Close Brothers

Close Brothers Group plc
10 Crown Place
London EC2A 4FT

T +44 (0)20 7655 3100
E enquiries@closebrothers.com
W www.closebrothers.com

Registered in England No. 520241

Press Release

Preliminary Results for the Six Months to 31 January 2018

13 March 2018

Good Profit Growth in the First Half[1]

- The group reported a good performance for the first half, with a 6% increase in adjusted operating profit to £142.3 million and a return on opening equity[2] of 17.3%
- Banking delivered an adjusted operating profit of £128.5 million, up 5% year on year, driven by both Commercial and Retail
- The net interest margin was stable and impairments remained low with a bad debt ratio of 0.7%, stable on last year excluding provision releases
- The loan book grew by 1.7% to £7.0 billion, up 7% year on year, as we continue to apply our disciplined approach to lending
- Winterflood's strong performance continued with operating profit of £14.7 million, 2% up year on year, reflecting consistently high investor trading activity
- Asset Management delivered a significant increase in adjusted operating profit to £11.4 million, up 25% year on year, supported by strong net inflows at 13% (annualised) of opening managed assets
- The interim dividend per share of 21.0p is up 5% on last year
- On a statutory basis, group operating profit before tax increased 5% to £138.6 million

Financial Highlights[2]

	First half 2018	First half 2017	Change %
Adjusted operating profit	**£142.3m**	£134.2m	6
Operating profit before tax	**£138.6m**	£131.4m	5
Adjusted basic earnings per share	**71.2p**	66.6p	7
Basic earnings per share	**69.2p**	65.1p	6
Dividend per share	**21.0p**	20.0p	5
Return on opening equity	**17.3%**	18.0%	
Net interest margin	**8.2%**	8.2%	
Bad debt ratio	**0.7%**	0.5%[3]	

	31 January 2018	31 July 2017	Change %
Loan book	**£7.0bn**	£6.9bn	1.7
Total client assets	**£11.8bn**	£11.2bn	5.8
Common equity tier 1 capital ratio	**12.7%**	12.6%	
Total capital ratio	**15.2%**	15.2%	

1 Numbers are presented on an adjusted basis, unless indicated otherwise. Adjusted operating profit excludes £3.7 million (2017: £2.8 million) of amortisation of intangible assets on acquisition.
2 Please refer to definitions on page 16.
3 Includes provision releases. Bad debt ratio of 0.7% excluding provision releases.

Preben Prebensen, Chief Executive, said:

"We are pleased with our performance and progress in the first half, delivering higher profit while staying true to our client and customer focused model, and maintaining our prudent and disciplined approach.

All our businesses have achieved a good performance year to date, and we remain well positioned for the full year.

Longer term, we are confident that the consistent application of our business model, along with our strong customer relationships, the expertise of our people and the quality of our service will allow us to continue performing well in all market conditions."

Enquiries

Sophie Gillingham	Close Brothers Group plc	020 7655 3844
Eva Hatfield	Close Brothers Group plc	020 7655 3350
Liya Dashkina	Close Brothers Group plc	020 7655 3468
Andy Donald	Maitland	020 7379 5151

A presentation to analysts and investors will be held today at 9.30 am GMT at our offices at 10 Crown Place, London EC2A 4FT. A listen-only dial-in facility will be available by dialling +44 20 3936 2999, using participant access code 181169.

Basis of Presentation

Results are presented both on a statutory and an adjusted basis to aid comparability between periods. The adjusted basis excludes exceptional items and amortisation of intangible assets on acquisition.

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 3,200 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

Close Brothers has delivered a good first half, with a strong contribution from all three divisions. Adjusted operating profit increased 6% to £142.3 million (2017: £134.2 million) and statutory operating profit before tax increased 5% to £138.6 million (2017: £131.4 million). Earnings per share were up 7% on an adjusted basis at 71.2p (2017: 66.6p), and 6% on a statutory basis at 69.2p (2017: 65.1p). Return on opening equity has remained strong at 17.3% (2017: 18.0%) and we are pleased to declare an interim dividend of 21.0p (2017: 20.0p) per share, up 5% year on year.

We have seen no change to the benign credit environment in our lending businesses in the period and market conditions for our Securities and Asset Management businesses remained supportive. In this environment, our focus remains on maintaining the long-term discipline of our business model, bringing service and expertise to our clients and customers, maintaining pricing and underwriting discipline, and investing in a number of infrastructure and new business initiatives.

Good Profitability in the Lending Businesses

The Banking division delivered a good performance across all three lending segments. Adjusted operating profit increased 5% to £128.5 million (2017: £122.7 million) with a stable net interest margin at 8.2% (2017: 8.2%) and a low bad debt ratio of 0.7% (2017: 0.5%).

In Banking, our focus remains on maintaining our strong net interest margin and underwriting discipline in all market conditions. As a result, loan book growth is slower at the current point in the cycle, reflecting continuing high credit supply in several of our markets. Overall the loan book increased 1.7% in the first half, in line with the first half last year.

Within the Retail segment, the Premium Finance business delivered further growth, benefiting from new broker relationships following significant investment in the business in recent years. In Motor Finance, we continue to prioritise our credit quality and margins in a highly competitive market, and as a result the loan book contracted slightly in the period.

Commercial delivered growth in both the loan book and operating profit in the first half. In Asset Finance, the loan book increased 2% despite continued competition, with growth driven by the more specialist product lines. We also achieved good growth in Invoice Finance.

Finally, in Property, the loan book continued to grow driven by consistently strong demand for new build family homes in both London and the regions. The business remains well positioned, with high levels of repeat business and a solid pipeline.

Good Performance in Winterflood and Asset Management

Winterflood's strong trading has continued, with operating profit of £14.7 million (2017: £14.4 million), benefiting from continued investor trading activity and rising markets. Trading was consistently profitable, with no loss days in the period.

Asset Management delivered a significant improvement in performance, with adjusted operating profit of £11.4 million (2017: £9.1 million), up 25% year on year, and an operating margin of 20%. Net inflows increased to 13% of opening managed assets (2017: 3%), reflecting the strength of our client proposition for both advice and investment management.

Prudent Funding, Liquidity and Capital

The prudent management of our funding, liquidity and capital is a core part of our business model allowing us to grow, invest and pay a dividend, while meeting all regulatory requirements. We have maintained good access to a diverse range of funding markets and our capital ratios remained strong in the period, with a common equity tier 1 capital ratio of 12.7% (31 July 2017: 12.6%) and leverage ratio of 10.7% (31 July 2017: 10.7%).

Outlook

We remain committed to our proven business model, which supports our track record of lending successfully in all stages of the cycle.

Our Banking division remains well positioned, benefiting from the diversity of its business portfolio and strong customer focus. We remain committed to protecting the margins, maintaining our prudent underwriting and investing to improve and extend our business in new and existing markets.

Winterflood continues to maintain its market-leading position and maximise its trading opportunities, but remains sensitive to any change in market conditions.

The Asset Management division continues to build on the strength of our client proposition and remains focused on growing its asset base.

At this stage, we have seen no significant change in trading conditions since the period end and remain well positioned to deliver a good result for the full year.

OVERVIEW OF FINANCIAL PERFORMANCE

Key Financials

	First half 2018 £ million	First half 2017 £ million	Change %
Operating income	**405.5**	378.3	7
Adjusted operating expenses	**(239.4)**	(226.8)	6
Impairment losses on loans and advances	**(23.8)**	(17.3)	38
Adjusted operating profit	**142.3**	134.2	6
Banking	**128.5**	122.7	5
Retail	**42.8**	39.9	7
Commercial	**39.7**	36.5	9
Property	**46.0**	46.3	(1)
Securities	**14.7**	14.4	2
Asset Management	**11.4**	9.1	25
Group	**(12.3)**	(12.0)	3
Amortisation of intangible assets on acquisition	**(3.7)**	(2.8)	32
Operating profit before tax	**138.6**	131.4	5
Adjusted basic earnings per share	**71.2p**	66.6p	7
Basic earnings per share	**69.2p**	65.1p	6
Dividend per share	**21.0p**	20.0p	5
Return on opening equity	**17.3%**	18.0%	

Good Performance in the First Half

Adjusted operating profit increased 6% to £142.3 million (2017: £134.2 million) and statutory operating profit before tax increased 5% to £138.6 million (2017: £131.4 million), resulting in an operating margin of 35% (2017: 35%). Return on opening equity (“RoE”) remained strong at 17.3% (2017: 18.0%).

The Banking division continued to deliver strong returns and profit growth, with adjusted operating profit up 5% to £128.5 million (2017: £122.7 million). Winterflood, supported by continued investor trading activity, delivered an operating profit of £14.7 million (2017: £14.4 million), ahead of the prior year. Asset Management also performed well, with an adjusted operating profit of £11.4 million (2017: £9.1 million), up 25% year on year, driven by strong net inflows and positive market movements. Group net expenses, which include the central functions such as finance, legal and compliance, risk and human resources, were marginally higher at £12.3 million (2017: £12.0 million).

Operating income increased 7% to £405.5 million (2017: £378.3 million), with higher income in all three divisions. Income in Banking increased 7% with a stable net interest margin of 8.2% (2017: 8.2%), while income in Securities and Asset Management was up 3% and 12% respectively.

Adjusted operating expenses increased 6% to £239.4 million (2017: £226.8 million), driven predominantly by continued growth and investment in the Banking division. Costs in Securities and Asset Management were also up, reflecting higher variable costs due to strong trading performance. Overall, the expense/income ratio improved slightly to 59% (2017: 60%) and the compensation ratio remained stable at 38% (2017: 38%).

Impairments of £23.8 million (2017: £17.3 million) remained low with a bad debt ratio of 0.7% (2017: 0.5%). The increase reflects provision releases of £5.4 million in the comparative period, which did not recur. Excluding these provision releases, the ratio remained stable.

The tax charge in the period was £34.7 million (2017: £34.8 million), which corresponds to an effective tax rate of 25% (2017: 26%), reflecting the reduction in the corporation tax rate.

