average tangible equity	**9.4%**	17.9%	
Net interest margin	**7.5%**	7.9%	
Bad debt ratio	**2.3%**	0.6%	

	31 July 2020	31 July 2019	Change %
Loan book	**£7.6bn**	£7.6bn	(0.4)
Total client assets	**£13.7bn**	£13.3bn	3
CET1 capital ratio	**14.1%**	13.0%	
Total capital ratio	**16.3%**	15.2%	

1 Please refer to definitions on pages 25 to 28.
2 Adjusted operating profit is stated before amortisation of intangible assets on acquisition of £3.1 million (2019: £5.8 million) and profit from discontinued operations of £nil (2019: £0.8 million).

Adrian Sainsbury, Chief Executive, said:

“We entered the current crisis in a strong position and the group’s agility and operational resilience have allowed us to respond effectively in a rapidly changing environment, as we have introduced new ways of working to protect our colleagues and maximise assistance for customers and clients during this time.

The impact of Covid-19 has been felt across our businesses and the outlook is still uncertain, but the fundamental strengths of Close Brothers remain unchanged. As a through-the-cycle provider of funding, wealth management and securities trading services to individuals and small businesses, our role remains as important as ever. Our resilient model and the experience and expertise of our people leave us well positioned to respond to opportunities and to continue to support our customers and clients into the future.’’

Enquiries

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A pre-recorded presentation to analysts and investors will be held today at 9.30 am BST followed by a live Q&A session. A webcast and dial-in facility will be available by registering at https://webcasts.closebrothers.com/results/PrelimResults2020/

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; any exceptional items, which are non-recurring and do not reflect trading performance; and discontinued operations.

Discontinued operations relate to the unsecured retail point of sale finance business, which was sold on 1 January 2019.

Inside information

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014. For the purposes of Article 2 of Commission Implementing Regulation (EU) 2016/1055, this announcement is made by Mike Morgan, Group Finance Director, for Close Brothers Group plc.

About Close Brothers

Close Brothers is a leading UK merchant banking group providing lending, deposit taking, wealth management services and securities trading. We employ over 3,500 people, principally in the UK. Close Brothers Group plc is listed on the London Stock Exchange and is a member of the FTSE 250.

BUSINESS OVERVIEW

Our purpose is to help the people and businesses of Britain thrive over the long term, and in the face of Covid-19, we have focused on maximising our support for colleagues, customers and partners.

Our prudent and resilient business model has served us well in challenging times over many years. Whilst Covid-19 has had a significant impact upon consumers, businesses and the economy, as well as on our own financial performance, we have successfully adapted to these unique circumstances and our strong operational resilience has allowed the group to continue to operate effectively. Our loan book is predominantly secured and conservatively underwritten, with a deep expertise and relationship driven approach present throughout our lending, trading and investment management businesses. We have a strong capital, funding and liquidity position and are well placed, both operationally and financially, to navigate this rapidly evolving environment.

Throughout this period, we have continued to monitor and adhere to regulatory guidance in response to Covid-19. Our risk management processes remain robust, and our internal controls ensure that we remain confident in our management of the impact upon our business activities.

Supporting our colleagues

The safety and wellbeing of our colleagues is of the utmost importance to us, and we have supported them through flexible working arrangements, seeking regular feedback and making adjustments so that they can conduct their roles safely. Throughout this period, we have focused on maintaining close contact with our employees, with a series of regular surveys, internal communications and opportunities for staff to engage with management and each other. We take great care to support the mental wellbeing of our colleagues, particularly during the unique circumstances of recent months, and have provided virtual classes and webinars on topics such as emotional agility, mental health, nutrition and remote working.

A number of our colleagues have now returned to work on-site or begun to meet customers in person where it is safe to do so, but the majority remain successfully working from home, where our agile deployment of technology solutions has enabled them to perform their roles with minimal disruption and to serve our customers and clients effectively. At the peak of the UK lockdown over 95% of our staff were set up to work from home. We have not made use of the Coronavirus Job Retention Scheme as none of our employees were furloughed during this period.

Supporting our customers

Throughout this time, we have maintained regular contact with our customers and increased their choice of channels for engagement with us, while our technology has ensured speed and simplicity in responding to their needs. Investments in technology and sales tools in recent years have enabled our businesses to adopt a remote sales and servicing model, allowing them to continue to reach consumers and small businesses when face-to-face contact has not been possible.

We have a long history of helping individuals and SMEs across the UK, and have introduced a range of forbearance and other measures to assist customers and clients who find themselves in difficulty. The broad range of concessions we offer reflects our diverse range of products, sectors and customers, and we continue to tailor our support to ensure it is most appropriate for them.

Our Commercial and Property businesses account for the vast majority of the value of our forborne loans, and we remain in close contact with customers who have been granted forbearance to discuss their position and identify the most appropriate financing solution for them. While it is still too early to know the full impact of Covid-19, an increasing number of these customers are now beginning to resume payments, or return to normal contractual terms.

Segment	Typical forbearance offered
Commercial	Capital repayment holidays with fees and charges waived, or flexing of repayments percentages and overpayments on invoice discounting and factoring facilities
Retail	Payment deferrals of varying durations, with fees and charges waived and no interest compounded on the deferred balance, and with no impact on customer credit records
Property	Fee-free payment term extensions for development loans and capital repayment holidays for non-development loans

Government support schemes

In order to maximise our assistance for small businesses we have become accredited to lend under the support schemes introduced by the UK government, including the Coronavirus Business Interruption Loan Scheme ("CBILS"), the Coronavirus Large Business Interruption Loan Scheme ("CLBILS") and the Bounce Back Loan Scheme ("BBLS"). As at 31 July 2020, we had approved over £350 million of lending across 1,430 loans in our Commercial and Property businesses, with a strong pipeline of applications. The vast majority of lending is via CBILS under which we are accredited to lend up to £750 million, with less than £2 million lent under the BBLS scheme.

Dividend

On 2 April 2020 the board announced that it had decided to cancel the 2020 interim dividend, which would have been paid on 22 April 2020, recognising the significant challenges faced by businesses and individuals and consistent with our purpose of helping the people and businesses of Britain.

Following a resilient financial and operational performance in the second half, the board is proposing a dividend of 40.0p per share in respect of the full financial year. This reflects the board's confidence in the group's business model and strong financial position, notwithstanding the current uncertain environment.

While dividend decisions in the 2020 financial year have reflected the unprecedented uncertainty caused by Covid-19, our aim remains to return to a long-term policy of progressive and sustainable dividend growth in future. Dividend decisions will continue to balance returns to shareholders with maintaining a strong financial position, flexibility to grow and invest, and the ability to meet our responsibilities to all stakeholders.

PERFORMANCE OVERVIEW

The group's resilient performance for the year ending 31 July 2020 reflected the disciplined application of our model during an unprecedented period. We delivered a return on opening equity of 8.0% (2019: 15.7%), despite a significant reduction in adjusted operating profits.

Adjusted operating profit decreased 47% to £144.0 million (2019: £270.5 million), reflecting higher impairment charges in the Banking division, partly offset by a very strong trading performance in Winterflood, which benefited from significantly higher volumes since the Covid-19 outbreak. Statutory operating profit before tax from continuing operations decreased 47% to £140.9 million (2019: £264.7 million), and statutory basic earnings per share ("EPS") reduced 45% to 72.8p (2019: 133.5p).

In the **Banking division**, we continued to focus on supporting our customers. Adjusted operating profit decreased by 61% to £99.2 million (2019: £253.7 million) primarily reflecting higher impairment charges.

Overall, the loan book remained broadly flat over the year at £7.62 billion (31 July 2019: £7.65 billion), with growth in our Commercial and Retail businesses offset by a contraction in our Property loan book. This reflected a resilient overall performance in a challenging year with the general election, continuing uncertainty over the final Brexit settlement and the Covid-19 pandemic impacting customer demand.

Since the easing of UK lockdown restrictions in June and July we have been encouraged by an increase in customer activity across our lending businesses, supported by a sharp recovery in new business for Motor Finance and the positive uptake of loans issued under UK government support schemes (CBILS) in our Commercial businesses. This resulted in loan book growth of c.£200 million in June and July.

While we have maintained our focus on prudent underwriting and pricing discipline, income in the Banking division decreased by 3%, as a result of lower customer activity and forbearance measures, with a reduced net interest margin of 7.5% (2019: 7.9%).

The bad debt ratio increased to 2.3% (2019: 0.6%) reflecting loan impairment charges of £183.4 million (2019: £48.4 million). The increase was mainly due to the forward-looking recognition of impairment charges under IFRS 9 to incorporate the impact of Covid-19. We remain comfortable with the credit quality of our loan book, which continues to demonstrate the disciplined application of our prudent lending criteria.

The Banking division continued to invest in its key strategic projects, which include our multi-year programmes in Motor Finance and Asset Finance, investment to support our IRB application and enhancements to our cyber and data security. We remain committed to investing to protect, improve and extend our business model and given the current environment, we will continue to review and prioritise investment spend while maintaining our focus on cost discipline.

Adjusted operating expenses for the Banking division increased 1% overall, as ongoing investment spend and depreciation charges were partially offset by lower variable compensation to reflect lower profitability.

The **Asset Management** division maintained good momentum despite the challenging environment. We achieved strong net inflows at 9% of opening managed assets, reflecting the strength of our client proposition and the hiring of additional portfolio managers. Managed assets increased 8% to £12.6 billion (31 July 2019: £11.7 billion) and total client assets increased 3% to £13.7 billion (31 July 2019: £13.3 billion).

The division delivered an adjusted operating profit of £20.4 million (2019: £21.8 million), down 6% on the prior year as continued investment to support the long-term growth potential of the business exceeded operating income growth during the year, which was impacted by weaker equity markets resulting from the effects of Covid-19.

Winterflood delivered a very strong performance, with operating profit of £47.9 million (2019: £20.0 million), up 140% on the prior year. The expertise and experience of our traders meant they were able to successfully navigate the challenging market conditions, experiencing only seven loss days, with significant volatility in the second half driving heightened investor activity and trading volumes across global equity markets.

The strong pick-up in activity enabled Winterflood to deliver its highest annual revenue since 2000, and the business maintained full operational capacity throughout the year, despite the challenges brought on by Covid-19, demonstrating the strength of our technology and the expertise of our people. Operating expenses were up 41% reflecting higher variable costs.

Capital, funding and liquidity

The group maintains a strong capital and liquidity position and is prudently funded.

The group's common equity tier 1 ("CET1") capital ratio increased to 14.1% (31 July 2019: 13.0%), and our minimum CET1 capital ratio requirement is 8.0%. Accordingly, we continue to have a significant headroom of over 600bps.

We entered this period with strong levels of funding and liquidity, which have increased further since the onset of Covid-19. As at 31 July 2020, the group's total funding had grown to £10.2 billion (31 July 2019: £9.9 billion), with an increase in customer deposits to £5.9 billion (31 July 2019: £5.6 billion). Our conservative approach to funding is based on the principle of "borrow long, lend short", with a spread of maturities over the medium and longer term, comfortably ahead of a shorter average loan book maturity. It is also diverse, drawing on a wide range of wholesale and deposit markets.

We have increased our levels of liquidity in light of the pandemic, and our strong liquidity position remained comfortably ahead of both our internal risk appetite and regulatory requirements, with an average liquidity coverage ratio ("LCR") unchanged at 823% (2019: 823%).

Sustainability and responsibility

We recognise that to help the people and businesses of Britain thrive over the long term, we also have a responsibility to help address the social, economic and environmental challenges facing our business, employees and customers, now and into the future.

As a business that prides itself on supporting small businesses and individuals we have a unique role to play in helping society thrive, with the expertise to support SMEs and entrepreneurs who may be overlooked by larger finance providers, creating jobs and opportunities in local communities across all our regions. We also promote social mobility through access programmes, apprenticeships and training for up and coming talent.

The group also decided to make a £1 million donation to NHS Charities Together, in support of the vital role NHS frontline and support staff have in combating Covid-19, and to match fund donations from employees to this charity. Additionally, the Executive Directors, together with a number of non-executive members of the board and members of the Group Executive Committee, made the personal decision to donate an element of their salary or fee to NHS Charities Together.

Our responsible approach during the period includes measures that prioritise the safety and wellbeing of our colleagues, that promote the fair treatment of our customers and clients, that are considerate of our suppliers, and that continue to make material strides towards reducing our environmental impact.

CEO succession

In June 2020, the group announced that Adrian Sainsbury had been selected to succeed Preben Prebensen as Chief Executive. Adrian has taken up the position of Chief Executive, and became an Executive Director of the group, with effect from the end of the board's meeting held on 21 September 2020.

OUTLOOK

The group has adapted well to this unprecedented environment, drawing upon our financial and operational resilience and the deep experience of our people.

Although we have seen encouraging signs of increasing economic activity in the UK since the easing of restrictions in June and July, the near-term path to recovery remains highly uncertain.