As a result, adjusted basic earnings per share ("EPS") increased 7% to 71.2p (2017: 66.6p). Basic EPS increased 6% to 69.2p (2017: 65.1p).

The interim dividend of 21.0p (2017: 20.0p) represents an increase of 5% from the prior year, reflecting our progressive dividend policy. This interim dividend is due to be paid on 25 April 2018 to shareholders on the register at 23 March 2018.

Results are presented on both a statutory and adjusted basis. The adjusted basis excludes amortisation of intangible assets on acquisition. Adjusted operating profit is reported on a basis consistent with prior periods and is used by management for internal management reporting purposes. Amortisation of intangible assets on acquisition of £3.7 million (2017: £2.8 million) is excluded from adjusted operating profit to present the performance of the group's acquired businesses consistent with its other businesses.

Group Balance Sheet

	31 January 2018 £ million	31 July 2017 £ million
Loans and advances to customers	**6,998.4**	6,884.7
Treasury assets[1]	**1,135.2**	1,029.0
Market-making assets[2]	**705.5**	643.4
Other assets	**802.3**	728.1
Total assets	**9,641.4**	9,285.2
Deposits by customers	**5,250.2**	5,113.1
Borrowings	**2,144.5**	2,041.2
Market-making liabilities[2]	**674.4**	556.9
Other liabilities	**295.1**	338.0
Total liabilities	**8,364.2**	8,049.2
Equity	**1,277.2**	1,236.0
Total liabilities and equity	**9,641.4**	9,285.2

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.

We maintain a prudent approach to managing our financial resources, which is reflected in our simple and transparent balance sheet. Assets are made up predominantly of loans and advances to customers as well as treasury assets held for liquidity purposes, and settlement balances in our Securities division. Other assets principally comprise intangibles, property, plant and equipment, and prepayments. Liabilities are predominantly made up of customer deposits, and both secured and unsecured borrowings to fund the loan book.

Total assets increased to £9.6 billion (31 July 2017: £9.3 billion), driven predominantly by growth in the loan book and treasury assets. Total liabilities increased £315.0 million to £8.4 billion (31 July 2017: £8.0 billion), due to higher customer deposits and borrowings. Total equity increased to £1.3 billion (31 July 2017: £1.2 billion), with profit in the period partially offset by dividend payments of £59.7 million. The group's return on assets remained broadly stable at 2.2% (31 July 2017: 2.1%).

Group Capital Position

	31 January 2018 £ million	31 July 2017 £ million
Common equity tier 1 capital	**1,032.3**	990.6
Total capital	**1,230.3**	1,196.2
Risk weighted assets	**8,119.6**	7,859.0
Common equity tier 1 capital ratio	**12.7%**	12.6%
Total capital ratio	**15.2%**	15.2%
Leverage ratio	**10.7%**	10.7%

The group aims to maintain a strong capital position, which supports our ability to lend through the cycle, invest in our business and pay a progressive dividend to shareholders while continuing to meet all regulatory requirements.

In the first half, the common equity tier 1 ("CET1") capital ratio increased to 12.7% (31 July 2017: 12.6%), reflecting continued profitability and modest loan book growth at this stage in the cycle. CET1 capital increased to £1,032.3 million (31 July 2017: £990.6 million), reflecting £104.0 million of profit for the period, a regulatory deduction for foreseeable dividends of £47.9 million and other movements in reserves and intangibles. Risk weighted assets increased 3% to £8.1 billion (31 July 2017: £7.9 billion), driven by a combination of growth in the period and loan book mix at the period end.

The group's total capital ratio remained stable at 15.2% (31 July 2017: 15.2%), and the leverage ratio remained strong at 10.7% (31 July 2017: 10.7%).

Accordingly, all the group's capital ratios remain comfortably ahead of minimum regulatory requirements. At this stage, we expect limited impact from the changes to the standardised approach issued by the Basel Committee, but we continue to monitor regulatory developments carefully.

We are continuing to progress our plans towards a transition to the Internal Ratings Based approach, which remain at an early stage.

Group Funding[1]

	31 January 2018 £ million	31 July 2017 £ million
Customer deposits	**5,250.2**	5,113.1
Secured funding	**1,268.9**	1,297.3
Unsecured funding[2]	**1,144.1**	1,120.3
Equity	**1,277.2**	1,236.0
Total available funding	**8,940.4**	8,766.7
Of which term funding (over one year)	**4,703.6**	4,766.2
Total funding as % of loan book	**128%**	127%
Term funding as % of loan book	**67%**	69%
Average maturity of term funding (excluding equity)	**37 months**	38 months
Average maturity of funding allocated to loan book[3]	**21 months**	21 months

1 Numbers relate to core funding and exclude working capital facilities at the business level.
2 Unsecured funding includes £295.0 million (31 July 2017: £295.0 million) of undrawn facilities.
3 Average maturity of total funding excluding equity and funding held for liquidity purposes.

The main purpose of our treasury function is to manage funding and liquidity to support the lending businesses. We maintain a conservative approach, with diverse funding sources and a prudent maturity profile.

We continue to have access to a wide range of funding sources, including retail and corporate deposits, both secured and unsecured debt, and wholesale facilities. We have made limited use of the Term Funding Scheme, which represents c.4% of our total funding at the balance sheet date.

In the first half, total funding increased to £8.9 billion (31 July 2017: £8.8 billion), accounting for 128% of the loan book. The increase was driven by higher deposits, up 3% to £5.3 billion (31 July 2017: £5.1 billion), with growth principally in corporate deposits.

We also maintain a prudent funding maturity. At 31 January 2018, term funding with a residual maturity over one year covered 67% (31 July 2017: 69%) of the loan book, with the average maturity of funding allocated to the loan book remaining at 21 months (31 July 2017: 21 months), significantly ahead of the loan book maturity of 14 months (31 July 2017: 14 months).

The overall funding environment remains favourable and our average cost of funding reduced to 1.6% (2017: 1.9%), reflecting new lower cost funding, including a second public Motor securitisation placing of £200 million in November 2017.

In the period, we have also initiated an investment programme to implement a new deposit platform, which will allow us to build an online distribution channel and offer a wider range of savings products.

Since the financial year end, both Moody's Investors Services ("Moody's") and Fitch Ratings ("Fitch") reaffirmed our credit ratings. Moody's rates Close Brothers Group ("CBG") A3/P2 and Close Brothers Limited ("CBL") Aa3/P1, with stable outlook. Fitch rates both CBG and CBL A/F1 with stable outlook.

Group Liquidity

	31 January 2018 £ million	31 July 2017 £ million
Bank of England deposits	**841.4**	805.1
Sovereign and central bank debt	**42.8**	43.6
High quality liquid assets[1]	**884.2**	848.7
Certificates of deposit	**251.0**	180.3
Treasury assets	**1,135.2**	1,029.0

1 In addition to, and not included in the above, at 31 July 2017 the group held £97.5 million of Treasury Bills drawn under the Funding for Lending Scheme but not in repurchase agreements, which have since been repaid.

We maintain a strong liquidity position, with the majority of our liquidity requirements and surplus funding held in the form of high quality liquid assets. We regularly assess and stress test our liquidity position, ensuring it is comfortably ahead of both internal risk appetite and regulatory requirements. We continue to comfortably meet the liquidity coverage ratio requirements under CRD IV.

Treasury assets at 31 January 2018 increased to £1.1 billion (31 July 2017: £1.0 billion), and were predominantly held on deposit with the Bank of England.

IFRS 9

As previously communicated, the provisions of IFRS 9 Financial Instruments will apply to the group for the year ending 31 July 2019. We are conducting a parallel run during the current financial year to validate and refine the models and assumptions ahead of implementation on 1 August 2018. We will provide further detail on the expected financial impact of the transition once we have sufficiently reliable estimates.

BUSINESS REVIEW

BANKING

Key Financials

	First half 2018 £ million	First half 2017 £ million	Change %
Operating income	**293.9**	274.0	7
Adjusted operating expenses	**(141.6)**	(134.0)	6
Impairment losses on loans and advances	**(23.8)**	(17.3)	38
Adjusted operating profit	**128.5**	122.7	5
Net interest margin	**8.2%**	8.2%	
Expense/income ratio	**48%**	49%	
Bad debt ratio	**0.7%**	0.5%	
Return on net loan book	**3.6%**	3.7%	
Return on opening equity	**20%**	23%	
Average loan book and operating lease assets	**7,131.1**	6,655.2	7

Good Financial Performance Continued in the First Half

Adjusted operating profit for the Banking division was up 5% to £128.5 million (2017: £122.7 million), driven by 7% income growth to £293.9 million (2017: £274.0 million) and continued low impairments. Statutory operating profit increased 4% to £127.5 million (2017: £122.4 million).

The loan book grew 1.7% (2017: 1.7%) in the period, in line with the first half last year, with a broadly stable return on net loan book of 3.6% (2017: 3.7%). Return on opening equity was slightly lower at 20% (2017: 23%), driven by higher equity following the increase in risk weighting of our property portfolio last year.

The net interest margin remained stable at 8.2% (2017: 8.2%), reflecting our continued pricing discipline and benefiting from a lower cost of funding. Although price competition remains strong in some parts of our business, we continue to focus on holding our margins across the overall portfolio.

Adjusted operating expenses at £141.6 million (2017: £134.0 million) increased 6% year on year, with the increase driven predominantly by staff-related costs. Cost discipline remains a priority, as we tightly manage our operational costs while continuing to invest in the business. In Retail, investment continues across both Premium and Motor Finance, and we are continuing to progress a number of new business initiatives in Commercial. In the period, we have also initiated an investment in a new deposit platform, which, in time, will allow our treasury function to expand its product offering and build an online presence. The expense/income and compensation ratios both remained broadly in line with last year, at 48% (2017: 49%) and 29% (2017: 30%) respectively.