In the Banking division, we remain focused on maintaining our prudent and disciplined approach while continuing to support our customers through this challenging environment. Asset Management continues to have long-term growth potential and we remain committed to growing our client base organically, and through selective hiring and in-fill acquisitions. Winterflood has shown good momentum through August and September but remains sensitive to changes in the market environment.

We have a strong balance sheet, high quality loan book and proven, resilient business model, and are confident that we will emerge from this crisis in a strong position to support our customers and clients through their recovery.

OVERVIEW OF FINANCIAL PERFORMANCE

GROUP INCOME STATEMENT

Continuing operations	**2020 £ million**	2019 £ million	Change %
Adjusted operating income	**866.1**	816.4	6
Adjusted operating expenses	**(538.4)**	(497.4)	8
Impairment losses on financial assets	**(183.7)**	(48.5)	279
Adjusted operating profit	**144.0**	270.5	(47)
Banking	**99.2**	253.7	(61)
Commercial	**4.8**	86.5	(94)
Retail	**34.9**	72.5	(52)
Property	**59.5**	94.7	(37)
Asset Management	**20.4**	21.8	(6)
Winterflood	**47.9**	20.0	140
Group	**(23.5)**	(25.0)	(6)
Amortisation of intangible assets on acquisition	**(3.1)**	(5.8)	(47)
Operating profit before tax	**140.9**	264.7	(47)
Tax	**(31.4)**	(64.4)	(51)
Profit after tax: continuing operations	**109.5**	200.3	(45)
Profit from discontinued operations, net of tax	**-**	1.1	(100)
Loss attributable to non-controlling interests	**-**	(0.2)	(100)
Profit attributable to shareholders: continuing and discontinued operations	**109.5**	201.6	(46)
Adjusted basic earnings per share (continuing operations)	**74.5p**	136.7p	(46)
Basic earnings per share (continuing operations)	**72.8p**	133.5p	(45)
Basic earnings per share (continuing and discontinued operations)	**72.8p**	134.2p	(46)
Dividend per share	**40.0p**	66.0p	(39)
Return on opening equity	**8.0%**	15.7%	
Return on average tangible equity	**9.4%**	17.9%	

The group's performance in 2020 was significantly impacted by the Covid-19 outbreak and the impact of lockdown restrictions on the UK economy. Nevertheless, the group delivered a resilient performance, reflecting the disciplined application of our model while continuing to support customers, clients and colleagues.

Operating profit and returns

Adjusted operating profit decreased 47% to £144.0 million (2019: £270.5 million), reflecting higher impairment charges in the Banking division, partly offset by a very strong trading performance in Winterflood, which benefited from significantly higher volumes since the Covid-19 outbreak. Statutory operating profit before tax from continuing operations decreased 47% to £140.9 million (2019: £264.7 million) and the operating margin reduced to 17% (2019: 33%). The group delivered a solid return on opening equity of 8.0% (2019: 15.7%) despite the reduction in adjusted operating profit and continued growth in the equity base. Return on average tangible equity was 9.4% (2019: 17.9%).

Adjusted operating profit in the Banking division decreased 61% to £99.2 million (2019: £253.7 million) primarily due to the forward-looking recognition of impairment charges under IFRS 9 to incorporate the impact of Covid-19. The Asset Management division continued to achieve strong net inflows, although adjusted operating profit of £20.4 million (2019: £21.8 million) was down 6% due to continued investment to support the long-term growth potential of the business, which more than offset the income growth on the prior year. Winterflood delivered a very strong performance, with operating profit of £47.9 million (2019: £20.0 million), up 140%. Group net expenses, which include the central functions such as finance, legal and compliance, risk and human resources, were down 6% at £23.5 million (2019: £25.0 million) primarily due to lower variable staff costs.

Operating income

Adjusted operating income increased 6% to £866.1 million (2019: £816.4 million), as strong trading income growth in Winterflood and higher income in the Asset Management division were partially offset by reduced income in the Banking division. Income in the Banking division decreased by 3%, reflecting lower customer activity levels and forbearance measures, with a reduced net interest margin of 7.5% (2019: 7.9%). Income in the Asset Management division was up 6%, reflecting higher client assets. Income in Winterflood increased by 63% as a result of significantly higher volumes since the Covid-19 outbreak and very strong trading profitability.

Operating expenses

Adjusted operating expenses increased 8% to £538.4 million (2019: £497.4 million) with most of the increase in Winterflood (up 41%), reflecting higher variable costs. Costs also increased in the Asset Management division (up 9%), driven by continued hiring of high net worth portfolio managers and investment in technology. In the Banking division, costs increased marginally (up 1%) driven by continued investment in key strategic programmes, partially offset by lower variable compensation. Overall, the group's expense/income ratio was marginally higher at 62% (2019: 61%) and the group's compensation ratio increased slightly to 37% (2019: 36%).

Impairment charges and IFRS 9 provisioning

We recognised £183.7 million of impairment charges (2019: £48.5 million) with a bad debt ratio of 2.3% (2019: 0.6%), primarily reflecting the impact of Covid-19 on the forward-looking recognition of impairment charges under IFRS 9. Our approach to provisioning reflects the application of our models overlaid with expert judgment to determine the appropriate allocation of loan book balances between stages, to macroeconomic scenario weightings, and to provision coverage at the individual portfolio level.

Specifically, the increase in impairment provisions reflected the migration of loans between stages, including to reflect the increase in forborne loan balances; the incorporation of more severe macroeconomic scenarios, with increased weighting to the downside; as well as a review of provision coverage for individual loans and portfolios.

This resulted in an increase in the coverage ratio to 3.0% at 31 July 2020 (31 July 2019: 1.3%). We believe this represents an appropriate level of provision at the balance sheet date and remain confident in the quality of our loan book, which is predominantly secured, prudently underwritten and diverse, and supported by the deep expertise of our people.

Tax expense

The tax expense in the year was £31.4 million (2019: £64.4 million), which corresponds to an effective tax rate of 22% (2019: 24%). The decrease primarily reflects an increase in deferred tax assets following the reversal of the previously announced reduction in corporation tax rate.

Earnings per share

Adjusted basic earnings per share ("EPS") from continuing operations decreased 46% to 74.5p (2019: 136.7p) and basic EPS from continuing operations decreased 45% to 72.8p (2019: 133.5p).

Discontinued operations

There were no discontinued operations in the 2020 financial year. Discontinued operations in the comparative year reflect the unsecured retail point of sale finance business sold on 1 January 2019. The profit from discontinued operations in 2019 was £1.1 million and included a £2.7 million profit on disposal net of tax. Basic EPS from continuing and discontinued operations was 72.8p (2019: 134.2p), down 46% on the prior year.

Dividend

Following a resilient financial and operational performance in the second half, the board is proposing a dividend of 40.0p per share (2019: 66.0p per share) in respect of the full financial year. This reflects the board's confidence in the group's business model and strong financial position, notwithstanding the current uncertain environment. Subject to approval at the Annual General Meeting, the final dividend will be paid on 24 November 2020 to shareholders on the register at 16 October 2020.

GROUP BALANCE SHEET

	31 July 2020 £ million	31 July 2019 £ million
Loans and advances to customers	**7,616.7**	7,649.6
Treasury assets[1]	**1,733.9**	1,395.4
Market-making assets[2]	**719.1**	666.1
Other assets	**1,001.8**	850.2
Total assets	**11,071.5**	10,561.3
Deposits by customers	**5,917.7**	5,638.4
Borrowings	**2,591.2**	2,601.0
Market-making liabilities[2]	**622.8**	582.4
Other liabilities	**490.2**	333.1
Total liabilities	**9,621.9**	9,154.9
Equity	**1,449.6**	1,406.4
Total liabilities and equity	**11,071.5**	10,561.3

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

The group entered this period of economic uncertainty with a strong balance sheet and has focused on maintaining its prudent approach to managing financial resources. The structure of the balance sheet remains unchanged, with most of the assets and liabilities relating to our lending activities. Loans and advances make up the majority of assets.

Other items on the balance sheet include treasury assets held for liquidity purposes, and settlement balances in the Securities division. 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.

While the loan book was broadly flat in the year, total assets increased 5% to £11.1 billion (31 July 2019: £10.6 billion). This primarily reflects an increase in treasury assets as the group increased its liquidity holdings in response to Covid-19. Total liabilities were up 5% to £9.6 billion (31 July 2019: £9.2 billion) driven by an uplift in customer deposits. Other assets and other liabilities both increased as a result of IFRS 16 accounting adjustments. Shareholders' equity of £1.5 billion (31 July 2019: £1.4 billion) continued to build, with profit in the year partially offset by dividend payments of £65.8 million (2019: £95.5 million). The group's return on assets reduced to 1.0%, reflecting lower profitability in the year (2019: 1.9%).

GROUP CAPITAL

	31 July 2020 £ million	31 July 2019 £ million
Common equity tier 1 capital	**1,254.0**	1,169.2
Total capital	**1,441.0**	1,364.6
Risk weighted assets	**8,863.2**	8,967.4
Common equity tier 1 capital ratio	**14.1%**	13.0%
Total capital ratio	**16.3%**	15.2%
Leverage ratio	**11.2%**	11.0%

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

Our CET1 capital ratio increased to 14.1% (31 July 2019: 13.0%), primarily due to retained profit with the impact of higher impairment charges largely offset by the capital add-back under transitional IFRS 9 arrangements. The total capital ratio increased to 16.3% (31 July 2019: 15.2%).

The group applies IFRS 9 regulatory transitional arrangements which allows banks to add back to their capital base a proportion of the IFRS 9 impairment charges during the transitional period. Our capital ratios are presented on a transitional basis after the application of these arrangements and the Capital Requirements Regulations qualifying own funds arrangements. Without their application, the CET1 and total capital ratios would be 13.1% and 15.1%, respectively.

CET1 capital increased 7% to £1,254.0 million (31 July 2019: £1,169.2 million) reflecting resilient capital generation through £109.5 million of profit in the year and the transitional IFRS 9 capital add-back of £55.7 million, partially offset by the regulatory deduction of dividends paid and foreseen of £59.9 million and an increase in intangibles of £20.8 million.

Risk weighted assets ("RWAs") remained broadly flat at £8.9 billion (31 July 2019: £9.0 billion) driven by lower credit risk RWAs partly offset by an increase in operational risk RWAs. The decrease in loan book RWAs includes the implementation of the revised SME supporting factor which was accelerated as part of regulatory measures announced in light of Covid-19.

The group and its individual regulated entities complied with all of the externally imposed capital requirements to which they are subject for the financial years ended 31 July 2020 and 2019. Our capital ratios remain significantly ahead of minimum regulatory requirements, leaving us well placed to continue to help our customers and clients beyond the crisis and in a position of strength to respond to opportunities ahead once restrictions begin to ease.

Our minimum CET1 capital ratio requirement is 8.0%, including the applicable buffers and a 1.0% pillar 2 add-on, with a total capital requirement of 12.3%. Accordingly, we continue to have a significant headroom of over 600bps in our CET1 capital ratio, and 400bps in the total capital ratio.

The leverage ratio, which is a transparent measure of capital strength, not affected by risk weightings, increased in the year and remains strong at 11.2% (31 July 2019: 11.0%).

We have continued to make good progress on our preparations for a transition to the Internal Ratings Based (''IRB'') approach, despite the operational challenges posed by Covid-19. Our initial IRB model suite is now complete, and we are currently on track to submit our formal application to the Prudential Regulation Authority by the end of the current calendar year.

GROUP FUNDING[1]

	31 July 2020 £ million	31 July 2019 £ million
Customer deposits	**5,917.7**	5,638.4
Secured funding	**1,418.2**	1,404.8
Unsecured funding[2]	**1,460.1**	1,462.2
Equity	**1,449.6**	1,406.4
Total available funding	**10,245.6**	9,911.8
Of which term funding (>1 year)	**4,671.6**	5,493.4
Total funding as % of loan book	**135%**	129%
Average maturity of funding allocated to loan book[3]	**18 months**	20 months

1 Numbers relate to core funding and exclude working capital facilities at the business level.
2 Unsecured funding excludes £7.9 million (2019: £29.0 million) of non-facility overdrafts included in borrowings and includes £295.0 million (2019: £295.0 million) of undrawn facilities.
3 Average maturity of total funding excluding equity and funding held for liquidity purposes.

The primary purpose of our treasury function is to manage funding and liquidity to support the lending businesses and manage interest rate risk. Our conservative approach to funding is based on the principle of "borrow long, lend short", with a spread of maturities over the medium and longer term, comfortably ahead of a shorter average loan book maturity. It is also diverse, drawing on a wide range of wholesale and deposit markets including several public debt securities at both group and operating company level as well as a number of securitisation facilities.