The bad debt ratio remained low at 0.7% (2017: 0.5%), reflecting continued strong underlying credit performance across the portfolio. The ratio increase from 0.5% to 0.7% reflects one-off provision releases in the first half of 2017, and the ratio was unchanged on an underlying basis.

Loan Book Analysis

	31 January 2018 £ million	31 July 2017 £ million	Change %
Retail	**2,700.6**	2,702.8	(0.1)
Motor Finance	**1,715.5**	1,761.9	(2.6)
Premium Finance	**985.1**	940.9	4.7
Commercial	**2,603.7**	2,552.6	2.0
Asset Finance	**2,057.0**	2,017.0	2.0
Invoice Finance	**546.7**	535.6	2.1
Property	**1,694.1**	1,629.3	4.0
Closing loan book	**6,998.4**	6,884.7	1.7

The loan book growth reflects the diversity of our portfolio, as we continue to prioritise margins and credit quality at the current point in the cycle. The loan book grew 1.7% year to date, and 7.0% year on year, to £7.0 billion (31 July 2017: £6.9 billion). Growth continues to be driven by Property and Premium Finance, with both Asset and Invoice Finance also growing in the period. In Motor Finance, the loan book contracted modestly, reflecting our commitment to pricing and underwriting discipline in the current environment.

Banking: Retail

	First half 2018 £ million	First half 2017 £ million	Change %
Operating income	**118.6**	110.3	8
Adjusted operating expenses	**(61.4)**	(58.5)	5
Impairment losses on loans and advances	**(14.4)**	(11.9)	21
Adjusted operating profit	**42.8**	39.9	7
Net interest margin	**8.8%**	8.7%	
Expense/income ratio	**52%**	53%	
Bad debt ratio	**1.1%**	0.9%	
Average loan book	**2,701.7**	2,540.9	6

The segment provides intermediated finance, principally to individuals, through motor dealers, insurance brokers and retailers, and incorporates our Premium and Motor Finance businesses.

The Retail loan book remained broadly flat at £2.7 billion (31 July 2017: £2.7 billion). In Premium Finance, we saw good growth of 4.7% to £1.0 billion (31 July 2017: £0.9 billion), driven by recent broker wins and increased volumes through existing brokers, supported by our ongoing investment in the business.

The Motor Finance loan book contracted 2.6% in the period, and is currently at £1.7 billion (31 July 2017: £1.8 billion), as we continue to consistently apply our model, holding margin and prioritising credit quality in a highly competitive UK motor finance market. As expected, the Irish portfolio continued to grow modestly.

Overall, adjusted operating profit for the Retail segment of £42.8 million (2017: £39.9 million) was up 7% on the prior year. Statutory operating profit was also up 7% at £42.7 million (2017: £39.9 million).

Operating income was up 8% year on year at £118.6 million (2017: £110.3 million) with the net interest margin marginally higher at 8.8% (2017: 8.7%).

Adjusted operating expenses increased 5% to £61.4 million (2017: £58.5 million). We continue our multi-year investment in the Premium Finance infrastructure, as well as an investment programme in the Motor Finance business initiated at the end of last year to improve the service proposition to dealers and end customers. Despite this investment, the expense/income ratio was broadly in line with the prior year at 52% (2017: 53%).

The bad debt ratio of 1.1% (2017: 0.9%) remains consistent with the second half of the last financial year. We remain comfortable with the credit quality of the Motor Finance loan book, supported by our prudent underwriting, focus on used cars and low exposure to Personal Contract Plan ("PCP").

Banking: Commercial

	First half 2018 £ million	First half 2017 £ million	Change %
Operating income	**110.4**	105.6	5
Adjusted operating expenses	**(65.1)**	(61.5)	6
Impairment losses on loans and advances	**(5.6)**	(7.6)	(26)
Adjusted operating profit	**39.7**	36.5	9
Net interest margin	**8.0%**	8.0%	
Expense/income ratio	**59%**	58%	
Bad debt ratio	**0.4%**	0.6%	
Average loan book and operating leases	**2,767.7**	2,633.3	5

The segment focuses on specialist, secured lending principally to the SME market and includes the Asset and Invoice Finance businesses.

The Commercial loan book increased 2.0% to £2.6 billion (31 July 2017: £2.6 billion), supported by growth in both Asset and Invoice Finance. Although competition in many areas remains strong, the Asset Finance book grew 2.0%, driven by the more specialist product lines, while the core portfolio remained broadly flat. In Invoice Finance, we saw good growth supported by Novitas, which was acquired at the end of the 2017 financial year and provides financing for legal fees. We also continue to see good demand for our asset based lending ("ABL") products, characterised by bigger ticket deals.

Adjusted operating profit of £39.7 million (2017: £36.5 million) was up 9%, driven by good income and lower bad debt. Statutory operating profit also increased 7% to £38.8 million (2017: £36.2 million).

Operating income of £110.4 million (2017: £105.6 million) was 5% higher than the prior year, reflecting loan book growth in the period. Our net interest margin remained strong at 8.0% (2017: 8.0%), as we maintain pricing discipline in the face of ongoing pricing competition in the asset finance market.

Costs were up 6% to £65.1 million (2017: £61.5 million), reflecting a number of ongoing new business initiatives. These include our technology services business and the recent expansion of our asset finance offering into Germany. The expense/income ratio remained broadly stable at 59% (2017: 58%).

The bad debt ratio reduced to 0.4% (2017: 0.6%), reflecting a particularly strong credit performance, with low arrears and a strong collections performance.

Banking: Property

	First half 2018 £ million	First half 2017 £ million	Change %
Operating income	**64.9**	58.1	12
Operating expenses	**(15.1)**	(14.0)	8
Impairment losses on loans and advances	**(3.8)**	2.2	
Operating profit	**46.0**	46.3	(1)
Net interest margin	**7.8%**	7.8%	
Expense/income ratio	**23%**	24%	
Bad debt ratio	**0.5%**	(0.3%)	
Average loan book	**1,661.7**	1,481.0	12

The segment is focused on specialist residential development finance to established professional developers in the UK. We do not lend to the buy-to-let sector, or provide residential or commercial mortgages.

The Property segment performed well in the period, delivering loan book growth of 4.0% to £1.7 billion (31 July 2017: £1.6 billion), or 12.6% year on year. We continue to see good demand for residential property development finance and the pipeline remains solid. Our focus is on new build family homes where we see continued strong structural demand. In recent years we have also extended our offering to high-quality regional locations, and we continue to see good growth potential in these markets.

The business delivered an operating profit of £46.0 million (2017: £46.3 million), broadly in line year on year. This reflects the benefit of one-off provision releases which resulted in a net bad debt recovery in the comparative period. Therefore, the bad debt ratio in the current period was higher at 0.5% (2017: -0.3%). The net interest margin was stable at 7.8% (2017: 7.8%).

Operating expenses of £15.1 million (2017: £14.0 million) were up 8%, and the expense/income ratio remained low at 23% (2017: 24%), reflecting the lower operational requirements of the business.

SECURITIES

Key Financials

	First half 2018 £ million	First half 2017 £ million	Change %
Operating income	**55.6**	53.9	3
Operating expenses	**(40.9)**	(39.5)	4
Operating profit	**14.7**	14.4	2
Bargains per day	**70k**	58k	22
Operating margin	**26%**	27%	
Return on opening equity	**30%**	30%	

Strong Trading Continued

Winterflood remains focused on delivering high-quality execution services to retail intermediaries, wealth managers and institutional investors.

Winterflood continued to benefit from positive market sentiment and investor risk appetite throughout the period, with particularly favourable conditions in the second quarter. As a result, the operating profit increased 2% to £14.7 million (2017: £14.4 million).

Operating income grew 3% to £55.6 million (2017: £53.9 million) reflecting higher trading income particularly in FTSE 350 and AIM stocks. Average daily bargains increased to 70,228 (2017: 57,782), up 22% year on year but broadly in line with the second half, reflecting higher FTSE 350 volumes. There were no loss days (2017: no loss days) in the period.

Operating expenses increased 4%, broadly in line with income, reflecting Winterflood's variable cost model. Both the expense/income ratio and the compensation ratio remained broadly stable at 74% (2017: 73%) and 48% respectively (2017: 48%).

ASSET MANAGEMENT

Key Financials

	First half 2018 £ million	First half 2017[3] £ million	Change %
Investment management	**35.8**	30.8	16
Advice and other services[1]	**20.0**	17.4	15
Other income[2]	**0.2**	1.9	(11)
Operating income	**56.0**	50.1	12
Adjusted operating expenses	**(44.6)**	(41.0)	9
Adjusted operating profit	**11.4**	9.1	25
Revenue margin (bps)	**97**	96	
Operating margin	**20%**	18%	
Return on opening equity	**33%**	27%	

1 Income from advice and self-directed services, excluding investment management income.
2 Net interest income and expense, income on principal investments and other income.
3 The first half of 2017 includes £1.6 million profit on disposal of OLIM Investment Managers ("OLIM"), which completed in November 2016. Overall, OLIM contributed £2.3 million of income and £1.9 million of profit, including the profit on disposal.

Profit Growth Supported by Continued Strong Inflows

Asset Management delivered strong results in the first half, with adjusted operating profit growth of 25% to £11.4 million (2017: £9.1 million). Statutory operating profit increased 32% to £8.7 million (2017: £6.6 million). All our channels performed well, delivering positive net flows of £573 million representing an annualised rate of 13% (2017: 3%) of opening managed assets.

Operating income increased 12% to £56.0 million (2017: £50.1 million) with strong growth in investment management fees and advisory income. This reflects the consistent growth in our managed assets over the last 12 months as well as continued demand for our advisory services. The revenue margin improved marginally to 97bps.

Adjusted operating expenses increased 9% to £44.6 million (2017: £41.0 million), below income growth, reflecting the operating leverage of the business. The expense/income ratio reduced to 80% (2017: 82%) while the compensation ratio increased slightly to 57% (2017: 54%), reflecting new hires and an increase in variable compensation in the period.

Movement in Client Assets

	31 January 2018 £ million
Opening managed assets	**8,900**
Inflows	947
Outflows	(374)
Net inflows	**573**
Market movements	240
Total managed assets	**9,713**
Advised only assets	2,088
Total client assets[1]	**11,801**
Net flows as % of opening managed assets	**13%**

1 Total client assets include £4.1 billion of assets that are both advised and managed.

Total managed assets increased 9% to £9.7 billion (31 July 2017: £8.9 billion), benefiting from both strong net inflows and favourable market movements. Net inflows, at £573 million, improved significantly in the first half of the year (31 January 2017: £125 million), with strong flows across both our integrated wealth and investment management services. Positive market movements in the period contributed £240 million.

Total client assets, which include advised assets under third-party management, closed 6% higher at £11.8 billion (31 July 2017: £11.2 billion).

Our funds and segregated bespoke portfolios are designed to provide attractive risk adjusted returns for our clients, in line with their long-term goals. Over the 12 month period to 31 January 2018, 11 out of our 13 unitised funds outperformed their relevant benchmarks, with particularly good performance across our Direct and Managed funds. Over the year to 31 December 2017, 75% of our segregated bespoke strategies outperformed their relevant peer groups. This compares to 100% over the 3 year period, in line with our strong long term outperformance track record for our bespoke strategies.

DEFINITIONS

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

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

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

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

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

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

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

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

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

High-quality liquid assets ("HQLAs"): Assets which qualify for regulatory liquidity purposes, including Bank of England deposits, and sovereign and central bank debt, including funds drawn under the Funding for Lending Scheme

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: 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 loan, the loan balance as a percentage of the total value of the asset

Net interest margin ("NIM"): 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 operating income

Return on assets: Profit attributable to shareholders divided by total assets at balance sheet date

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

Term funding: Funding with a remaining maturity greater than 12 months

PRINCIPAL RISKS AND UNCERTAINTIES

The group faces a number of risks in the normal course of business. The framework we use to manage these risks is as follows:

- adhering to our established and proven business model;
- implementing an integrated "three lines of defence" risk management approach; and
- operating within a clearly defined risk appetite which is monitored with defined metrics and set limits.

A detailed description of the principal risks and our approach to managing and mitigating these risks is disclosed on pages 16 to 19 of the Annual Report 2017 which can be accessed via the Investor Relations home page on the group's website at www.closebrothers.com.

There have been no significant changes to our risk management approach in the period. The principal risks faced by the group remain unchanged and are summarised below.

Credit losses – the group provides loans to a range of small businesses and individuals. There is a risk that customers are unable to repay their loans and any outstanding interest and fees resulting in credit losses. The group also has exposure to counterparties with which it places deposits or trades and also has a small number of derivative contracts to hedge interest rate and foreign exchange exposures.

Economic environment – any downturn in economic conditions may impact the group's performance through lower demand for the group's products and services, lower investor risk appetite, higher credit losses and increased volatility in funding markets.

Legal and regulatory – changes to existing legal, regulatory and tax environments, or failure to comply with existing requirements could adversely impact the group's performance, as well as capital, liquidity and the markets in which we operate. Failing to treat customers fairly also has the potential to damage the group's reputation and may lead to legal or regulatory sanctions including litigation and customer redress.

Competition – the group operates in competitive markets. Elevated levels of competition may impact demand for the group's products and services.

Technology and operational resilience – providing robust, contemporary and secure IT services is fundamental to enabling the group to provide a high quality customer experience, respond to new technology, protect client and company data and counter the evolving cyber threat. Failure to evolve with our customers' technological expectations or provide reliable, secure IT services has the potential to impact group performance.

Employees – the quality and expertise of our employees is critical to our success. The loss of key individuals or teams may have an adverse impact on the group's operations and ability to deliver its strategy.

Funding and liquidity – access to funding remains key to support our lending activities and the group's liquidity requirements. Any material change to funding or liquidity capacity has the potential to impact the group's ongoing performance.

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

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the condensed set of consolidated financial statements has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting";
- the Half Yearly Report 2018 includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the Half Yearly Report 2018 includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.8R (disclosure of related parties' transactions and changes therein).

On behalf of the board

Michael N. Biggs
Chairman

P. Prebensen
Chief Executive

13 March 2018

INDEPENDENT REVIEW REPORT

Our conclusion

We have reviewed Close Brothers Group plc's interim financial information (the "condensed half yearly financial statements") in the half yearly report of Close Brothers Group plc for the six month period ended 31 January 2018. Based on our review, nothing has come to our attention that causes us to believe that the condensed half yearly financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The condensed half yearly financial statements comprise:

- the consolidated balance sheet at 31 January 2018;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated cash flow statement for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the condensed half yearly financial statements.

The condensed half yearly financial statements included in the half yearly report have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the condensed half yearly financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Responsibilities for the condensed half yearly financial statements and the review

Our responsibilities and those of the directors

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

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

INDEPENDENT REVIEW REPORT

What a review of condensed half yearly financial statements involves

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

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

We have read the other information contained in the half yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed half yearly financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
13 March 2018

CONSOLIDATED INCOME STATEMENT
for the six months ended 31 January 2018

	Note	Six months ended 31 January 2018 Unaudited £ million	Six months ended 31 January 2017 Unaudited £ million	Year ended 31 July 2017 Audited £ million
Interest income		**301.7**	289.6	578.9
Interest expense		**(56.0)**	(62.5)	(117.3)
Net interest income		**245.7**	227.1	461.6
Fee and commission income		**106.4**	100.2	206.5
Fee and commission expense		**(14.3)**	(15.0)	(29.0)
Gains less losses arising from dealing in securities		**51.8**	48.7	94.2
Other income		**31.4**	29.2	57.3
Depreciation of operating lease assets		**(15.5)**	(11.9)	(25.0)
Non-interest income		**159.8**	151.2	304.0
Operating income	2	**405.5**	378.3	765.6
Administrative expenses		**(239.4)**	(226.8)	(460.6)
Impairment losses on loans and advances	6	**(23.8)**	(17.3)	(40.2)
Total operating expenses before amortisation of intangible assets on acquisition		**(263.2)**	(244.1)	(500.8)
Operating profit before amortisation of intangible assets on acquisition		**142.3**	134.2	264.8
Amortisation of intangible assets on acquisition		**(3.7)**	(2.8)	(6.2)
Operating profit before tax		**138.6**	131.4	258.6
Tax	3	**(34.7)**	(34.8)	(67.7)
Profit after tax for the period		**103.9**	96.6	190.9
Loss attributable to non-controlling interests		**(0.1)**	(0.2)	(0.3)
Profit attributable to shareholders		**104.0**	96.8	191.2
Basic earnings per share	4	**69.2p**	65.1p	128.3p
Diluted earnings per share	4	**68.7p**	64.9p	127.5p
Ordinary dividend per share	5	**21.0p**	20.0p	60.0p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 31 January 2018

	Six months ended 31 January		Year ended 31 July
	2018	2017	2017
	Unaudited	Unaudited	Audited
	£ million	£ million	£ million
Profit after tax for the period	**103.9**	96.6	190.9
Other comprehensive income/(expense) that may be reclassified to income statement			
Currency translation gains	**0.1**	0.2	0.4
Gains on cash flow hedging	**3.7**	3.9	4.7
(Losses)/gains on financial instruments classified as available for sale:			
Sovereign and central bank debt	**-**	(0.7)	0.7
Equity shares	**-**	0.1	-
Contingent consideration	**(0.3)**	-	0.3
Tax relating to items that may be reclassified	**(0.9)**	(0.9)	(2.3)
	2.6	2.6	3.8
Other comprehensive income/(expense) that will not be reclassified to income statement			
Defined benefit pension scheme gains	**1.1**	2.8	2.7
Tax relating to items that will not be reclassified	**(0.2)**	(0.6)	(0.5)
	0.9	2.2	2.2
Other comprehensive income for the period, net of tax	**3.5**	4.8	6.0
Total comprehensive income for the period	**107.4**	101.4	196.9
Attributable to			
Non-controlling interests	**(0.1)**	(0.2)	(0.3)
Shareholders	**107.5**	101.6	197.2
	107.4	101.4	196.9

CONSOLIDATED BALANCE SHEET
at 31 January 2018

	Note	31 January 2018 Unaudited £ million	31 January 2017 Unaudited £ million	31 July 2017 Audited £ million
Assets				
Cash and balances at central banks		**841.4**	1,120.8	805.1
Settlement balances		**575.4**	460.7	546.7
Loans and advances to banks		**133.5**	103.6	99.8
Loans and advances to customers	6	**6,998.4**	6,543.8	6,884.7
Debt securities	7	**318.7**	200.5	240.1
Equity shares	8	**37.9**	35.6	32.7
Loans to money brokers against stock advanced		**67.9**	55.4	48.6
Derivative financial instruments		**18.9**	29.8	27.0
Intangible assets		**199.0**	161.4	191.7
Property, plant and equipment		**230.8**	201.0	202.7
Deferred tax assets		**45.5**	51.5	47.4
Prepayments, accrued income and other assets		**174.0**	161.3	158.7
Total assets		**9,641.4**	9,125.4	9,285.2
Liabilities				
Settlement balances and short positions	9	**644.9**	466.3	552.6
Deposits by banks	10	**58.6**	70.0	72.0
Deposits by customers	10	**5,250.2**	4,864.9	5,113.1
Loans and overdrafts from banks	10	**376.6**	418.9	330.9
Debt securities in issue	10	**1,550.0**	1,703.1	1,489.6
Loans from money brokers against stock advanced		**29.5**	10.1	4.3
Derivative financial instruments		**16.8**	17.9	11.5
Current tax liabilities		**22.1**	25.1	21.4
Accruals, deferred income and other liabilities		**197.6**	188.7	233.1
Subordinated loan capital	10	**217.9**	219.4	220.7
Total liabilities		**8,364.2**	7,984.4	8,049.2
Equity				
Called up share capital		**38.0**	37.7	38.0
Share premium account	11	**-**	284.0	307.8
Retained earnings		**1,260.1**	840.7	906.6
Other reserves		**(20.3)**	(21.1)	(15.9)
Total shareholders' equity		**1,277.8**	1,141.3	1,236.5
Non-controlling interests		**(0.6)**	(0.3)	(0.5)
Total equity		**1,277.2**	1,141.0	1,236.0
Total liabilities and equity		**9,641.4**	9,125.4	9,285.2