We entered this challenging period in a strong position and further increased our total funding in the second half of the year to £10.2 billion (31 July 2019: £9.9 billion) which accounted for 135% (31 July 2019: 129%) of the loan book at the balance sheet date. Our average cost of funding of 1.7% was broadly stable on the prior year (2019: 1.7%).

Our customer deposit platform, launched in 2019, has allowed us to offer a wider range of deposit products to further diversify our funding and improve customer experience. In the first half we introduced a new online portal, with a number of new savings products to come during the 2021 financial year, including cash Individual Savings Accounts ("ISA") products, which will continue to grow and diversify our retail deposit base and further optimise our cost of funding and maturity profile. Deposits increased 5% overall to £5.9 billion (31 July 2019: £5.6 billion) with non-retail deposits decreasing slightly to £3.3 billion (31 July 2019: £3.5 billion) and retail deposits increasing by 22% to £2.6 billion (31 July 2019: £2.1 billion).

Our range of secured funding facilities include securitisations of our Premium and Motor Finance loan books, and during the year we raised £200 million via a third public Motor Finance securitisation. Following admission to the Bank of England's Term Funding Scheme with additional incentives for SMEs (''TFSME''), we transitioned £228 million of drawings previously under the Term Funding scheme to TFSME at the end of July 2020.

Unsecured funding, which includes senior unsecured bonds and undrawn facilities, remained broadly unchanged at £1.5 billion (31 July 2019: £1.5 billion).

We have maintained a prudent maturity profile. The average maturity of funding allocated to the loan book remained ahead of the loan book at 18 months (31 July 2019: 20 months), while the average loan book maturity stood at 15 months (31 July 2019: 14 months).

LIBOR, which had been the principal sterling reference rate used by the group, is due to be withdrawn by the end of 2021. The group is actively participating in initiatives to determine the appropriate treatment of all instruments on the withdrawal of LIBOR, including the use of SONIA, the Sterling Overnight Index Average.

Our strong credit ratings have been considered by both Moody’s Investors Services (“Moody’s”) and Fitch Ratings (“Fitch”) during the year. Moody’s rates Close Brothers Group ‘‘A3/P2’’ and Close Brothers Limited ‘‘Aa3/P1’’ with a ‘‘negative’’ outlook.

Fitch applied a one notch downgrade to our ratings alongside several mid-sized UK banks following their downgrade of UK sovereign debt to AA-, reflecting their view of the negative impact of Covid-19 on the UK economy. The result was a rating of ‘‘A-/F2’’ (from ‘‘A/F1’’), with a ‘‘negative’’ outlook (previously ‘‘stable’’) for both Close Brothers Group and Close Brothers Limited.

GROUP LIQUIDITY

	31 July 2020 £ million	31 July 2019 £ million
Cash and balances at central banks	**1,375.8**	1,106.4
Sovereign and central bank debt	**72.2**	48.3
Certificates of deposit	**285.9**	240.7
Treasury assets	**1,733.9**	1,395.4

The group continues to adopt a conservative stance on liquidity, ensuring it is comfortably ahead of both internal risk appetite and regulatory requirements. Against a backdrop of a generally weak economic UK outlook driven by the continued uncertainty over the final Brexit settlement and the Covid-19 crisis, treasury assets increased 24% to £1.7 billion (31 July 2019: £1.4 billion) and were predominantly held on deposit with the Bank of England, giving us continued good headroom to both internal and external liquidity requirements.

We regularly assess and stress test our liquidity requirements and continue to comfortably meet the LCR requirements under the Capital Requirements Directive IV (“CRD IV”), with a 12-month average LCR unchanged at 823% (2019: 823%).

BUSINESS REVIEW

BANKING

Key Financials

Continuing operations[1]	**2020 £ million**	2019 £ million	Change %
Adjusted operating income	**586.0**	602.6	(3)
Adjusted operating expenses	**(303.4)**	(300.5)	1
Impairment losses on loans and advances	**(183.4)**	(48.4)	279
Adjusted operating profit	**99.2**	253.7	(61)
Net interest margin[2]	**7.5%**	7.9%	
Expense/income ratio	**52%**	50%	
Bad debt ratio[2]	**2.3%**	0.6%	
Return on net loan book[2]	**1.3%**	3.3%	
Return on opening equity	**6.5%**	17.5%	
Average loan book and operating lease assets	**7,854.3**	7,654.0	3

1 Results from continuing operations exclude the unsecured retail point of sale finance business, which was classified as a discontinued operation in the group's income statement for the 2019 financial year and sold on 1 January 2019.

2 The calculation of the bad debt ratio, net interest margin and return on net loan book excludes the unsecured retail point of sale finance loan book from both the opening and closing loan book.

Banking adjusted operating profit decreased to £99.2 million (2019: £253.7 million) reflecting the forward-looking recognition of impairment charges under IFRS 9 and lower income driven by the impact of Covid-19. Statutory operating profit from continuing operations decreased to £97.2 million (2019: £251.8 million).

Despite subdued new business volumes during the lockdown period, the loan book remained broadly flat in the year at £7.62 billion (31 July 2019: £7.65 billion) as we experienced an encouraging increase in client activity as lockdown restrictions eased. The return on net loan book, although lower, remained resilient at 1.3% (2019: 3.3%).

Adjusted operating income decreased 3% to £586.0 million (2019: £602.6 million), reflecting the impact of lower customer activity and forbearance measures, with a reduced net interest margin of 7.5% (2019: 7.9%).

While we remain focused on our pricing and underwriting discipline, the reduced net interest margin reflected a period of lower fee income, as some fees were waived due to forbearance and transaction and utilisation levels dropped significantly. Adjusting for certain items including modification losses arising from the onset of Covid-19, the monthly net interest margin remained broadly stable in the period prior to the Covid-19 outbreak, with a sharp drop in April and May before partially recovering in recent months as activity levels and fee income benefited from the easing of lockdown restrictions.

Adjusted operating expenses increased marginally by 1%, to £303.4 million (2019: £300.5 million), primarily driven by investment in strategic projects, including our multi-year investment programmes in Motor Finance and Asset Finance, investment to support our IRB application and enhancements to our cyber and data security.

Recent investment to improve our operational capabilities and our proposition to customers has been critical to our effective response to Covid-19. This included our remote lending capability which supported our Motor Finance dealers during lockdown, our deployment of Salesforce aiding the rapid set-up of a portal to streamline CBILS applications in Asset Finance, and our online deposit portal which allowed us to continue raising deposits remotely throughout lockdown.

Investment costs increased £10.7 million on the prior year to £57.2 million, and are expected to increase further in the year ahead as we continue to progress these important initiatives. Excluding these costs related to investments, operating expenses decreased £7.8 million on the prior year to £246.2 million, mainly reflecting our focus on cost control and lower variable compensation. Given the current environment, we will continue to review and prioritise investment spend while maintaining our focus on cost discipline.

The compensation ratio remained stable at 28% (2019: 28%). A reduction in operating income and continued investment spend resulted in an increase in the expense/income ratio to 52% (2019: 50%).

Impairment charges increased significantly to £183.4 million (2019: £48.4 million) corresponding to a bad debt ratio of 2.3% (2019: 0.6%). Provisions increased across Commercial, Retail and Property, primarily to reflect the impact of Covid-19 on impairments, taking into account loan book performance, forbearance measures, and the macroeconomic outlook across our diverse portfolio of lending businesses.

This resulted in an overall increase in provision coverage to 3.0% (31 July 2019: 1.3%), while underlying loan losses and write offs remained broadly stable on the previous financial year.

Return on opening equity was resilient at 6.5% (2019: 17.5%) and reflected the impact of the pandemic on the profitability of the division.

Loan Book Analysis

	31 July 2020 £ million	31 July 2019 £ million	Change %
Commercial	**3,048.0**	2,991.3	1.9
Asset Finance	**2,167.4**	1,946.4	11.4
Invoice and Speciality Finance	**880.6**	1,044.9	(15.7)
Retail	**2,834.5**	2,810.7	0.8
Motor Finance	**1,749.4**	1,775.6	(1.5)
Premium Finance	**1,085.1**	1,035.1	4.8
Property	**1,734.2**	1,847.6	(6.1)
Closing loan book	**7,616.7**	7,649.6	(0.4)
Operating lease assets[1]	**221.9**	220.4	0.7
Closing loan book and operating lease assets	**7,838.6**	7,870.0	(0.4)

1 Operating lease assets of £2.9 million (31 July 2019: £4.2 million) relate to Asset Finance and £219.0 million (31 July 2019: £216.2 million) to Invoice and Speciality Finance.

Loan book growth has always been an output of our business model, and we continue to prioritise our margins and credit quality. We have a diverse portfolio of businesses, which ensures that our model remains resilient through the cycle.

The loan book remained broadly flat in the year at £7.62 billion (31 July 2019: £7.65 billion) as growth in our Commercial and Retail businesses was offset by a contraction in our Property loan book, reflecting a resilient overall performance in a challenging year with the general election, continuing uncertainty over the final Brexit settlement and the Covid-19 pandemic impacting customer demand.

The marginal reduction in net loan book over the year was a result of the increased provisions to reflect the estimated impact of Covid-19, but we remain confident in the overall credit quality of the loan book. The group's largest single sector exposure is to residential property development and construction (c.21%) predominantly through the Property loan book. Consumer lending represented c.30% of the group's exposure with Motor Finance and Premium Finance personal lines comprising c.23% and c.7% respectively. Sector exposures to retail, hospitality, leisure, air transport, and oil and gas are minimal.

The Commercial loan book increased to over £3.0 billion (31 July 2019: £3.0 billion) reflecting good growth in our Asset Finance business, although this was partially offset by a marked reduction in utilisation levels in our Invoice Finance business. We experienced a recovery in new business volumes in Asset Finance in June and July, as lockdown restrictions eased, supported by strong demand for loans under CBILS.

In Retail, the loan book remained broadly flat at £2.8 billion (31 July 2019: £2.8 billion). Although the UK lockdown resulted in the temporary closure of motor dealerships, which led to a reduction in new business for Motor Finance as dealers adapted to trading remotely, volumes showed strong recovery following the re-opening of dealerships, resulting in overall growth in the UK loan book. A modest reduction in the Irish Motor Finance business resulted in a slight decline in the Motor Finance loan book as a whole. Premium Finance continued to see solid demand for insurance finance, resulting in an increase in loan book to £1.1 billion (31 July 2019: £1.0 billion).

While the pipeline for new developments remains good, Property experienced fewer drawdowns on lending facilities as construction activity remained subdued throughout the second half of the year. Higher repayments also contributed to a reduction in the Property loan book of 6% to £1.7 billion (31 July 2019: £1.8 billion).

Banking: Commercial

	2020 £ million	2019 £ million	Change %
Operating income	**246.6**	249.9	(1)
Adjusted operating expenses	**(142.6)**	(140.1)	2
Impairment losses on financial assets	**(99.2)**	(23.3)	326
Adjusted operating profit	**4.8**	86.5	(94)
Net interest margin	**7.6%**	8.1%	
Expense/income ratio	**58%**	56%	
Bad debt ratio	**3.1%**	0.8%	
Average loan book and operating lease assets	**3,240.8**	3,078.9	5

The Commercial businesses provide specialist, predominantly secured lending principally to the SME market and include Asset Finance and Invoice and Speciality Finance. The latter includes smaller specialist businesses such as Novitas, a specialist provider of finance to clients of the legal sector, Brewery Rentals, which provides service and finance solutions for brewery equipment and containers, and Vehicle Hire, which provides heavy goods and light commercial vehicles on a predominantly long-term hire basis.

The Commercial loan book increased to over £3.0 billion (31 July 2019: £3.0 billion), reflecting good growth in our Asset Finance business, although this was partially offset by a reduction in utilisation levels in our Invoice Finance business.

The Asset Finance loan book increased 11% in the year as new business volumes recovered in June and July supported by strong demand for loans under CBILS for which a solid pipeline remains. Invoice and Speciality Finance saw lower utilisation of Invoice Finance facilities due to softer demand reflecting economic uncertainty for most of the year, compounded by Covid-19 in the second half.

Adjusted operating profit of £4.8 million (2019: £86.5 million) included £99.2 million of impairment charges predominantly driven by Covid-19. Statutory operating profit was £3.1 million (2019: £84.9 million).

Operating income of £246.6 million (2019: £249.9 million) was marginally lower than the prior year, despite a higher average loan book, due to a reduction in the net interest margin to 7.6% (2019: 8.1%), driven by subdued customer activity including low rentals utilisation and actions taken to support our customers following the UK lockdown.

Adjusted operating expenses increased 2% to £142.6 million (2019: £140.1 million) mainly reflecting investment related to the Asset Finance transformation programme. This programme is aimed at increased sales effectiveness through enhanced data capabilities and technology, with the first phase expected to deliver additional new business volumes over time. The next phase will focus on optimising our operational efficiency, with upgraded systems and processes to support the long-term resilience of the business. This investment spend resulted in cost growth higher than the subdued growth in operating income for the year and the expense/income ratio increased to 58% (2019: 56%).