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 31 January 2018

				Other reserves						
	Called up share capital £ million	Share premium account £ million	Retained earnings £ million	Available for sale movements 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 2016 (audited)	37.7	284.0	797.5	-	(14.3)	(1.1)	(6.7)	1,097.1	(0.2)	1,096.9
Profit/(loss) for the period	-	-	96.8	-	-	-	-	96.8	(0.2)	96.6
Other comprehensive income/(expense) for the period	-	-	2.2	(0.4)	-	0.2	2.8	4.8	-	4.8
Total comprehensive income/(expense) for the period	-	-	99.0	(0.4)	-	0.2	2.8	101.6	(0.2)	101.4
Exercise of options	-	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	(56.0)	-	-	-	-	(56.0)	-	(56.0)
Shares purchased	-	-	-	-	(12.7)	-	-	(12.7)	-	(12.7)
Shares issued	-	-	-	-	-	-	-	-	-	-
Shares released	-	-	-	-	13.3	-	-	13.3	-	13.3
Other movements	-	-	(0.7)	-	(2.2)	-	-	(2.9)	0.1	(2.8)
Share premium cancellation	-	-	-	-	-	-	-	-	-	-
Income tax	-	-	0.9	-	-	-	-	0.9	-	0.9
At 31 January 2017 (unaudited)	37.7	284.0	840.7	(0.4)	(15.9)	(0.9)	(3.9)	1,141.3	(0.3)	1,141.0
Profit/(loss) for the period	-	-	94.4	-	-	-	-	94.4	(0.1)	94.3
Other comprehensive income/(expense) for the period	-	-	-	1.1	-	(0.6)	0.7	1.2	-	1.2
Total comprehensive income/(expense) for the period	-	-	94.4	1.1	-	(0.6)	0.7	95.6	(0.1)	95.5
Exercise of options	-	0.1	-	-	-	-	-	0.1	-	0.1
Dividends paid	-	-	(29.6)	-	-	-	-	(29.6)	-	(29.6)
Shares purchased	-	-	-	-	-	-	-	-	-	-
Shares issued	0.3	23.7	-	-	-	-	-	24.0	-	24.0
Shares released	-	-	-	-	2.5	-	-	2.5	-	2.5
Other movements	-	-	0.9	-	1.5	-	-	2.4	(0.1)	2.3
Share premium cancellation	-	-	-	-	-	-	-	-	-	-
Income tax	-	-	0.2	-	-	-	-	0.2	-	0.2
At 31 July 2017 (audited)	38.0	307.8	906.6	0.7	(11.9)	(1.5)	(3.2)	1,236.5	(0.5)	1,236.0

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY continued
for the six months ended 31 January 2018

	Called up share capital £ million	Share premium account £ million	Retained earnings £ million	Other reserves: Available for sale movements reserve £ million	Other reserves: Share-based payments reserve £ million	Other reserves: Exchange movements reserve £ million	Other reserves: Cash flow hedging reserve £ million	Total attributable to equity holders £ million	Non-controlling interests £ million	Total equity £ million
At 31 July 2017 (audited)	38.0	307.8	906.6	0.7	(11.9)	(1.5)	(3.2)	1,236.5	(0.5)	1,236.0
Profit/(loss) for the period	**-**	**-**	**104.0**	**-**	**-**	**-**	**-**	**104.0**	**(0.1)**	**103.9**
Other comprehensive income/(expense) for the period	**-**	**-**	**0.9**	**(0.2)**	**-**	**0.1**	**2.7**	**3.5**	**-**	**3.5**
Total comprehensive income/(expense) for the period	**-**	**-**	**104.9**	**(0.2)**	**-**	**0.1**	**2.7**	**107.5**	**(0.1)**	**107.4**
Exercise of options	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Dividends paid	**-**	**-**	**(59.7)**	**-**	**-**	**-**	**-**	**(59.7)**	**-**	**(59.7)**
Shares purchased	**-**	**-**	**-**	**-**	**(15.9)**	**-**	**-**	**(15.9)**	**-**	**(15.9)**
Shares issued	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Shares released	**-**	**-**	**-**	**-**	**11.2**	**-**	**-**	**11.2**	**-**	**11.2**
Other movements	**-**	**-**	**0.3**	**-**	**(2.3)**	**-**	**-**	**(2.0)**	**-**	**(2.0)**
Share premium cancellation	**-**	**(307.8)**	**307.8**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Income tax	**-**	**-**	**0.2**	**-**	**-**	**-**	**-**	**0.2**	**-**	**0.2**
At 31 January 2018 (unaudited)	**38.0**	**-**	**1,260.1**	**0.5**	**(18.9)**	**(1.4)**	**(0.5)**	**1,277.8**	**(0.6)**	**1,277.2**

CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 31 January 2018

	Note	Six months ended 31 January 2018 Unaudited £ million	Six months ended 31 January 2017 Unaudited £ million	Year ended 31 July 2017 Audited £ million
Net cash inflow from operating activities	15(a)	**149.8**	359.2	120.0
Net cash (outflow)/inflow from investing activities				
Purchase of:				
Property, plant and equipment		**(8.5)**	(5.4)	(7.1)
Intangible assets – software		**(19.0)**	(11.5)	(33.1)
Subsidiaries and non-controlling interest	15(b)	**(0.9)**	(6.3)	(6.3)
Sale of:				
Property, plant and equipment		**-**	0.1	-
Equity shares held for investment		**-**	-	1.3
Subsidiary	15(c)	**0.7**	(0.3)	(0.3)
		(27.7)	(23.4)	(45.5)
Net cash inflow before financing activities		**122.1**	335.8	74.5
Financing activities				
Purchase of own shares for employee share award schemes		**(15.9)**	(12.7)	(12.7)
Equity dividends paid		**(59.7)**	(56.0)	(85.6)
Interest paid on subordinated loan capital and debt financing		**(5.4)**	(8.2)	(13.6)
Redemption of group bond		**-**	-	(200.0)
Issuance of subordinated loan capital, net of transaction costs		**-**	-	173.7
Net increase/(decrease) in cash		**41.1**	258.9	(63.7)
Cash and cash equivalents at beginning of period		**859.6**	923.3	923.3
Cash and cash equivalents at end of period	15(d)	**900.7**	1,182.2	859.6

THE NOTES

1. Basis of preparation and accounting policies

The half yearly financial information has been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and in accordance with the International Financial Reporting Standards ("IFRS") endorsed by the European Union. These include International Accounting Standard ("IAS") 34, Interim Financial Reporting, which specifically addresses the contents of condensed half yearly financial statements. The consolidated financial statements incorporate the individual financial statements of Close Brothers Group plc and the entities it controls, using the acquisition method of accounting. The accounting policies applied are consistent with those set out on pages 109 to 114 of the Annual Report 2017.

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

The preparation of the half yearly report requires management to make estimates and assumptions that affect the reported income and expense, assets and liabilities and disclosure of contingencies at the date of the half yearly report. Although these estimates and assumptions are based on the management's best judgement at that date, actual results may differ from these estimates. There have been no significant changes in the basis upon which estimates have been determined compared to that applied at 31 July 2017.

Following a competitive tender process for the audit of the group and its subsidiaries in 2017, PricewaterhouseCoopers LLP was formally appointed as the group's auditors at the 2017 Annual General Meeting.

The half yearly report is unaudited and does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. However, the information has been reviewed by the company's auditor, PricewaterhouseCoopers LLP, and their report appears on pages 19 and 20.

The financial information for the year ended 31 July 2017 contained within this half yearly report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of those statutory accounts has been delivered to the Registrar of Companies. The group's previous auditor, Deloitte LLP has reported on those accounts. The report of the auditor on those statutory accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

2. Segmental analysis

The directors manage the group by class of business and we present the segmental analysis on that basis. The group's activities are presented in five (2017: five) operating segments: Retail, Commercial, Property, Securities and Asset Management.

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.

2. Segmental analysis continued

Summary Income Statement for the six months ended 31 January 2018

	Banking						
	Retail £ million	Commercial £ million	Property £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Net interest income/(expense)	104.0	77.1	64.9	(0.4)	-	0.1	245.7
Non-interest income	14.6	33.3	-	56.0	56.0	(0.1)	159.8
Operating income	118.6	110.4	64.9	55.6	56.0	-	405.5
Administrative expenses	(56.7)	(61.8)	(13.3)	(40.0)	(43.7)	(12.3)	(227.8)
Depreciation and amortisation	(4.7)	(3.3)	(1.8)	(0.9)	(0.9)	-	(11.6)
Impairment losses on loans and advances	(14.4)	(5.6)	(3.8)	-	-	-	(23.8)
Total operating expenses	(75.8)	(70.7)	(18.9)	(40.9)	(44.6)	(12.3)	(263.2)
Adjusted operating profit/(loss)[1]	42.8	39.7	46.0	14.7	11.4	(12.3)	142.3
Amortisation of intangible assets on acquisition	(0.1)	(0.9)	-	-	(2.7)	-	(3.7)
Operating profit/(loss) before tax	42.7	38.8	46.0	14.7	8.7	(12.3)	138.6
External operating income/(expense)	138.4	132.2	76.3	55.6	56.1	(53.1)	405.5
Inter segment operating income/(expense)	(19.8)	(21.8)	(11.4)	-	(0.1)	53.1	-
Segment operating income	118.6	110.4	64.9	55.6	56.0	-	405.5

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

Balance Sheet Information at 31 January 2018

	Banking						
	Retail £ million	Commercial £ million	Property £ million	Securities £ million	Asset Management £ million	Group[2] £ million	Total £ million
Total assets[1]	2,700.6	2,805.0	1,694.1	807.0	107.6	1,527.1	9,641.4
Total liabilities	-	-	-	736.2	51.9	7,576.1	8,364.2

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Includes £1,518.9 million assets and £7,677.2 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

2. Segmental analysis continued

Equity is allocated across the Group as shown below. Banking division equity, which is managed as a whole rather than on a segmental basis, reflects loan book and operating lease assets of £7,199.7 million, in addition to assets and liabilities of £1,518.9 million and £7,677.2 million respectively primarily relating to treasury balances.