Impairment charges increased significantly to £99.2 million (2019: £23.3 million), with a bad debt ratio of 3.1% (2019: 0.8%), primarily reflecting a review of staging and provision coverage to reflect the increase in Covid-19 forbearance across the portfolio, as well as the incorporation of more severe macroeconomic assumptions. This resulted in a coverage ratio of 3.9% at 31 July 2020 (31 July 2019: 1.7%).

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

As at 31 July 2020, around 7,300 customers, representing 26% of the Commercial loan book by value, were subject to forbearance measures as a result of Covid-19, principally in the form of payment deferrals with fees and charges waived in the Asset Finance business, and flexing of repayments percentages and overpayments on invoice discounting and factoring facilities. We remain in close contact with customers who have been granted Covid-19 forbearance, and the majority of these, accounting for over 70% of the forborne loan book, have now resumed payments.

Banking: Retail

Continuing operations[1]	**2020 £ million**	2019 £ million	Change %
Adjusted operating income	**218.4**	223.2	(2)
Adjusted operating expenses	**(126.9)**	(125.5)	1
Impairment losses on loans and advances	**(56.6)**	(25.2)	125
Adjusted operating profit	**34.9**	72.5	(52)
Net interest margin[2]	**7.7%**	8.1%	
Expense/income ratio	**58%**	56%	
Bad debt ratio[2]	**2.0%**	0.9%	
Average loan book	**2,822.6**	2,740.6	3

1 Results from continuing operations exclude the unsecured retail point of sale finance business, which was classified as a discontinued operation in the group's income statement for the 2019 financial year and sold on 1 January 2019.

2 The calculation of the bad debt ratio and net interest margin excludes the unsecured retail point of sale finance loan book from both the opening and closing loan book.

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

The Retail loan book was broadly flat at £2.8 billion (31 July 2019: £2.8 billion) as 5% loan book growth in Premium Finance offset a slight decline of 1% in the Motor Finance loan book.

The Premium Finance loan book increased 5% to £1.1 billion (31 July 2019: £1.0 billion) against a challenging backdrop with growth across the business, with strong demand for insurance finance. The business continues to be well positioned competitively, following the multi-year investment programme in its infrastructure over recent years to improve both broker and end customer experience.

Despite the impact of the temporary closure of motor dealerships during lockdown, the UK Motor Finance loan book remained resilient, benefiting from recent investment in sales capability, and grew overall following a sharp recovery in volumes as lockdown restrictions eased in June and July. This was offset by a modest reduction in Ireland, which accounts for 26% (2019: 28%) of the Motor Finance loan book, where we operate through a local partner, First Auto Finance, who provide the distribution and dealer relationships. The Motor Finance loan book reduced 1% overall at £1.7 billion (31 July 2019: £1.8 billion).

Overall, adjusted operating profit for Retail was £34.9 million (2019: £72.5 million) and included higher impairment charges of £56.6 million driven by Covid-19. Statutory operating profit was £34.6 million (2019: £72.2 million).

Adjusted operating income was down 2% year-on-year at £218.4 million (2019: £223.2 million) with a decline in net interest margin to 7.7% (2019: 8.1%), reflecting a reduction in fee income driven by lower activity levels and forbearance in both businesses, particularly in the latter half of the year.

Adjusted operating expenses increased 1% to £126.9 million (2019: £125.5 million), and the expense/income ratio increased to 58% (2019: 56%), reflecting a reduction in operating income along with volume-driven costs and ongoing investment in both Premium Finance and Motor Finance. We are making good progress with our Motor Finance transformation programme which is aimed at improving the service proposition, enhancing operational efficiency, improving our credit acceptance process and increasing sales effectiveness.

Impairment charges increased to £56.6 million (2019: £25.2 million) with a bad debt ratio of 2.0% (2019: 0.9%), primarily reflecting movement between stages in the Motor Finance loan book, including the impact of Covid-19 forbearance in the second half, with a more modest increase in Premium Finance. This resulted in an increased provision coverage ratio to 2.5% at 31 July 2020 (31 July 2019: 1.3%).

We remain confident in the credit quality of the Retail loan book. The Motor Finance loan book is secured on principally second-hand family vehicles which are less exposed to depreciation or significant declines in value. Our core Motor Finance product remains hire-purchase contracts, with limited exposure to residual value risk associated with Personal Contract Plans ("PCP"), which accounted for only 11% of the Motor Finance loan book at 31 July 2020. The Premium Finance loan book benefits from various forms of structural protection including premium refundability and broker recourse for the personal lines product.

As at 31 July 2020, around 58,600 customers across Motor Finance and Premium Finance, accounting for 9% of the Retail loan book by value, were subject to forbearance measures as a result of Covid-19, principally in the form of payment holidays. We continue to closely monitor the performance of the loan book as customers emerge from Covid-19 concessions, with over three quarters of forborne loan balances currently up to date, settled or having recommenced payments.

Banking: Property

	2020 **£ million**	2019 £ million	Change %
Operating income	**121.0**	129.5	(7)
Operating expenses	**(33.9)**	(34.9)	(3)
Impairment losses on loans and advances	**(27.6)**	0.1	na
Operating profit	**59.5**	94.7	(37)
Net interest margin	**6.8%**	7.1%	
Expense/income ratio	**28%**	27%	
Bad debt ratio	**1.5%**	(0.0%)	
Average loan book	**1,790.9**	1,834.5	(2)

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

Our long track record, expertise and quality of service ensure the business remains resilient to competition and continues to generate high levels of repeat business. The regional market remains important to us and we launched an office in Manchester in 2019 to progress this initiative.

We experienced fewer drawdowns on lending facilities as construction activity remained subdued for most of the second half of the year. Higher repayments also contributed to a reduction in the Property loan book of 6% to £1.7 billion (31 July 2019: £1.8 billion). Following the easing of the lockdown in June and July, customer demand for new housing appears to have rebounded, supported by the temporary reduction in stamp duty. Our new business pipeline and committed facilities remain strong.

The business delivered an operating profit of £59.5 million (2019: £94.7 million) which included higher impairment charges of £27.6 million (2019: (£0.1) million) predominantly driven by Covid-19.

Operating income was down 7% year-on-year at £121.0 million (2019: £129.5 million) reflecting the reduction in loan book and net interest margin which decreased to 6.8% (2019: 7.1%) driven by actions taken to support our customers such as waiving of fees on term extensions.

Operating expenses of £33.9 million (2019: £34.9 million) reduced 3% despite the opening of the new Manchester office and continued technology investment across the Banking division. Although the expense/income ratio increased to 28% (2019: 27%), it remained low reflecting the lower operational requirements of the business with larger transaction sizes and a relatively small number of loans.

Impairment charges increased to £27.6 million (2019: (£0.1) million) primarily reflecting more conservative macroeconomic assumptions, and review of provisions for individual impaired loans. This resulted in a bad debt ratio of 1.5% (2019: (0.0%)) and a provision coverage ratio of 2.5% at 31 July 2020 (31 July 2019: 0.8%).

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

As at 31 July 2020, 187 customers, accounting for 18% of the Property loan book by value, were subject to forbearance measures as a result of Covid-19, principally in the form of fee-free extensions for residential development loans, where we remain confident in the quality of the underlying borrower and security. Forborne loans continue to be assessed on a case-by-case basis and we remain in close contact with each of our customers.

ASSET MANAGEMENT

Key Financials

	2020 £ million	2019 £ million	Change %
Investment management	**91.4**	81.7	12
Advice and other services[1]	**35.5**	37.2	(4)
Other income[2]	**1.3**	1.5	(15)
Operating income	**128.2**	120.4	6
Adjusted operating expenses	**(107.7)**	(98.5)	9
Impairment losses on financial assets[3]	**(0.1)**	(0.1)	-
Adjusted operating profit	**20.4**	21.8	(6)

Revenue margin (bps)	**94**	93
Operating margin	**16%**	18%
Return on opening equity	**28.7%**	32.1%

1 Income from advice and self-directed services, excluding investment management income.
2 Includes net interest income and expense, income on principal investments and other income. Other income includes a £1.1 million and £1.4 million gain on disposal of non-core assets in the 2020 and 2019 financial years, respectively.
3 Impairment losses on financial assets reflects an increase in the expected credit loss provision related to cash balances.

Continued good momentum in challenging markets

Asset Management continued to achieve strong net inflows, with good demand for our integrated advice and investment management services, while maintaining excellent client service during challenging market conditions.

The division delivered £20.4 million (2019: £21.8 million) adjusted operating profit and an operating margin of 16% (2019: 18%), impacted by weaker equity markets in the second half of the year. Statutory operating profit before tax was £19.3 million (2019: £17.9 million).

Total operating income increased 6% to £128.2 million (2019: £120.4 million), driven by higher investment management income from continued growth in managed assets. The reduction in income on advice and other services reflects lower initial fees from new advice business, which were impacted by Covid-19 and the resulting economic downturn, particularly during the traditionally busy tax-year end period. Revenue margin increased to 94 bps (2019: 93 bps) due to the timing of equity market movements and associated average asset levels and income.

Adjusted operating expenses increased 9% to £107.7 million (2019: £98.5 million), and the expense/income ratio increased to 84% (2019: 82%). Growth in expenses reflects continued investment in people and new hires, alongside technology to further enhance our operating efficiency as well as an increase in the regulatory FSCS levy. Headcount grew by 3% in the year, reflecting hiring of advisers and portfolio managers, consistent with our growth strategy. The compensation ratio increased slightly to 55% (2019: 54%) primarily reflecting headcount growth.

Continued strong net inflows

Notwithstanding the challenging market conditions arising from the impact of Covid-19, we achieved strong net inflows of £1,093 million (2019: £894 million), a net inflow rate of 9% (2019: 9%) of opening managed assets. This reflected continued good demand for both our investment management and integrated wealth services, with strong inflows from our recent portfolio manager hires in addition to those from our own and third party advisers, though inflows slowed in the second half due to the impact of Covid-19 on client interaction.

Despite the recent recovery in equity markets, negative market movements for the year as a whole reduced our managed assets by £172 million. The combined impact with positive net inflows resulted in managed assets increasing 8% overall to £12.6 billion (31 July 2019: £11.7 billion).

In July 2019, we agreed the sale of a small portfolio of self-directed clients, whose assets are held either on third party platforms or directly with fund managers. The sale reduced total client assets by £0.3 billion in the 2020 financial year. We continue to provide self-directed services to clients via our own platform. Advised assets under third party management decreased by 32% following the disposal of this self-directed client portfolio and continued transfers of assets into our management.

Total client assets increased 3% overall, to £13.7 billion (31 July 2019: £13.3 billion).

Movement in Client Assets

	31 July 2020 £ million	31 July 2019 £ million
Opening managed assets	**11,673**	10,378
Inflows	**2,350**	2,107
Outflows	**(1,257)**	(1,213)
Net inflows	**1,093**	894
Market movements	**(172)**	401
Total managed assets	**12,594**	11,673
Advised only assets	**1,118**	1,651
Total client assets[1]	**13,712**	13,324
Net flows as % of opening managed assets	**9%**	9%

1 Total client assets include £5.1 billion of assets (31 July 2019: £5.0 billion) that are both advised and managed. Total client assets include a reduction of £0.3 billion in the year, reflecting the disposal of non-core assets.

Fund performance over the year

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. Over the 12-month period to 31 July 2020 and the three-year period to 31 July 2020, eight out of our 14 multi-asset funds outperformed their relevant peer group average. Our bespoke strategy composites continued to perform well against peer averages over the year, and over a three and a five-year period, in line with our strong long-term outperformance track record for these strategies.

Well positioned for future growth

While recognising the challenges of Covid-19 and its impact on global markets, we have remained focused on providing excellent service to our clients throughout these difficult times. Our continued investment in technology ensures that we are improving our operational leverage, efficiency and resilience. We continue to make significant progress in the implementation of strategic technology enhancements to strengthen our systems, propositions and service to clients.

Sustainable investment strategies remain a key focus area across the investment management industry, and our socially responsible investment proposition continues to be well received, with further sustainable fund launches planned for the coming year.

Our vertically-integrated, multi-channel business model leaves us well positioned to benefit from proven ongoing demand for our integrated advice and investment management services, and the structural growth opportunity presented by the wealth management industry. We continue to see significant long-term growth potential for our business and remain committed to growing our client base both organically and through selective hiring of advisers and investment managers, or through in-fill acquisitions.

SECURITIES

Key Financials

	2020 £ million	2019 £ million	Change %
Operating income	**151.9**	93.4	63
Operating expenses	**(103.8)**	(73.4)	41
Impairment losses on financial assets	**(0.2)**	-	na
Operating profit	**47.9**	20.0	140
Average bargains per day ('000)	**82**	56	
Operating margin	**32%**	21%	
Return on opening equity	**50.4%**	20.7%	

Very strong trading performance in extraordinary market conditions

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

Winterflood had a very strong year, with the expertise and experience of our traders enabling them to navigate successfully the challenging and volatile market conditions and deliver operating profit of £47.9 million (2019: £20.0 million).

In the first half of the financial year, continued Brexit and general election outcome uncertainty contributed to a slowdown in the UK capital markets. In contrast, the second part of the year saw significant volatility driving heightened trading activity across global equity markets, with increasing geopolitical tensions and the Covid-19 pandemic leading to global lockdowns and unprecedented levels of fiscal support measures from governments and central banks.

Operating income increased 63% to £151.9 million, reflecting strong trading activity in the second half of the year, with the extreme volatility driving investor activity and trading volumes. The significant pick-up in activity enabled Winterflood to deliver its highest annual revenue since 2000, with strong activity across the FTSE 350, AIM and investment trusts in particular.

The extraordinary market conditions saw Winterflood surpass its previous record high for daily bargains of 139,000 in August 2011, first achieving 154,000 in February 2020 and subsequently achieving 186,000 in June. Average daily bargains over the year increased 48% to 82,003 (2019: 55,518) and the team's experience and ability to focus on managing risk resulted in only seven loss days (2019: two loss days). Winterflood maintained full operational capacity throughout the year, despite the challenges brought on by Covid-19, demonstrating the strength of our technology and the expertise of our traders.

Operating expenses increased 41% to £103.8 million, driven by the variable nature of Winterflood's cost base, with the increased revenue performance and trading activity leading to higher staff compensation and settlement costs. The expense/income ratio decreased to 68% (2019: 79%) as a result of the high levels of income in the year, partially offset by the corresponding increase in variable costs. The compensation ratio remained stable at 48% (2019: 48%).

Winterflood continues to take advantage of complementary market opportunities and is progressing well with developing wider relationships with institutional clients. In November 2019, direct client trading with US counterparties commenced after an affiliate licensed broker dealer was established in the US.

Winterflood Business Services, which provides outsourced dealing and custody services for asset managers and platforms in the UK, has had a successful year, generating good levels of trading income and increasing assets under administration to £4.1 billion (2019: £3.7 billion) as a result of growth in client base, offset by negative market movements in the second half.

Following a very strong performance in the second half of the 2020 financial year, Winterflood has continued to trade successfully in the early part of 2021, but as a daily trading business remains sensitive to changes in the market environment.

DEFINITIONS

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

Adjusted operating profit (“AOP”): Calculated as operating income less adjusted operating expenses and impairment losses on financial assets

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

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

Bargains per day: Average number of Winterflood’s trades with third parties

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

Capital Requirements Directive IV (“CRD IV”): European Union regulation implementing the Basel III requirements in Europe, alongside CRR

Capital Requirements Regulation (“CRR”): European Union regulation implementing the Basel III requirements in Europe, alongside CRD IV

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 intangible assets and certain other regulatory adjustments

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

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

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

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

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

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

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 funding excluding equity and funding held for liquidity purposes

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

Gross carrying amount: Loan book before expected credit loss provision

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

Independent financial adviser: 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 Accounting Standards ("IAS"): Older set of standards issued by the International Accounting Standards Council, setting up accounting principles and rules for preparation of financial statements. IAS are being superseded by IFRS

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

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

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

Market abuse regulation ("MAR"): European regulation aimed at increasing market integrity and investor protection

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

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

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

Operating margin: Adjusted operating profit divided by adjusted 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

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

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

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

Return on net loan book ("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 after tax and non-controlling interests divided by opening equity, excluding non-controlling interests

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

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

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

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

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 2020

	Note	**2020 £ million**	2019 £ million
Interest income		**629.1**	635.6
Interest expense		**(135.1)**	(129.9)
Net interest income		**494.0**	505.7
Fee and commission income		**230.2**	224.9
Fee and commission expense		**(17.6)**	(19.2)
Gains less losses arising from dealing in securities		**142.6**	81.3
Other income		**83.4**	77.4
Depreciation of operating lease assets and other direct costs	10	**(66.5)**	(53.7)
Non-interest income		**372.1**	310.7
Operating income		**866.1**	816.4
Administrative expenses		**(538.4)**	(497.4)
Impairment losses on financial assets	6	**(183.7)**	(48.5)
Total operating expenses before amortisation of intangible assets on acquisition		**(722.1)**	(545.9)
Operating profit before amortisation of intangible assets on acquisition		**144.0**	270.5
Amortisation of intangible assets on acquisition	9	**(3.1)**	(5.8)
Operating profit before tax		**140.9**	264.7
Tax	3	**(31.4)**	(64.4)
Profit after tax from continuing operations		**109.5**	200.3
Profit from discontinued operations, net of tax		**-**	1.1
Profit after tax		**109.5**	201.4
Loss attributable to non-controlling interests from continuing operations		**-**	(0.2)
Profit attributable to shareholders		**109.5**	201.6
From continuing operations			
Basic earnings per share	4	**72.8p**	133.5p
Diluted earnings per share	4	**72.5p**	132.5p
From continuing and discontinued operations			
Basic earnings per share	4	**72.8p**	134.2p
Diluted earnings per share	4	**72.5p**	133.2p
Interim dividend per share paid	5	**-**	22.0p
Final dividend per share	5	**40.0p**	44.0p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 July 2020

	2020 £ million	2019 £ million
Profit after tax	**109.5**	201.4
Other comprehensive (expense)/income that may be reclassified to income statement from continuing operations		
Currency translation (losses)/gains	**(0.4)**	0.4
Losses on cash flow hedging	**(1.9)**	(6.0)
Losses on financial instruments classified at fair value through other comprehensive income		
Sovereign and central bank debt	**(0.6)**	(0.1)
Tax relating to items that may be reclassified	**1.0**	1.1
	(1.9)	(4.6)
Other comprehensive income that will not be reclassified to income statement from continuing operations		
Defined benefit pension scheme gains	**0.9**	1.9
Tax relating to items that will not be reclassified	**(0.3)**	(0.4)
	0.6	1.5
Other comprehensive expense, net of tax from continuing operations	**(1.3)**	(3.1)
Total comprehensive income	**108.2**	198.3
Attributable to		
Non-controlling interests	**-**	(0.2)
Shareholders	**108.2**	198.5
	108.2	198.3

CONSOLIDATED BALANCE SHEET
at 31 July 2020

	Note	**31 July 2020 £ million**	31 July 2019 £ million
Assets			
Cash and balances at central banks		**1,375.8**	1,106.4
Settlement balances		**619.7**	562.9
Loans and advances to banks		**125.8**	108.9
Loans and advances to customers	6	**7,616.7**	7,649.6
Debt securities	7	**382.5**	314.4
Equity shares	8	**30.0**	36.3
Loans to money brokers against stock advanced		**45.8**	42.5
Derivative financial instruments		**39.9**	30.1
Intangible assets	9	**240.1**	219.4
Property, plant and equipment	10	**297.2**	248.2
Current tax assets		**41.2**	-
Deferred tax assets		**47.3**	52.2
Prepayments, accrued income and other assets		**209.5**	190.4
Total assets		**11,071.5**	10,561.3
Liabilities			
Settlement balances and short positions	11	**604.9**	568.1
Deposits by banks	12	**152.8**	58.0
Deposits by customers	12	**5,917.7**	5,638.4
Loans and overdrafts from banks	12	**497.9**	519.3
Debt securities in issue	12	**1,870.3**	1,860.1
Loans from money brokers against stock advanced		**17.9**	14.3
Derivative financial instruments		**20.8**	20.6
Current tax liabilities		**1.3**	21.2
Accruals, deferred income and other liabilities		**315.3**	233.3
Subordinated loan capital		**223.0**	221.6
Total liabilities		**9,621.9**	9,154.9
Equity			
Called up share capital		**38.0**	38.0
Retained earnings		**1,435.0**	1,392.5
Other reserves		**(22.4)**	(23.1)
Total shareholders' equity		**1,450.6**	1,407.4
Non-controlling interests		**(1.0)**	(1.0)
Total equity		**1,449.6**	1,406.4
Total liabilities and equity		**11,071.5**	10,561.3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 July 2020

			Other reserves						
	Called up share capital £ million	Retained earnings £ million	FVOCI reserve £ million	Share-based payments reserve £ million	Exchange movements reserve £ million	Cash flow hedging reserve £ million	Total attributable to equity holders £ million	Non-controlling interests £ million	Total equity £ million
At 1 August 2018	38.0	1,282.8	0.8	(15.9)	(1.2)	0.1	1,304.6	(0.8)	1,303.8
Profit/(loss) for the year	-	201.6	-	-	-	-	201.6	(0.2)	201.4
Other comprehensive income/(expense)	-	1.5	(0.1)	-	-	(4.5)	(3.1)	-	(3.1)
Total comprehensive income/(expense) for the year	-	203.1	(0.1)	-	-	(4.5)	198.5	(0.2)	198.3
Dividends paid (note 5)	-	(95.5)	-	-	-	-	(95.5)	-	(95.5)
Shares purchased	-	-	-	(11.0)	-	-	(11.0)	-	(11.0)
Shares released	-	-	-	10.9	-	-	10.9	-	10.9
Other movements	-	2.8	-	(2.2)	-	-	0.6	-	0.6
Income tax	-	(0.7)	-	-	-	-	(0.7)	-	(0.7)
At 31 July 2019	38.0	1,392.5	0.7	(18.2)	(1.2)	(4.4)	1,407.4	(1.0)	1,406.4
Profit for the year	-	109.5	-	-	-	-	109.5	-	109.5
Other comprehensive income/(expense)	-	0.6	(0.5)	-	(0.1)	(1.3)	(1.3)	-	(1.3)
Total comprehensive income/(expense) for the year	-	110.1	(0.5)	-	(0.1)	(1.3)	108.2	-	108.2
Dividends paid (note 5)	-	(65.8)	-	-	-	-	(65.8)	-	(65.8)
Shares purchased	-	-	-	(8.0)	-	-	(8.0)	-	(8.0)
Shares released	-	-	-	11.9	-	-	11.9	-	11.9
Other movements	-	(1.9)	-	(1.3)	-	-	(3.2)	-	(3.2)
Income tax	-	0.1	-	-	-	-	0.1	-	0.1
At 31 July 2020	**38.0**	**1,435.0**	**0.2**	**(15.6)**	**(1.3)**	**(5.7)**	**1,450.6**	**(1.0)**	**1,449.6**

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 July 2020

	Note	**2020 £ million**	2019 £ million
Net cash inflow from operating activities	14(a)	**429.4**	20.4
Net cash (outflow)/inflow from investing activities			
Purchase of:			
Property, plant and equipment		**(5.3)**	(4.9)
Intangible assets – software		**(44.3)**	(42.2)
Subsidiaries and non-controlling interest	14(b)	**(4.6)**	(3.6)
Sale of:			
Discontinued operations and subsidiaries	14(c)	**0.5**	87.6
		(53.7)	36.9
Net cash inflow before financing activities		**375.7**	57.3
Financing activities			
Purchase of own shares for employee share award schemes		**(8.0)**	(11.0)
Equity dividends paid		**(65.8)**	(95.5)
Interest paid on subordinated loan capital and debt financing		**(14.3)**	(14.2)
Payment of lease liabilities		**(14.6)**	-
Net increase/(decrease) in cash		**273.0**	(63.4)
Cash and cash equivalents at beginning of year		**1,188.3**	1,251.7
Cash and cash equivalents at end of year	14(d)	**1,461.3**	1,188.3

THE NOTES

1. Basis of preparation and accounting policies

The financial information contained in this announcement does not constitute the statutory accounts for the years ended 31 July 2020 or 31 July 2019 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 2019 with the exception of policies impacted by the transition to IFRS 16 Leases.

The financial statements are prepared on a going concern basis. Whilst the financial information has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS"), this announcement does not itself contain sufficient information to comply with IFRS. The company expects to publish full financial statements that comply with IFRS by 1 October 2020.

The financial information for the year ended 31 July 2020 has been derived from the audited financial statements of Close Brothers Group plc for that year. Statutory accounts for 2019 have been delivered to the Registrar of Companies and those for 2020 will be delivered following the company's Annual General Meeting. The group's auditor, PricewaterhouseCoopers LLP, has reported on the 2020 accounts: their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

Changes in accounting policy

The accounting policies applied this financial year are set out in this note and consistent with those of the previous financial year except in relation to the adoption of IFRS 16 Leases, which was effective from 1 August 2019.

IFRS 16 replaces IAS 17 Leases and introduces a new recognition model that recognises all leases on a lessee's balance sheet, subject to certain exemptions. As a result, there is no longer a distinction between finance and operating leases for lessees. However, lessor accounting is substantially unchanged.

IFRS 16 has been applied on a modified retrospective basis and comparative information has not been restated. The impact of the initial application of IFRS 16 is set out in note 16.