	Banking total £ million	**Securities £ million**	**Asset Management £ million**	**Group £ million**	**Total £ million**
Equity	**1,041.4**	**70.8**	**55.7**	**109.3**	**1,277.2**

Summary Income Statement for the six months ended 31 January 2017

	Banking						
	Retail £ million	Commercial £ million	Property £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Net interest income/(expense)	98.2	72.2	57.0	(0.5)	(0.1)	0.3	227.1
Non-interest income	12.1	33.4	1.1	54.4	50.2	-	151.2
Operating income	110.3	105.6	58.1	53.9	50.1	0.3	378.3
Administrative expenses	(52.7)	(57.7)	(12.9)	(38.6)	(39.9)	(12.1)	(213.9)
Depreciation and amortisation	(5.8)	(3.8)	(1.1)	(0.9)	(1.1)	(0.2)	(12.9)
Impairment losses on loans and advances	(11.9)	(7.6)	2.2	-	-	-	(17.3)
Total operating expenses	(70.4)	(69.1)	(11.8)	(39.5)	(41.0)	(12.3)	(244.1)
Adjusted operating profit/(loss)[1]	39.9	36.5	46.3	14.4	9.1	(12.0)	134.2
Amortisation of intangible assets on acquisition	-	(0.3)	-	-	(2.5)	-	(2.8)
Operating profit/(loss) before tax	39.9	36.2	46.3	14.4	6.6	(12.0)	131.4
External operating income/(expense)	134.2	130.7	69.8	53.9	50.3	(60.6)	378.3
Inter segment operating income/(expense)	(23.9)	(25.1)	(11.7)	-	(0.2)	60.9	-
Segment operating income	110.3	105.6	58.1	53.9	50.1	0.3	378.3

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

2. Segmental analysis continued

Balance Sheet Information at 31 January 2017

	Banking						
	Retail £ million	Commercial £ million	Property £ million	Securities £ million	Asset Management £ million	Group[2] £ million	Total £ million
Total assets[1]	2,570.8	2,643.2	1,504.8	626.7	105.3	1,674.6	9,125.4
Total liabilities	-	-	-	556.8	49.7	7,377.9	7,984.4

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Includes £1,665.5 million assets and £7,485.3 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

	Banking total £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Equity[1]	899.0	69.9	55.6	116.5	1,141.0

1 Equity of the Banking division reflects loan book and operating lease assets of £6,718.8 million, in addition to assets and liabilities of £1,665.5 million and £7,485.3 million respectively primarily relating to treasury balances.

Summary Income Statement for the year ended 31 July 2017

	Banking						
	Retail £ million	Commercial £ million	Property £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Net interest income/(expense)	195.9	146.4	119.8	(0.9)	(0.1)	0.5	461.6
Non-interest income	26.5	66.9	(0.2)	107.6	103.0	0.2	304.0
Operating income	222.4	213.3	119.6	106.7	102.9	0.7	765.6
Administrative expenses	(106.7)	(117.4)	(24.9)	(76.7)	(83.7)	(24.9)	(434.3)
Depreciation and amortisation	(11.0)	(7.8)	(3.8)	(1.9)	(1.8)	-	(26.3)
Impairment losses on loans and advances	(25.8)	(15.5)	1.1	-	-	-	(40.2)
Total operating expenses	(143.5)	(140.7)	(27.6)	(78.6)	(85.5)	(24.9)	(500.8)
Adjusted operating profit/(loss)[1]	78.9	72.6	92.0	28.1	17.4	(24.2)	264.8
Amortisation of intangible assets on acquisition	(0.4)	(0.5)	-	-	(5.3)	-	(6.2)
Operating profit/(loss) before tax	78.5	72.1	92.0	28.1	12.1	(24.2)	258.6
External operating income/(expense)	266.2	260.9	141.8	106.7	103.2	(113.2)	765.6
Inter segment operating income/(expense)	(43.8)	(47.6)	(22.2)	-	(0.3)	113.9	-
Segment operating income	222.4	213.3	119.6	106.7	102.9	0.7	765.6

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

2. **Segmental analysis** continued

Balance Sheet Information at 31 July 2017

	Banking						
	Retail £ million	Commercial £ million	Property £ million	Securities £ million	Asset Management £ million	Group[2] £ million	Total £ million
Total assets[1]	2,702.8	2,730.4	1,629.3	699.5	113.2	1,410.0	9,285.2
Total liabilities	-	-	-	628.8	57.7	7,362.7	8,049.2

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Includes £1,402.7 million assets and £7,490.9 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

	Banking total £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Equity[1]	974.3	70.7	55.5	135.5	1,236.0

1 Equity of the Banking division reflects loan book and operating lease assets of £7,062.5 million, in addition to assets and liabilities of £1,402.7 million and £7,490.9 million respectively primarily relating to treasury balances.

3. Taxation

	Six months ended 31 January 2018 £ million	Six months ended 31 January 2017 £ million	Year ended 31 July 2017 £ million
Tax charged/(credited) to the income statement			
Current tax:			
UK corporation tax	**32.8**	32.8	64.8
Foreign tax	**1.0**	1.2	2.1
Adjustments in respect of previous periods	**-**	-	(0.6)
	33.8	34.0	66.3
Deferred tax:			
Deferred tax charge for the current period	**0.9**	0.7	0.5
Adjustments in respect of previous periods	**-**	0.1	0.9
	34.7	34.8	67.7
Tax on items not (credited)/charged to the income statement			
Current tax relating to:			
Financial instruments classified as available for sale	**-**	(0.2)	0.2
Share-based payments	**(0.1)**	(0.9)	(1.0)
Deferred tax relating to:			
Cash flow hedging	**1.0**	1.1	1.2
Defined benefit pension scheme	**0.2**	0.6	0.5
Financial instruments classified as available for sale	**(0.1)**	-	0.1
Share-based payments	**(0.1)**	-	(0.1)
Currency translation gains	**-**	-	0.8
	0.9	0.6	1.7
Reconciliation to tax expense			
UK corporation tax for the period at 19.0% (2017: 19.7%) on operating profit	**26.3**	25.9	50.9
Gain on sale of subsidiaries and available for sale investment	**-**	(0.3)	(0.3)
Effect of different tax rates in other jurisdictions	**(0.1)**	(0.1)	(0.4)
Disallowable items and other permanent differences	**0.6**	0.6	0.9
Banking surcharge	**7.8**	7.6	14.2
Deferred tax impact of decreased tax rates	**0.1**	1.1	2.1
Prior period tax provision	**-**	-	0.3
	34.7	34.8	67.7

The effective tax rate for the period is 25.0% (six months ended 31 January 2017: 26.5%; year ended 31 July 2017: 26.2%), representing the best estimate of the annual effective tax rate expected for the full year.

The standard UK corporation tax rate for the financial year is 19.0% (six months ended 31 January 2017: 19.7%; year ended 31 July 2017: 19.7%). However, an additional 8% surcharge applies to banking company profits as defined in legislation. The effective tax rate is above the UK corporation tax rate primarily due to the surcharge applying to most of the group's profits.

4. Earnings per share

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

	Six months ended 31 January		Year ended 31 July
	2018	2017	2017
Earnings per share			
Basic	**69.2p**	65.1p	128.3p
Diluted	**68.7p**	64.9p	127.5p
Adjusted basic[1]	**71.2p**	66.6p	131.7p
Adjusted diluted[1]	**70.7p**	66.4p	130.8p

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

	Six months ended 31 January		Year ended 31 July
	2018	2017	2017
	£ million	£ million	£ million
Profit attributable to shareholders	**104.0**	96.8	191.2
Adjustment:			
Amortisation of intangible assets on acquisition	**3.7**	2.8	6.2
Tax effect of adjustment	**(0.7)**	(0.6)	(1.2)
Adjusted profit attributable to shareholders	**107.0**	99.0	196.2

	Six months ended 31 January		Year ended 31 July
	2018	2017	2017
	million	million	million
Average number of shares			
Basic weighted	**150.3**	148.6	149.0
Effect of dilutive share options and awards	**1.0**	0.6	1.0
Diluted weighted	**151.3**	149.2	150.0

5. Dividends

	Six months ended 31 January		Year ended 31 July
	2018	2017	2017
	£ million	£ million	£ million
For each ordinary share			
Interim dividend for previous financial year paid in April 2017: 20.0p	**-**	-	29.6
Final dividend for previous financial year paid in November 2017: 40.0p (November 2016: 38.0p)	**59.7**	56.0	56.0
	59.7	56.0	85.6

An interim dividend relating to the six months ended 31 January 2018 of 21.0p, amounting to an estimated £31.3 million, is declared. This interim dividend, which is due to be paid on 25 April 2018 to shareholders on the register at 23 March 2018, is not reflected in these condensed half yearly financial statements.

6. Loans and advances to customers

The contractual maturity of loans and advances to customers is set out below:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Impairment provisions £ million	Total £ million
At 31 January 2018	**78.8**	**2,171.4**	**2,031.4**	**1,341.5**	**1,349.7**	**76.5**	**(50.9)**	**6,998.4**
At 31 January 2017	58.3	1,900.7	1,872.4	1,324.6	1,355.9	81.9	(50.0)	6,543.8
At 31 July 2017	59.3	1,914.3	2,115.2	1,340.7	1,431.6	76.0	(52.4)	6,884.7

	31 January		31 July
	2018	2017	2017
	£ million	£ million	£ million
Impairment provisions on loans and advances to customers			
Opening balance	**52.4**	59.7	59.7
Charge for the period	**23.8**	17.3	40.2
Amounts written off net of recoveries	**(25.3)**	(27.0)	(47.5)
Impairment provisions	**50.9**	50.0	52.4

At 31 January 2018, gross impaired loans were £129.4 million (31 January 2017: £126.2 million; 31 July 2017: £135.8 million) and equate to 2% (31 January 2017: 2%; 31 July 2017: 2%) of the gross loan book before impairment provisions. The majority of the group's lending is secured and therefore the gross impaired loans quoted do not reflect the expected loss.