The accounting policies set out in section (m) in note 1 of the Annual Report 2019 have been replaced by those below from 1 August 2019 following the adoption of IFRS 16.

Lessor

A finance lease is a lease or hire purchase contract that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Finance leases are recognised as loans at an amount equal to the gross investment in the lease discounted at its implicit interest rate. Finance charges on finance leases are taken to income in proportion to the net funds invested.

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee. Rental income from operating leases is recognised in equal instalments over the period of the leases and included in other income in the consolidated income statement.

Lessee

A lease liability and right of use asset are recognised on the balance sheet at the lease commencement date. The lease liability is measured at the present value of future lease payments. The discount rate is the rate implicit in the lease, or if that cannot be determined, the group's incremental borrowing rate appropriate for the right of use asset. The right of use asset is measured at cost, comprising the initial lease liability, payments made at or before the commencement date less lease incentives received, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease.

Lease payments are allocated between the liability and finance cost. The finance cost relating to the lease liability is charged to the consolidated income statement over the lease term. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

Critical accounting estimates and judgements

The reported results of the group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed on an ongoing basis. There have been no significant changes in the basis upon which estimates have been determined compared to that applied at 31 July 2019.

At 31 July 2020 the group's expected credit loss provision was £238.7 million (31 July 2019: £104.3 million). The calculation of the group's expected credit loss provision under IFRS 9 requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below.

Significant increase in credit risk

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

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

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

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

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

Due to the impact and complexity of Covid-19, and to reflect the ongoing uncertainty in the external environment, it has been necessary to enhance the approach to determining whether a significant increase in credit risk has occurred for certain loans. A number of enhancements have been made to the above mentioned staging approach to fully incorporate the effects of Covid-19 into the significant increase in credit risk assessment:

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

- In line with regulatory guidance a distinction has been drawn between the impact of Covid-19 to consumers and businesses, with businesses expected to be more materially impacted in the short and medium term therefore influencing the staging of these loans.

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

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

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

Expected credit losses
The accuracy of the expected credit loss calculation can be impacted by unpredictable effects or unanticipated changes to model assumptions, resulting in modelled risk parameters varying from actual outcomes observed. In addition, forecast errors could occur due to macroeconomic scenarios or weightings differing from actual outcomes observed. Regular model monitoring, validations and provision adequacy reviews are key mechanisms to manage estimation uncertainty. A representation of the core drivers of the macroeconomic scenarios that are deployed in our models is outlined below in this note. In some instances our underlying business expected credit loss models use a range of other macroeconomic metrics and assumptions which are linked to the underlying characteristics of the business.

Forward-looking information
Determining expected credit losses under IFRS 9 requires the incorporation of forward-looking macroeconomic information that is reasonable and supportable. To capture the effect of changes to the economic environment, the calculation of expected credit losses incorporates forward-looking information and assumptions linked to economic variables that impact losses in each portfolio. The introduction of macroeconomic information introduces additional volatility to provisions. In order to calculate forward-looking provisions, Moody's Baseline and Alternative Scenarios are externally sourced and include forecast economic data and scenarios which are used to project potential credit conditions for each portfolio. Management exercises judgement in estimating future economic conditions which are incorporated into provisions through the modelling of these multiple scenarios.

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

The impact of probability weighted forward-looking information varies across the group's lending businesses because of the differing sensitivity of each portfolio to specific macroeconomic variables.

The Group Risk and Compliance Committee ("GRCC") including the group chief executive officer, group finance director, group chief risk officer, chief credit risk officer, and head of treasury meets quarterly, to review and, if appropriate, agree changes to the economic scenarios and probability weightings assigned thereto. In light of the Covid-19 pandemic, the committee has discussed and assessed the suitability of the updated economic scenario forecasts and associated probability weighting on a monthly basis.

At 31 January 2020, the scenario weightings were maintained and consistent with the position at 31 July 2019, with 5% upside, 40% baseline, and 55% across the three downside scenarios. The scenarios at 31 January 2020 represented the benign economic environment prior to Covid-19, with GDP growth of 0.9% forecast for 2020, and unemployment of 4.3% under the baseline scenario.

Subsequently, as the effects of the Covid-19 pandemic began to be felt more acutely the Moody's forecasts were updated to reflect the deterioration in the economic outlook as a result of the Covid-19 pandemic and the weightings were also updated, to reflect the increased downside risk and ongoing uncertainty.

From 30 April 2020, the upside weighting was reduced to zero, baseline maintained at 40%, and additional weighting allocated to the more severe downside scenarios. Management believe that these weightings continue to appropriately reflect the prevailing macroeconomic challenges and uncertainties as at 31 July 2020, noting the narrow range in which the scenarios are operating.

Refreshed scenario forecasts have been deployed in the IFRS 9 macroeconomic models on a monthly basis since the start of the pandemic. As at year end, the latest baseline scenario forecasts GDP contraction of 8.5% in 2020, with unemployment of 7.1%. The baseline scenario forecasts economic recovery in Q2 2021, with positive GDP growth and falling unemployment.

The baseline Moody's scenario is based around a gradual reopening of the UK economy in the absence of a further national lockdown, with a combination of inflation remaining flat for several quarters, government-provided fiscal stimulus occurring in the second half of this year plus an expansion of quantitative easing to prevent rising borrowing costs.

The table below shows the key UK economic assumptions within each scenario, and the weighting applied to each at 31 July 2020. The numbers shown are the forecasts for 2020, 2021, and an average over the five-year period from 2020 to 2024. A further table is set out below to show the peak to trough range across the key metrics for the scenarios utilised over the five-year period.

These periods have been included as they demonstrate the short, medium and long-term outlook for the key macroeconomic indicators which form the fundamental basis of the scenario forecasts. Furthermore, this demonstrates the anticipated short-term severity of the recession, in addition to the gradual recovery that commences in 2021. On average, the portfolio has a residual maturity of 15 months, with c.98% of loan value having a maturity of five years or less.

The following tables show the forecasts for key metrics across the various scenarios for the next two years to demonstrate the short-term outlook deployed in the models. The weightings ascribed are the point in time weightings applied to each scenario at 31 July 2020.

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

	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
At 31 July 2019										
UK GDP Growth	1.3%	1.4%	1.6%	3.4%	0.9%	0.0%	0.7%	(1.7%)	0.5%	(3.1%)
UK Unemployment	3.9%	4.3%	3.8%	3.3%	4.0%	5.1%	4.1%	5.9%	4.2%	6.3%
HPI Growth	1.5%	0.9%	2.1%	5.4%	1.2%	(2.0%)	1.0%	(5.5%)	0.7%	(8.3%)
BoE Base Rate	0.8%	0.9%	0.8%	1.1%	0.6%	0.3%	0.5%	0.0%	0.4%	0.0%
Weighting	**40%**		**5%**		**40%**		**10%**		**5%**	

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

	5 year average (2019-2023)				
	Baseline	Upside (strong)	Downside (mild)	Downside (moderate)	Downside (protracted)
At 31 July 2019					
UK GDP Growth	1.5%	2.1%	1.2%	0.8%	0.3%
UK Unemployment	4.7%	3.7%	5.3%	6.4%	7.2%
HPI Growth	1.8%	3.7%	0.8%	(1.1%)	(3.0%)
BoE Base Rate	1.1%	1.5%	0.6%	0.2%	0.1%
Weighting	**40%**	**5%**	**40%**	**10%**	**5%**

The tables below provide a summary for the subsequent five year period (31 July 2020-31 July 2024) of the peak to trough range of values of the key UK economic variables used within the economic scenarios at 31 July 2020 and 31 July 2019:

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

	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough
At 31 July 2019										
UK GDP Growth	1.7%	0.8%	3.9%	1.1%	2.1%	(0.6%)	2.5%	(2.0%)	2.5%	(3.6%)
UK Unemployment	5.0%	3.9%	3.8%	3.1%	5.6%	4.0%	7.2%	4.0%	8.4%	4.0%
HPI Growth	2.1%	0.3%	6.3%	0.8%	3.3%	(3.7%)	3.5%	(8.8%)	4.2%	(13.2%)
BoE Base Rate	1.5%	0.7%	2.0%	0.7%	1.1%	0.2%	0.6%	0.0%	0.4%	0.0%
Weighting	**40%**		**5%**		**40%**		**10%**		**5%**	

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

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

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

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

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

When performing sensitivity analysis there is a high degree of estimation uncertainty. On this basis, 100% weighted expected credit loss provisions presented for the upside and downside scenarios should not be taken to represent the lower or upper range of possible and actual expected credit loss outcomes. The recalculated ECL provision for each of the scenarios should be read in the context of the sensitivity analysis as a whole. The modelled impact presented is based on gross loans and advances to customers at 31 July 2020; it does not incorporate future changes relating to performance, growth or credit risk. In addition, given the change in the macroeconomic conditions, as well as the underlying modelled provisions, comparison between the sensitivity results at 31 July 2020 and 31 July 2019 is not appropriate.

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

2. Segmental analysis

The directors manage the group by class of business and present the segmental analysis on that basis. The group's activities are presented in five (2019: five) operating segments: Commercial, Retail, Property, Asset Management and Securities.

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

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

Summary income statement for the year ended 31 July 2020

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

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

Balance sheet information at 31 July 2020

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

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

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 £7,838.6 million, in addition to assets and liabilities of £2,305.7 million and £8,930.1 million respectively primarily comprising treasury balances which are included within the Group column above.

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

Other segmental information for the year ended 31 July 2020

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

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

Summary income statement for the year ended 31 July 2019

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Net interest income/(expense)	176.7	199.8	129.8	0.1	(0.7)	-	505.7
Non-interest income/(expense)	73.2	23.4	(0.3)	120.3	94.1	-	310.7
Operating income	249.9	223.2	129.5	120.4	93.4	-	816.4
Administrative expenses	(128.6)	(113.9)	(30.2)	(96.6)	(71.7)	(24.9)	(465.9)
Depreciation and amortisation	(11.5)	(11.6)	(4.7)	(1.9)	(1.7)	(0.1)	(31.5)
Impairment (losses)/gains on financial assets	(23.3)	(25.2)	0.1	(0.1)	-	-	(48.5)
Total operating expenses	(163.4)	(150.7)	(34.8)	(98.6)	(73.4)	(25.0)	(545.9)
Adjusted operating profit/(loss)[1]	86.5	72.5	94.7	21.8	20.0	(25.0)	270.5
Amortisation of intangible assets on acquisition	(1.6)	(0.3)	-	(3.9)	-	-	(5.8)
Operating profit/(loss) before tax from continuing operations	84.9	72.2	94.7	17.9	20.0	(25.0)	264.7
Profit before tax from discontinued operations	-	0.8	-	-	-	-	0.8
Operating profit/(loss) before tax	84.9	73.0	94.7	17.9	20.0	(25.0)	265.5
External operating income/(expense)	300.8	264.6	158.1	120.5	93.4	(121.0)	816.4
Inter segment operating (expense)/income	(50.9)	(41.4)	(28.6)	(0.1)	-	121.0	-
Segment operating income	249.9	223.2	129.5	120.4	93.4	-	816.4

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

Balance sheet information at 31 July 2019

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
Total assets[1]	3,211.7	2,810.7	1,847.6	115.9	723.8	1,851.6	10,561.3
Total liabilities	-	-	-	59.1	652.6	8,443.2	9,154.9

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Balance sheet includes £1,856.2 million assets and £8,533.6 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 £7,870.0 million, in addition to assets and liabilities of £1,856.2 million and £8,533.6 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	1,192.6	56.8	71.2	85.8	1,406.4

Other segmental information for the year ended 31 July 2019

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group	Total
Employees (average number)[1]	1,117	1,048	180	672	274	64	3,355

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

3. Taxation

	2020 £ million	2019 £ million
Tax charged/(credited) to the income statement		
Current tax:		
UK corporation tax	**35.4**	59.4
Foreign tax	**0.2**	1.3
Adjustments in respect of previous years	**(10.0)**	(0.9)
	25.6	59.8
Deferred tax:		
Deferred tax (credit)/ charge for the current year	**(3.1)**	3.7
Adjustments in respect of previous years	**8.9**	0.9
	31.4	64.4
Tax on items not charged/(credited) to the income statement		
Current tax relating to:		
Share-based payments	**(0.1)**	(0.1)
Deferred tax relating to:		
Cash flow hedging	**(0.6)**	(1.5)
Defined benefit pension scheme	**0.3**	0.4
Financial instruments classified as fair value through other comprehensive income	**(0.1)**	-
Share-based payments	**-**	0.8
Currency translation (losses)/gains	**(0.3)**	0.4
Acquisitions	**(0.2)**	0.2
	(1.0)	0.2
Reconciliation to tax expense		
UK corporation tax for the year at 19.0% (2019: 19.0%) on operating profit	**26.8**	50.3
Effect of different tax rates in other jurisdictions	**(0.2)**	(0.2)
Disallowable items and other permanent differences	**1.6**	0.3
Banking surcharge	**7.2**	14.0
Deferred tax impact of increased tax rates	**(2.9)**	-
Prior year tax provision	**(1.1)**	-
	31.4	64.4

The standard UK corporation tax rate for the financial year is 19.0% (2019: 19.0%). However, an additional 8% surcharge applies to banking company profits as defined in legislation. The effective tax rate of 22.3% (2019: 24.3%) 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	Impair-ment losses £ million	Cash flow hedging £ million	Intangible assets £ million	Other £ million	Total £ million
At 1 August 2018	38.4	(1.1)	9.6	14.6	-	(4.1)	(0.3)	57.1
(Charge)/credit to the income statement	(3.3)	0.1	(0.5)	(1.9)	-	1.0	-	(4.6)
(Charge)/credit to other comprehensive income	(0.4)	(0.4)	-	-	1.5	-	-	0.7
Charge to equity	-	-	(0.8)	-	-	-	-	(0.8)
Acquisitions	-	-	-	-	-	(0.2)	-	(0.2)
At 31 July 2019	34.7	(1.4)	8.3	12.7	1.5	(3.3)	(0.3)	52.2
(Charge)/credit to the income statement	(3.5)	-	0.6	(3.2)	-	0.1	0.2	(5.8)
Credit/(charge) to other comprehensive income	0.3	(0.3)	-	-	0.6	-	0.1	0.7
Charge to equity	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	0.2	0.2
At 31 July 2020	**31.5**	**(1.7)**	**8.9**	**9.5**	**2.1**	**(3.2)**	**0.2**	**47.3**

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.

	2020	2019
Continuing operations		
Basic	**72.8p**	133.5p
Diluted	**72.5p**	132.5p
Adjusted basic[1]	**74.5p**	136.7p
Adjusted diluted[1]	**74.2p**	135.7p
Continuing and discontinued operations[2]		
Basic	**72.8p**	134.2p
Diluted	**72.5p**	133.2p

1 Excludes amortisation of intangible assets on acquisition and their tax effects.
2 Discontinued operations relate to 2019 only.

	2020 £ million	2019 £ million
Profit attributable to shareholders	**109.5**	201.6
Less profit from discontinued operations, net of tax	**-**	1.1
Profit attributable to shareholders on continuing operations	**109.5**	200.5
Adjustments:		
Amortisation of intangible assets on acquisition	**3.1**	5.8
Tax effect of adjustments	**(0.5)**	(1.0)
Adjusted profit attributable to shareholders on continuing operations	**112.1**	205.3

	2020 million	2019 million
Average number of shares		
Basic weighted	**150.4**	150.2
Effect of dilutive share options and awards	**0.7**	1.1
Diluted weighted	**151.1**	151.3

5. Dividends

	2020 £ million	2019 £ million
For each ordinary share		
Final dividend for previous financial year paid in November 2019: 44.0p (2018: 42.0p)	**65.8**	62.7
Interim dividend for current financial year paid in April 2020: 0.0p (2019: 22.0p)	**-**	32.8
	65.8	95.5

A final dividend relating to the year ended 31 July 2020 of 40.0p, amounting to an estimated £59.8 million, is proposed. This final dividend, which is due to be paid on 24 November 2020 to shareholders on the register at 16 October 2020, is not reflected in these financial statements.

6. Loans and advances to customers

The following table sets out a maturity analysis of loans and advances to customers. At 31 July 2020 loans and advances to customers with a maturity of two years or less was £6,031.6 million representing 76.8% (31 July 2019: 78.4%) of total loans and advances to customers:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total gross loans and advances to customers £ million	Impairment provisions £ million	Total net loans and advances to customers £ million
At 31 July 2020	**78.1**	**2,174.0**	**2,348.2**	**1,431.3**	**1,680.5**	**143.3**	**7,855.4**	**(238.7)**	**7,616.7**
At 31 July 2019	80.7	2,288.8	2,381.0	1,332.0	1,556.3	115.1	7,753.9	(104.3)	7,649.6

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

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

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

At 31 July 2019	Stage 1 £ million	Stage 2 Less than 30 days past due £ million	Stage 2 Greater than or equal to 30 days past due £ million	Stage 2 Total £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers						
Commercial	2,647.7	293.1	17.6	310.7	84.7	3,043.1
Retail	2,577.1	239.3	4.9	244.2	26.5	2,847.8
Property	1,639.2	43.2	105.6	148.8	75.0	1,863.0
Total	6,864.0	575.6	128.1	703.7	186.2	7,753.9
Impairment provisions						
Commercial	12.5	10.8	1.1	11.9	27.4	51.8
Retail	10.4	11.2	0.5	11.7	15.0	37.1
Property	2.0	1.9	1.6	3.5	9.9	15.4
Total	24.9	23.9	3.2	27.1	52.3	104.3
Provision coverage ratio						
Commercial	0.5%	3.7%	6.3%	3.8%	32.3%	1.7%
Retail	0.4%	4.7%	10.2%	4.8%	56.6%	1.3%
Property	0.1%	4.4%	1.5%	2.4%	13.2%	0.8%
Total	0.4%	4.2%	2.5%	3.9%	28.1%	1.3%

Stage 1 loans and advances to customers have fallen during the year to £5,906.6 million (31 July 2019: £6,864.0 million), primarily as a result of migrations to Stages 2 and 3 during the second half of the year due to both macroeconomic and case-specific effects associated with Covid-19. Those same factors drove an increase in the Stage 1 impairment provisions to £57.6 million (31 July 2019: £24.9 million), which in turn increased the provision coverage ratio to 1.0% (31 July 2019: 0.4%).

Stage 2 loans and advances to customers increased by £870.5 million to £1,574.2 million (31 July 2019: £703.7 million) across all segments following an increased incidence of a significant increase in credit risk, as a result of the macroeconomic environment and its effect on our customers, reflective of our forbearance and associated staging detailed in the ‘Critical accounting estimates and judgements’ section above. Those same factors drove an increase in the Stage 2 impairment provisions to £87.3 million (31 July 2019: £27.1 million), which in turn increased the provision coverage ratio to 5.5% (31 July 2019: 3.9%).

Stage 3 loans and advances to customers similarly increased by £188.4 million to £374.6 million (31 July 2019: £186.2 million) with migrations occurring across all of our portfolios primarily in the wake of the effects of Covid-19, and Stage 3 impairment provisions increased to £93.8 million (31 July 2019: £52.3 million). Stage 3 Property exposures carry lower provision coverage than those in Retail and Commercial, reflecting the lower likelihood of loss. Property exposures comprise a greater proportion of total Stage 3 exposures than at 31 July 2019, and this has therefore resulted in a slight decrease in the provision coverage ratio for this population to 25.0% (31 July 2019: 28.1%).

All of the above resulted in an increase in the total provision coverage ratio to 3.0% (31 July 2019: 1.3%).

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

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

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

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

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

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

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

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

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers				
At 1 August 2018	6,479.2	597.3	260.1	7,336.6
New financial assets originated	5,856.4	-	-	5,856.4
Transfers to Stage 1	204.6	(195.3)	(65.1)	(55.8)
Transfers to Stage 2	(918.4)	791.5	(11.3)	(138.2)
Transfers to Stage 3	(249.9)	(126.7)	315.4	(61.2)
Net transfers between stages and repayments[1]	(963.7)	469.5	239.0	(255.2)
Repayments while stage remain unchanged and final repayments	(4,573.0)	(369.3)	(134.8)	(5,077.1)
Changes to model methodologies	86.5	23.0	(109.5)	-
Write offs	(21.4)	(16.8)	(68.6)	(106.8)
At 31 July 2019	6,864.0	703.7	186.2	7,753.9

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 £689.4 million (2019: £275.0 million). A loss of £3.4 million (2019: £nil) was recognised as a result of these modifications. The loss relating to all loans which were modified during the year was £5.9 million. The gross carrying amount at 31 July 2020 of modified loans and advances to customers which transferred from Stage 2 or 3 to Stage 1 during the year was £52.8 million (31 July 2019: £55.4 million).

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

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 31 July 2018				39.1
IFRS 9 transition				58.2
At 1 August 2019	23.7	24.8	48.8	97.3
New financial assets originated	26.5	-	-	26.5
Transfers to Stage 1	1.0	(4.4)	(0.4)	(3.8)
Transfers to Stage 2	(6.4)	20.8	(0.2)	14.2
Transfers to Stage 3	(2.1)	(4.7)	48.2	41.4
Net remeasurement of expected credit losses arising from transfers between stages and repayments[1]	(7.5)	11.7	47.6	51.8
Repayments and ECL movements while stage remained unchanged and final repayments	(17.5)	(7.5)	(11.4)	(36.4)
Changes to model methodologies	-	-	(0.3)	(0.3)
Charge to the income statement	1.5	4.2	35.9	41.6
Write offs	(0.3)	(1.9)	(32.4)	(34.6)
At 31 July 2019	24.9	27.1	52.3	104.3

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

	2020 £ million	2019 £ million
Impairment losses relating to loans and advances to customers:		
Charge to income statement arising from movement in impairment provisions	**172.7**	41.6
Amounts written off directly to income statement, net of recoveries and other costs	**7.8**	5.8
	180.5	47.4
Impairment losses relating to other financial assets	**3.2**	1.1
Impairment losses on financial assets recognised in income statement	**183.7**	48.5

The contractual amount outstanding at 31 July 2020 on financial assets that were written off during the period and are still subject to recovery activity is £12.4 million (31 July 2019: £12.7 million).

(c) Finance lease and hire purchase agreement receivables

	2020 £ million	2019 £ million
Loans and advances to customers comprise		
Hire purchase agreement receivables	**2,998.0**	2,927.6
Finance lease receivables	**474.8**	453.1
Other loans and advances	**4,143.9**	4,268.9
At 31 July	**7,616.7**	7,649.6

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	**24.4**	**-**	**-**	**24.4**
Certificates of deposit	**-**	**-**	**285.9**	**285.9**
Sovereign and central bank debt	**-**	**72.2**	**-**	**72.2**
At 31 July 2020	**24.4**	**72.2**	**285.9**	**382.5**

	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	25.4	-	-	25.4
Certificates of deposit	-	-	240.7	240.7
Sovereign and central bank debt	-	48.3	-	48.3
At 31 July 2019	25.4	48.3	240.7	314.4

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

	2020 **£ million**	2019 £ million
Sovereign and central bank debt at 1 August	**48.3**	44.5
Additions	**22.7**	-
Currency translation differences	**(0.8)**	1.0
Movement in value	**2.0**	2.8
Sovereign and central bank debt at 31 July	**72.2**	48.3

8. Equity shares

	31 July 2020 £ million	31 July 2019 £ million
Long trading positions	**29.2**	35.3
Other equity shares	**0.8**	1.0
	30.0	36.3

9. Intangible assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Total £ million
Cost				
At 1 August 2018	150.7	160.8	67.0	378.5
Additions	0.2	48.1	0.5	48.8
Disposals	(0.1)	(7.7)	-	(7.8)
At 31 July 2019	150.8	201.2	67.5	419.5
Additions	2.3	46.9	-	49.2
Disposals	(0.1)	(14.8)	-	(14.9)
At 31 July 2020	**153.0**	**233.3**	**67.5**	**453.8**
Amortisation and impairment				
At 1 August 2018	47.9	87.9	41.4	177.2
Amortisation charge for the year	-	20.5	5.8	26.3
Disposals	-	(3.4)	-	(3.4)
At 31 July 2019	47.9	105.0	47.2	200.1
Amortisation charge for the year	-	25.3	3.1	28.4
Disposals	-	(14.8)	-	(14.8)
At 31 July 2020	**47.9**	**115.5**	**50.3**	**213.7**
Net book value at 31 July 2020	**105.1**	**117.8**	**17.2**	**240.1**
Net book value at 31 July 2019	102.9	96.2	20.3	219.4
Net book value at 1 August 2018	102.8	72.9	25.6	201.3

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

In the 2020 financial year, £3.1 million (2019: £5.8 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £25.3 million (2019: £20.5 million) of the amortisation charge is included in administrative expenses shown in the consolidated income statement.