7. Debt securities

	Held for trading £ million	**Available for sale £ million**	**Loans and receivables £ million**	**Total £ million**
Long trading positions in debt securities	**24.9**	**-**	**-**	**24.9**
Certificates of deposit	**-**	**-**	**251.0**	**251.0**
Sovereign and central bank debt	**-**	**42.8**	**-**	**42.8**
At 31 January 2018	**24.9**	**42.8**	**251.0**	**318.7**

	Held for trading £ million	Available for sale £ million	Loans and receivables £ million	Total £ million
Long trading positions in debt securities	14.5	-	-	14.5
Certificates of deposit	-	-	145.3	145.3
Sovereign and central bank debt	-	40.7	-	40.7
At 31 January 2017	14.5	40.7	145.3	200.5

	Held for trading £ million	Available for sale £ million	Loans and receivables £ million	Total £ million
Long trading positions in debt securities	16.2	-	-	16.2
Certificates of deposit	-	-	180.3	180.3
Sovereign and central bank debt	-	43.6	-	43.6
At 31 July 2017	16.2	43.6	180.3	240.1

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

	Six months ended 31 January		Year ended 31 July
	2018 £ million	2017 £ million	2017 £ million
Sovereign and central bank debt at beginning of period	**43.6**	-	-
Additions	**-**	41.6	41.6
Currency translation difference	**(0.8)**	-	1.7
Changes in fair value	**-**	(0.9)	0.3
Sovereign and central bank debt at end of period	**42.8**	40.7	43.6

8. Equity shares

	31 January		31 July
	2018	2017	2017
	£ million	£ million	£ million
Long trading positions	**37.3**	33.5	31.9
Other equity shares	**0.6**	2.1	0.8
	37.9	35.6	32.7

Movements in the book value of other equity shares comprise:

	Six months ended 31 January		Year ended 31 July
	2018	2017	2017
	£ million	£ million	£ million
Other equity shares held at beginning of period	**0.8**	2.1	2.1
Disposals	**(0.2)**	(0.1)	(1.4)
Currency translation difference	**-**	-	0.1
Changes in fair value of:			
Equity shares classified as available for sale	**-**	0.1	-
Other equity shares held at end of period	**0.6**	2.1	0.8

9. Settlement balances and short positions

	31 January		31 July
	2018	2017	2017
	£ million	£ million	£ million
Settlement balances	**619.4**	442.3	524.9
Short positions held for trading:			
Debt securities	**10.5**	11.2	11.5
Equity shares	**15.0**	12.8	16.2
	25.5	24.0	27.7
	644.9	466.3	552.6

10. Financial liabilities

The contractual maturity of financial liabilities relating predominantly to funding is set out below:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
Deposits by banks	**10.5**	**10.3**	**35.9**	**1.9**	**-**	**-**	**58.6**
Deposits by customers	**96.9**	**1,027.6**	**2,729.3**	**936.7**	**459.7**	**-**	**5,250.2**
Loans and overdrafts from banks	**21.5**	**5.1**	**-**	**-**	**350.0**	**-**	**376.6**
Debt securities in issue	**0.8**	**21.5**	**114.1**	**586.4**	**539.8**	**287.4**	**1,550.0**
Subordinated loan capital[1]	**-**	**1.4**	**0.2**	**-**	**-**	**216.3**	**217.9**
At 31 January 2018	**129.7**	**1,065.9**	**2,879.5**	**1,525.0**	**1,349.5**	**503.7**	**7,453.3**

1 Comprises issuances of £175 million and £45 million with contractual maturity dates of 2027 and 2026 and optional prepayment dates of 2022 and 2021 respectively.

	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	17.1	17.2	34.2	1.5	-	-	70.0
Deposits by customers	112.8	770.7	2,284.3	1,111.8	585.3	-	4,864.9
Loans and overdrafts from banks	13.1	54.7	50.8	90.2	210.1	-	418.9
Debt securities in issue	10.4	208.8	111.1	189.0	897.4	286.4	1,703.1
Subordinated loan capital[1]	(0.9)	1.4	0.2	-	-	218.7	219.4
At 31 January 2017	152.5	1,052.8	2,480.6	1,392.5	1,692.8	505.1	7,276.3

1 Comprises issuances of £175 million and £45 million with contractual maturity dates of 2027 and 2026 and optional prepayment dates of 2022 and 2021 respectively.

10. Financial liabilities continued

	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	18.4	15.4	37.5	0.7	-	-	72.0
Deposits by customers	123.4	956.6	2,528.2	991.3	513.6	-	5,113.1
Loans and overdrafts from banks	12.3	74.9	-	20.5	223.2	-	330.9
Debt securities in issue	13.6	22.8	108.4	516.0	540.9	287.9	1,489.6
Subordinated loan capital[1]	-	1.4	0.2	-	-	219.1	220.7
At 31 July 2017	167.7	1,071.1	2,674.3	1,528.5	1,277.7	507.0	7,226.3

1 Comprises issuances of £175 million and £45 million with contractual maturity dates of 2027 and 2026 and optional prepayment dates of 2022 and 2021 respectively.

At 31 January 2018, the group was a participant of the Bank of England's Term Funding Scheme. Under this scheme, asset finance loan receivables of £714.4 million (31 January 2017: £745.7 million; 31 July 2017: £525.1 million) were positioned as collateral with the Bank of England, against which £350.0 million of cash (31 January 2017: £210.0 million; 31 July 2017: £224.4 million) was drawn. The term of these transactions is four years from the date of each drawdown but the group may choose to repay earlier at its discretion. The risks and rewards of the loan receivables remain with the group and continue to be recognised in loans and advances to customers on the consolidated balance sheet.

The Bank of England's Funding for Lending Scheme was closed for new drawings on 31 January 2018 and the group no longer had any drawings from the scheme at this date. UK Treasury Bills drawn under the scheme of £197.5 million at 31 July 2017 (31 January 2017: £275.0 million) were fully repaid during the six months ended 31 January 2018.

The group has securitised without recourse £1,577.3 million (31 January 2017: £1,458.2 million; 31 July 2017: £1,486.3 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £1,081.8 million (31 January 2017: £1,065.5 million; 31 July 2017: £1,046.9 million). This includes £162.9 million (31 January 2017: £168.1 million; 31 July 2017: £157.3 million) asset-backed securities in issue retained for liquidity purposes. As the group has retained exposure to substantially all the credit risks and rewards of the residual benefit of the underlying assets, it continues to recognise these assets in loans and advances to customers on the consolidated balance sheet.

11. Share premium

Following approval by shareholders at the Close Brothers Annual General Meeting on 16 November 2017 and an order made by the High Court of Justice of England and Wales on 13 December 2017, the group's share premium account of £307.8 million was cancelled and the amount credited to distributable profits.

12. Capital

The group's individual regulated entities and the group as a whole complied with all of the externally imposed capital requirements to which they were subject for the periods to 31 January 2018 and 31 January 2017, and the year ended 31 July 2017. The table below summarises the composition of regulatory capital and Pillar 1 risk weighted assets at those financial period ends.

	31 January		31 July
	2018	2017	2017
	£ million	£ million	£ million
Common equity tier 1 ("CET1") capital			
Called up share capital	**38.0**	37.7	38.0
Share premium account	**-**	284.0	307.8
Retained earnings[1]	**1,260.1**	840.7	906.6
Other reserves recognised for CET1 capital	**19.0**	19.3	21.4
Deductions from CET1 capital			
Intangible assets, net of associated deferred tax liabilities	**(194.3)**	(158.2)	(186.3)
Foreseeable dividend[2]	**(47.9)**	(44.8)	(59.8)
Investment in own shares	**(38.8)**	(36.6)	(34.1)
Pension asset, net of associated deferred tax liabilities	**(3.6)**	(3.1)	(2.8)
Prudent valuation adjustment	**(0.2)**	(0.2)	(0.2)
CET1 capital	**1,032.3**	938.8	990.6
Tier 2 capital – subordinated debt[3]	**198.0**	203.9	205.6
Total regulatory capital	**1,230.3**	1,142.7	1,196.2
Risk weighted assets (notional)			
Credit and counterparty risk	**7,204.5**	6,585.2	6,967.6
Operational risk[4]	**806.8**	784.9	806.8
Market risk[4]	**108.3**	85.9	84.6
	8,119.6	7,456.0	7,859.0
CET1 capital ratio	**12.7%**	12.6%	12.6%
Total capital ratio	**15.2%**	15.3%	15.2%

1 Retained earnings for periods ended 31 January 2018 and 31 January 2017 include all profits (both verified and unverified) for the respective six month period.

2 Under the Regulatory Technical Standard on own funds, a deduction has been recognised for a foreseeable dividend. In accordance with this standard, for 31 January 2018 and 31 January 2017 a foreseeable dividend has been determined based on the average payout ratio over the previous three years applied to the retained earnings for the period. For 31 July 2017 a foreseeable dividend was determined as the proposed final dividend.