10. Property, plant and equipment

	Leasehold property £ million	Fixtures, fittings and equipment £ million	Assets held under operating leases £ million	Motor vehicles £ million	Right of use assets[1] £million	Total £ million
Cost						
At 1 August 2018	22.4	55.8	268.9	0.1	-	347.2
Additions	5.9	6.2	72.9	-	-	85.0
Disposals	(1.2)	(6.5)	(27.7)	-	-	(35.4)
At 31 July 2019	27.1	55.5	314.1	0.1	-	396.8
IFRS 16 transition (note 16)	-	-	-	-	44.8	44.8
At 1 August 2019	27.1	55.5	314.1	0.1	44.8	441.6
Additions	0.7	10.8	54.6	-	16.3	82.4
Disposals	(2.3)	(6.2)	(27.3)	-	(0.7)	(36.5)
At 31 July 2020	**25.5**	**60.1**	**341.4**	**0.1**	**60.4**	**487.5**
Depreciation						
At 1 August 2018	12.9	38.0	70.1	0.1	-	121.1
Charge for the year and impairment	2.7	8.3	36.1	-	-	47.1
Disposals	(1.0)	(6.1)	(12.5)	-	-	(19.6)
At 31 July 2019	14.6	40.2	93.7	0.1	-	148.6
Charge for the year and impairment	2.4	7.5	44.3	-	13.2	67.4
Disposals	(2.2)	(4.8)	(18.5)	-	(0.2)	(25.7)
At 31 July 2020	**14.8**	**42.9**	**119.5**	**0.1**	**13.0**	**190.3**
Net book value at 31 July 2020	**10.7**	**17.2**	**221.9**	**-**	**47.4**	**297.2**
Net book value at 31 July 2019	12.5	15.3	220.4	-	-	248.2
Net book value at 1 August 2018	9.5	17.8	198.8	-	-	226.1

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

There was no gain or loss from the sale of assets held under operating leases for the year ended 31 July 2020 (2019: £0.3 million gain).

11. Settlement balances and short positions

	31 July 2020 £ million	31 July 2019 £ million
Settlement balances	**587.5**	547.6
Short positions in:		
Debt securities	**8.3**	9.6
Equity shares	**9.1**	10.9
	17.4	20.5
	604.9	568.1

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	**25.5**	**123.3**	**4.0**	**-**	**-**	**-**	**152.8**
Deposits by customers	**543.3**	**1,103.9**	**2,799.2**	**1,151.8**	**319.5**	**-**	**5,917.7**
Loans and overdrafts from banks	**6.9**	**1.0**	**-**	**262.0**	**228.0**	**-**	**497.9**
Debt securities in issue	**27.1**	**37.1**	**914.9**	**212.4**	**407.7**	**271.1**	**1,870.3**
At 31 July 2020	**602.8**	**1,265.3**	**3,718.1**	**1,626.2**	**955.2**	**271.1**	**8,438.7**

	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	12.5	15.7	29.8	-	-	-	58.0
Deposits by customers	78.3	1,232.7	2,817.9	1,157.2	352.3	-	5,638.4
Loans and overdrafts from banks	19.0	10.3	-	213.2	276.8	-	519.3
Debt securities in issue	20.7	27.4	143.6	937.8	459.5	271.1	1,860.1
At 31 July 2019	130.5	1,286.1	2,991.3	2,308.2	1,088.6	271.1	8,075.8

The group has accessed £262.0 million (31 July 2019: £490.0 million) cash under the Bank of England's Term Funding Scheme and £228.0 million (31 July 2019: £nil) under the Term Funding Scheme with Additional Incentives for SMEs. Cash from the Term Funding Schemes and repurchase agreements is included within bank loans and overdrafts. Residual maturities of the Schemes and repurchase agreements are as follows:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
At 31 July 2020	**-**	**-**	**-**	**262.0**	**228.0**	**-**	**490.0**
At 31 July 2019	-	0.3	-	213.2	276.8	-	490.3

13. Capital

At 31 July 2020, the group's common equity tier 1 ("CET1") capital ratio was 14.1% (31 July 2019: 13.0%). CET1 capital increased to £1,254.0 million (31 July 2019: £1,169.2 million) primarily due to retained profit with the impact of higher impairment charges largely offset by the capital add-back under transitional IFRS 9 arrangements.

Risk weighted assets, calculated using the standardised approaches, decreased to £8,863.2 million (31 July 2019: £8,967.4 million) due to reduction in loan book risk weighted assets including the impact of the accelerated application of CRR2 SME supporting factor.

	31 July 2020 £ million	31 July 2019 £ million
CET1 capital		
Called up share capital	**38.0**	38.0
Retained earnings	**1,435.0**	1,392.5
Other reserves recognised for CET1 capital	**17.2**	19.0
Deductions from CET1 capital		
Intangible assets, net of associated deferred tax liabilities	**(236.9)**	(216.1)
Foreseeable dividend[1]	**(59.8)**	(65.7)
Investment in own shares	**(33.9)**	(37.7)
Pension asset, net of associated deferred tax liabilities	**(5.7)**	(5.3)
Prudent valuation adjustment	**(0.2)**	(0.1)
IFRS 9 transitional arrangements[2]	**100.3**	44.6
CET1 capital	**1,254.0**	1,169.2
Tier 2 capital – subordinated debt	**187.0**	195.4
Total regulatory capital[3]	**1,441.0**	1,364.6
Risk weighted assets (notional)[3] – unaudited		
Credit and counterparty credit risk	**7,789.0**	7,930.5
Operational risk[4]	**945.7**	884.4
Market risk[4]	**128.5**	152.5
	8,863.2	8,967.4
CET1 capital ratio[3] – unaudited	**14.1%**	13.0%
Total capital ratio[3] – unaudited	**16.3%**	15.2%

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2020 and 31 July 2019 for a foreseeable dividend being the proposed final dividend as set out in note 5.
2 The group has elected to apply IFRS 9 transitional arrangements for 31 July 2020, which allow the capital impact of expected credit losses to be phased in over the transition period. For 31 July 2020 relief has been applied at 85%. The Covid-19 regulatory measures finalised in June 2020 will allow for 100% relief on stage 1 and stage 2 impairment provisions recognised since 1 January 2020. This additional relief will apply to the group's capital ratios throughout FY21 and FY22 before reducing on a straight line basis over the following four financial years.
3 Shown after applying IFRS 9 transitional arrangements and the Capital Requirements Regulations transitional and qualifying own funds arrangements. At 31 July 2020 the fully loaded CET1 capital ratio is 13.1% and total capital ratio is 15.1% (31 July 2019: CET1 capital ratio 12.6% and total capital ratio 14.5%).
4 Operational and market risk include a notional adjustment at 8% in order to determine notional risk weighted assets.

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

	31 July 2020 £ million	31 July 2019 £ million
Equity	**1,449.6**	1,406.4
Regulatory deductions from equity:		
Intangible assets, net of associated deferred tax liabilities	**(236.9)**	(216.1)
Foreseeable dividend[1]	**(59.8)**	(65.7)
IFRS 9 transitional arrangements[2]	**100.3**	44.6
Pension asset, net of associated deferred tax liabilities	**(5.7)**	(5.3)
Prudent valuation adjustment	**(0.2)**	(0.1)
Other reserves not recognised for CET1 capital:		
Cash flow hedging reserve	**5.7**	4.4
Non-controlling interests	**1.0**	1.0
CET1 capital	**1,254.0**	1,169.2

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2020 and 31 July 2019
for a foreseeable dividend being the proposed final dividend as set out in note 5.
2 The group has elected to apply IFRS 9 transitional arrangements for 31 July 2020, which allow the capital impact of expected
credit losses to be phased in over the transitional period.

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

	£ million
CET1 capital at 31 July 2019	1,169.2
Profit in the period attributable to shareholders	109.5
Dividends paid and foreseen	(59.9)
IFRS 9 transitional arrangements	55.7
Increase in intangible assets, net of associated deferred tax liabilities	(20.8)
Other movements in reserves recognised for CET1 capital	(3.0)
Other movements in deductions from CET1 capital	3.3
CET1 capital at 31 July 2020	**1,254.0**

14. Consolidated cash flow statement reconciliation

	31 July 2020 £ million	31 July 2019 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit before tax from continuing operations	**140.9**	264.7
Profit before tax from discontinued operations	**-**	0.8
Tax paid	**(86.6)**	(55.6)
Depreciation and amortisation	**95.8**	73.5
(Increase)/decrease in:		
Interest receivable and prepaid expenses	**(14.5)**	(4.8)
Net settlement balances and trading positions	**(12.9)**	(29.2)
Net loans from money brokers against stock advanced	**0.3**	15.8
Increase/(decrease) in interest payable and accrued expenses	**15.2**	(3.5)
Net cash inflow from trading activities	**138.2**	261.7
(Increase)/decrease in:		
Loans and advances to banks not repayable on demand	**(13.3)**	1.9
Loans and advances to customers	**(87.8)**	(416.6)
Assets let under operating leases	**(45.6)**	(62.7)
Certificates of deposit	**(45.2)**	9.8
Sovereign and central bank debt	**(22.7)**	-
Other assets less other liabilities	**142.6**	9.1
Increase/(decrease) in:		
Deposits by banks	**93.4**	2.8
Deposits by customers	**284.3**	141.2
Loans and overdrafts from banks	**(21.4)**	9.5
Issuance/redemption of debt securities, net of transaction costs	**6.9**	63.7
Net cash inflow from operating activities	**429.4**	20.4
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and non-controlling interests		
Cash consideration paid	**(4.6)**	(3.6)
(c) Analysis of net cash inflow in respect of the sale of discontinued operations and subsidiaries		
Cash consideration received	**0.5**	87.6
	0.5	87.6
(d) Analysis of cash and cash equivalents[1]		
Cash and balances at central banks	**1,362.8**	1,094.9
Loans and advances to banks	**98.5**	93.4
	1,461.3	1,188.3

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

During the year ended 31 July 2020, the non-cash changes on debt financing amounted to £16.2 million (31 July 2019: £18.6 million) arising largely from interest accretions and fair value hedging movements.

15. Forbearance

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

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

Additional support for customers impacted by Covid-19

The economic conditions resulting from Covid-19 have been unprecedented in terms of the financial support required by our customers who find themselves in difficulty, and we have introduced a range of additional forbearance measures to support them. Concessions granted to customers as a consequence of Covid-19 are varied across our lending businesses. In all instances, where further support is required this is considered on a case by case basis as we seek to assist our customers during these unpredictable times. The number of customers supported via concessions offered has increased to 66,153.

Forbearance analysis

At 31 July 2020 the gross carrying amount of exposures with forbearance measures was £1,596.2 million (31 July 2019: £174.5 million). The key driver of this increase is Covid-19 related forbearance which comprises 88% (£1,410.4 million) of forborne exposures at 31 July 2020. As set out in note 1, a Covid-19 related concession does not in itself constitute a significant increase in credit risk; accordingly 26% and 72% of these loans are in stages 1 and 2 respectively.

An analysis of forborne loans as at 31 July 2020 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 2020	**7,855.4**				
Non-Covid-19 forbearance		**185.8**	**2.4%**	**34.5**	**3,039**
Covid-19 forbearance		**1,410.4**	**18.0%**	**71.9**	**66,153**
	7,855.4	**1,596.2**	**20.3%**	**106.4**	**69,192**
31 July 2019	7,753.9				
Non-Covid-19 forbearance		174.5	2.3%	18.7	3,612
Covid-19 forbearance		-	-	-	-
	7,753.9	174.5	2.3%	18.7	3,612

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

	31 July 2020			31 July 2019
	Covid-19 £ million	**Non-Covid-19 £ million**	**Total forborne loans £ million**	Total forborne loans £ million
Commercial	832.8	50.1	882.9	70.9
Retail	251.0	4.1	255.1	5.9
Property	326.6	131.6	458.2	97.7
	1,410.4	**185.8**	**1,596.2**	174.5

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

	31 July 2020			31 July 2019
	Covid-19	**Non-Covid-19**	**Total number of customers supported**	Total number of customers supported
Commercial	7,322	284	7,606	265
Retail	58,644	2,700	61,344	3,308
Property	187	55	242	39
	66,153	**3,039**	**69,192**	3,612

16. Implementation of IFRS 16

The group adopted IFRS 16 from 1 August 2019. The standard has been applied on a modified retrospective basis and comparative information has not been restated. More information on changes to the group's accounting policies can be found in note 1.

At transition date, the group applied the option to measure right of use assets at an amount equal to the lease liability, adjusted for prepaid or accrued payments. This resulted in the recognition on the balance sheet of right of use assets of £44.8 million and lease liabilities of £47.4 million, with no impact on shareholders' equity. The right of use assets and lease liabilities, which largely relate to properties previously accounted for as operating leases, are included within Property, plant and equipment and Other liabilities respectively.

The weighted average incremental borrowing rate applied to lease liabilities at transition date was 2%. At 31 July 2019, IAS 17 operating lease commitments as disclosed on page 138 of the Annual Report 2019 amounted to £55.2 million. The difference between this and total lease liabilities recognised at 1 August 2019 on transition largely relates to the impact of discounting.

The group did not reassess whether a contract is, or contains, a lease on transition as permitted by IFRS 16. In addition, the following practical expedients were applied on transition:
• Reliance on previous assessment of whether a lease is onerous;
• Recognition exemption for leases with a remaining term of less than 12 months at transition date;
• Exclusion of initial direct costs from the measurement of right of use assets;
• Use of hindsight in determining lease term if the contract contains options to extend or terminate; and
• Application of a single discount rate to a portfolio of leases with reasonably similar characteristics.

Cautionary Statement

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