3 Shown after applying the Capital Requirement Regulations transitional and qualifying own funds arrangements.

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

12. Capital continued

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

	31 January		31 July
	2018	2017	2017
	£ million	£ million	£ million
Equity	**1,277.2**	1,141.0	1,236.0
Regulatory deductions from equity:			
Intangible assets, net of associated deferred tax liabilities	**(194.3)**	(158.2)	(186.3)
Foreseeable dividend[1]	**(47.9)**	(44.8)	(59.8)
Pension asset, net of associated deferred tax liabilities	**(3.6)**	(3.1)	(2.8)
Prudent valuation adjustment	**(0.2)**	(0.2)	(0.2)
Other reserves not recognised for CET1 capital:			
Available for sale movements reserve	**-**	(0.1)	-
Cash flow hedging reserve	**0.5**	3.9	3.2
Non-controlling interests	**0.6**	0.3	0.5
CET1 capital	**1,032.3**	938.8	990.6

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised for a foreseeable dividend. In accordance with this standard, for 31 January 2018 and 31 January 2017 a foreseeable dividend has been determined based on the average payout ratio over the previous three years applied to the retained earnings for the period. For 31 July 2017 a foreseeable dividend was determined as the proposed final dividend.

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

	£ million
CET1 capital at 31 July 2017	990.6
Profit in the period attributable to shareholders	104.0
Dividends paid and foreseen	(47.8)
Other movements in reserves recognised for CET1 capital	302.1
Share premium	(307.8)
Increase in intangible assets, net of associated deferred tax liabilities	(8.0)
Other movements in deductions from CET1 capital	(0.8)
CET1 capital at 31 January 2018	**1,032.3**

13. Contingent liabilities

Financial Services Compensation Scheme (“FSCS”)

As disclosed in note 22 of the Annual Report 2017, the group is exposed to the FSCS which provides compensation to customers of financial institutions in the event that an institution is unable, or is likely to be unable, to pay claims against it.

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

14. Related party transactions

Related party transactions, including salary and benefits provided to directors and key management, did not have a material effect on the financial position or performance of the group during the period. There were no changes to the type and nature of the related party transactions disclosed in the Annual Report 2017 that could have a material effect on the financial position and performance of the group in the six months to 31 January 2018.

15. Consolidated cash flow statement reconciliation

	31 January		31 July
	2018	2017	2017
	£ million	£ million	£ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities			
Operating profit before tax	**138.6**	131.4	258.6
Tax paid	**(33.1)**	(27.5)	(63.6)
Depreciation and amortisation	**30.8**	27.6	57.5
(Increase)/decrease in:			
Interest receivable and prepaid expenses	**(11.4)**	(15.5)	(18.1)
Net settlement balances and trading positions	**49.5**	6.5	6.7
Net loans to/from money broker against stock advanced	**5.9**	(22.9)	(21.9)
(Decrease)/increase in interest payable and accrued expenses	**(31.9)**	(17.7)	19.1
Net cash inflow from trading activities	**148.4**	81.9	238.3
(Increase)/decrease in:			
Loans and advances to banks not repayable on demand	**(28.9)**	3.4	0.3
Loans and advances to customers	**(113.7)**	(112.2)	(453.1)
Assets held under operating leases	**(38.7)**	(27.1)	(43.2)
Certificates of deposit	**(70.7)**	55.7	20.7
Sovereign and central bank debt	**0.8**	(41.6)	(44.5)
Other assets less other liabilities	**9.5**	9.2	22.5
Increase/(decrease) in:			
Deposits by banks	**(13.4)**	(1.1)	0.9
Deposits by customers	**137.1**	(29.7)	218.5
Loans and overdrafts from banks	**45.7**	(50.2)	(138.2)
Debt securities in issue, net of transaction costs	**73.7**	470.9	297.8
Net cash inflow from operating activities	**149.8**	359.2	120.0
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and non-controlling interests			
Cash consideration paid	**(0.9)**	(6.3)	(6.3)
(c) Analysis of net cash inflow/(outflow) in respect of the sale of a subsidiary			
Cash consideration received	**0.7**	0.3	0.3
Cash and cash equivalents disposed of	**-**	(0.6)	(0.6)
	0.7	(0.3)	(0.3)

15. Consolidated cash flow statement reconciliation continued

	31 January 2018 £ million	31 January 2017 £ million	31 July 2017 £ million
(d) Analysis of cash and cash equivalents[1]			
Cash and balances at central banks	**834.3**	1,113.8	798.2
Loans and advances to banks repayable on demand	**66.4**	68.4	61.4
	900.7	1,182.2	859.6

1 Excludes Bank of England cash reserve account, amounts held as collateral and settlement money held in accordance with Financial Conduct Authority Client Asset rules.

During the period ended 31 January 2018, the non-cash changes on debt financing amounted to £2.6 million (31 January 2017: £8.4 million; 31 July 2017: £8.3 million) arising largely from interest accretion.

16. Fair value of financial assets and liabilities

The main differences between the fair values and the carrying values of the group's financial assets and financial liabilities are as follows:

	31 January 2018		31 January 2017		31 July 2017	
	Fair value £ million	**Carrying value £ million**	Fair value £ million	Carrying value £ million	Fair value £ million	Carrying value £ million
Subordinated loan capital	**237.8**	**217.9**	230.9	219.4	242.0	220.7
Debt securities in issue	**1,581.4**	**1,550.0**	1,722.3	1,703.1	1,522.8	1,489.6

The group holds financial instruments that are measured at fair value subsequent to initial recognition. Each instrument has been categorised within one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. These levels are based on the degree to which the fair value is observable and are defined in note 27 "Financial risk management" of the Annual Report 2017. The table below shows the classification of financial instruments held at fair value into the valuation hierarchy:

	Level 1 £ million	**Level 2 £ million**	**Level 3 £ million**	**Total £ million**
At 31 January 2018				
Assets				
Debt securities:				
Long trading positions in debt securities held for trading	**20.7**	**4.2**	**-**	**24.9**
Sovereign and central bank debt classified as available for sale	**42.8**	**-**	**-**	**42.8**
Equity shares:				
Held for trading	**7.0**	**30.3**	**-**	**37.3**
Available for sale	**-**	**-**	**0.6**	**0.6**
Derivative financial instruments	**-**	**18.9**	**-**	**18.9**
Contingent consideration	**-**	**-**	**1.8**	**1.8**
	70.5	**53.4**	**2.4**	**126.3**
Liabilities				
Short positions:				
Debt securities	**8.0**	**2.5**	**-**	**10.5**
Equity shares	**6.8**	**8.2**	**-**	**15.0**
Derivative financial instruments	**-**	**16.8**	**-**	**16.8**
Contingent consideration	**-**	**-**	**6.1**	**6.1**
	14.8	**27.5**	**6.1**	**48.4**

16. Fair value of financial assets and liabilities continued

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 January 2017				
Assets				
Debt securities:				
Long trading positions in debt securities held for trading	12.7	1.8	-	14.5
Sovereign and central bank debt classified as available for sale	40.7	-	-	40.7
Equity shares:				
Held for trading	5.8	27.7	-	33.5
Available for sale	-	-	2.1	2.1
Derivative financial instruments	-	29.8	-	29.8
Contingent consideration	-	-	2.4	2.4
	59.2	59.3	4.5	123.0
Liabilities				
Short positions:				
Debt securities	8.6	2.6	-	11.2
Equity shares	3.7	9.1	-	12.8
Derivative financial instruments	-	17.9	-	17.9
Contingent consideration	-	-	4.6	4.6
	12.3	29.6	4.6	46.5

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2017				
Assets				
Debt securities:				
Long trading positions in debt securities held for trading	13.7	2.5	-	16.2
Sovereign and central bank debt classified as available for sale	43.6	-	-	43.6
Equity shares:				
Held for trading	5.4	26.5	-	31.9
Available for sale	-	-	0.8	0.8
Derivative financial instruments	-	27.0	-	27.0
Contingent consideration	-	-	2.7	2.7
	62.7	56.0	3.5	122.2
Liabilities				
Short positions:				
Debt securities	8.0	3.5	-	11.5
Equity shares	4.7	11.5	-	16.2
Derivative financial instruments	-	11.5	-	11.5
Contingent consideration	-	-	6.6	6.6
	12.7	26.5	6.6	45.8

16. Fair value of financial assets and liabilities continued

At 31 January 2018, financial instruments classified as Level 3 predominantly comprise a legacy investment property fund and contingent consideration payable and receivable in relation to two acquisitions and the disposal of a subsidiary (as described in note 27 "Financial risk management" of the Annual Report 2017).

The valuation of contingent consideration is determined on a discounted expected cash flow basis. The group believes that there is no reasonably possible change to the inputs used in the valuation of this position which would have a material effect on the group's consolidated income statement.

There were no significant transfers between Level 1, 2 and 3 during the six months ended 31 January 2018 (six months ended 31 January 2017: none; year ended 31 July 2017: none).

Movements in financial instruments categorised as Level 3 during the periods were:

	Equity shares available for sale £ million	Contingent consideration £ million
At 1 August 2016	2.0	-
Total losses recognised in the consolidated income statement	-	-
Total gains recognised in other comprehensive income	0.1	-
Purchases and issues	-	(4.6)
Sales and settlements	-	2.4
At 31 January 2017	2.1	(2.2)
Total losses recognised in the consolidated income statement	-	-
Total gains recognised in other comprehensive income	-	-
Purchases and issues	-	(2.0)
Sales and settlements	(1.3)	0.3
At 31 July 2017	0.8	(3.9)
Total losses recognised in the consolidated income statement	-	(0.3)
Total losses recognised in other comprehensive income	-	(0.3)
Purchases and issues	-	-
Sales and settlements	(0.2)	0.2
At 31 January 2018	**0.6**	**(4.3)**

The losses recognised in the consolidated income statement relating to instruments held at 31 January 2018 amounted to £0.3 million (31 January 2017: £nil; 31 July 2017: £nil).

Cautionary Statement

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

This announcement does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to subscribe for or purchase any shares or other securities in the company or any of its group members, nor does it constitute a recommendation regarding the shares or other securities of the company or any of its group members. Past performance cannot be relied upon as a guide to future performance and persons needing advice should consult an independent financial adviser or other professional. Statements in this announcement reflect the knowledge and information available at the time of its preparation. Liability arising from anything in this announcement shall be governed by English law. Nothing in this announcement shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.