Close Brothers

Interim Report 2005

Profit and Dividend

The operating profit on ordinary activities before taxation and goodwill amortisation of £4.2 million was £65.1 million compared with £57.8 million last year, an increase of 13 per cent. The earnings per share before goodwill amortisation was 31.2p compared with 27.7p, also up 13 per cent.

After deducting the charge for goodwill amortisation, the operating profit on ordinary activities before taxation was £60.9 million (2004 – £53.4 million), up 14 per cent. Earnings per share on this basis increased by 15 per cent. to 28.4p (2004 – 24.6p).

The directors have declared an interim dividend of 9½p per share, an increase of 5.6 per cent. over the interim of 9p per share last year. This is payable on 13th April, 2005 to shareholders on the register at the close of business on 18th March, 2005 and is in line with our policy to grow dividends while rebuilding cover.

Overall Business Review

The first half results are satisfactory and again demonstrate the resilience of our diversified business model.

As foreshadowed in our last Annual Report, good growth came from our investment banking activity while the growth rate of our banking activity slowed somewhat with the impact of testing markets and recent regulatory changes. The divisional results are shown in the table below.

Investment Banking increased profits by some 17 per cent. compared to the same period last year and contributed 51 per cent. (2004 – 48 per cent.) to the group's operating result. ***Market-Making*** performed well given the quiet conditions in the early part of the period and ***Corporate Finance*** completed a pleasing number of transactions for clients. The key driver of growth in the period was our burgeoning ***Asset Management*** division which is beginning to see the benefits of groundwork laid in earlier years.

Banking had a busy period, raising €500 million of new funding and making two in-fill acquisitions in January. Our loan book increased to £2.0 billion (2004 – £1.7 billion) with an organic growth rate of some 6 per cent. Profits were 2 per cent. higher compared with the same period last year.

£million	Operating income First half 2004	Operating income **First half 2005**	Profit before taxation First half 2004	Profit before taxation **First half 2005**
Investment Banking				
Asset Management	38.3	**57.3**	7.2	**15.2**
Corporate Finance	16.9	**21.4**	4.5	**4.9**
Market-Making	53.0	**44.6**	19.9	**17.0**
	108.2	**123.3**	31.6	**37.1**
Banking	85.5	**90.4**	34.4	**35.2**
Group	0.8	**1.4**	(8.2)	**(7.2)**
	194.5	**215.1**		
Profit before goodwill amortisation			57.8	**65.1**
Goodwill amortisation			(4.4)	**(4.2)**
Profit before taxation			53.4	**60.9**

The divisional net assets have not changed materially during the first half year.

Divisional Business Review

Banking

While the organic growth rate of our banking profits has slowed, we continued to achieve a high return on income (39 per cent.) and a high return on capital (31 per cent. annualised on opening shareholders' funds). These results had to sustain increased regulatory cost but benefited from the stable conditions for arrears levels and bad and doubtful debts, where our charge as a proportion of average loan book fell to 1.0 per cent. (2004 – 1.3 per cent.).

The acquisitions of Singer & Friedlander's motor finance loan book, now being run off, and Cattles' commercial assets lending business in Hull, together amounted to some £200 million of loans. Consequently our gross loan book expanded over the past 12 months to £1.98 billion (2004 – £1.68 billion), analysed as follows:

	31st January, 2004	2005
Motor vehicles	20%	**24%**
Insurance premiums	29%	**22%**
Transport, engineering and plant	15%	**16%**
Printing machinery	16%	**13%**
Healthcare, armed services and other	7%	**10%**
Property	8%	**9%**
Debt factoring	5%	**6%**
	100%	**100%**

Our treasury, property lending and credit management businesses all increased profits while other commercial assets and motor vehicle finance performed well in flat markets.

In contrast and as expected, we have experienced a slowdown in our insurance financing business, with continued premium deflation, and also in mortgages arranged. During the period the new regulation of mortgage brokers and of the sale of insurance has absorbed management time and led to increased costs. The implications of this are likely to be felt for some time.

Planning for future growth, we have expanded the funding available to the bank and have raised €500 million for three years under a medium-term note programme at an attractive rate. We now have credit ratings from both Fitch and Moody's as a result of which a wider funding market is open to us.

Investment Banking

Asset Management

Funds under management grew 22 per cent. over the past year to £6.1 billion from £5.0 billion (as shown by the table below). However the timing of both new funds taken on and prior year reorganisation and infrastructure charges contributed to an increase in revenue and profits of 50 per cent. and 111 per cent. respectively.

Funds under management	First half 2004 £bn	**First half 2005 £bn**
New funds raised	0.5	**0.6**
Withdrawals and redemptions	(0.2)	**(0.3)**
Net new funds	0.3	**0.3**
Market effect	0.1	**0.3**
Acquired funds	0.9	**–**
Total at start of period	3.7	**5.5**
Total at end of period	5.0	**6.1**

Our private client business (FUM £2.3 billion) continued to develop, with earlier investment offshore bearing fruit and providing enhanced profits. Furthermore our wealth management accounts processed in London have now been migrated to our acquired business in Northwich which itself contributed for the full period.

Our unquoted funds (FUM £1.8 billion) progressed, with private equity achieving some notable realisations for us and our clients as well as making investments for its new £360 million Fund VII, now fully on-stream. In addition, our property funds and our award-winning VCT team continued to attract new investors.

Our specialist funds (FUM £2.0 billion) did well and we continue to refine our strategic plans for the future shape and development of this business.

With major share markets generally stronger than six months ago, the development of this division continues.

Corporate Finance

Despite broadly flat activity in the mid-cap advisory market in the UK we achieved some useful completions in each of our three main areas of business – M&A, restructuring and debt advisory. This gave rise to an improvement in our revenues and a higher contribution from the M&A area. Activity in our European associates was encouraging and profits showed some improvement. We have been awarded "European Restructuring House of the Year 2004" by International Financing Review.

Market-Making

Our market-making income was some 16 per cent. lower than in the same period last year, as business was slower during the earlier months. However activity picked up in the late Autumn as the indices improved having been directionless for some months. In addition, our net margin held up well with the period benefiting from advisory activity in the investment trust sector. The firmer tone to the market has continued into the new calendar year.

Outlook

The UK economy continues to grow but at a reducing rate. The UK stock market ended 2004 on a positive note and has progressed in the early weeks of 2005, but there is evidence of slowdown in the consumer finance market; for the time being however the bad debt scenario for banks remains benign.

Against this background we expect that investment banking will continue to move forward whilst banking will continue to find trading tough. Overall, we are set fair for our second half.

7th March, 2005

Close Brothers

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Six months ended 31st January, 2005 (Unaudited) £'000	2004 (Unaudited) £'000	Year ended 31st July, 2004 (Audited) £'000
Interest receivable	137,410	116,243	240,348
Interest payable	68,849	50,828	106,757
Net interest income	68,561	65,415	133,591
Fees and commissions receivable	103,847	86,568	194,453
Fees and commissions payable	(16,020)	(13,675)	(34,072)
Net dealing income – market-making	48,138	54,683	99,983
Other operating income	10,603	1,529	7,227
Other income	146,568	129,105	267,591
Operating income	215,129	194,520	401,182
Administrative expenses	136,155	121,961	248,622
Depreciation	5,099	4,387	10,833
Provisions for bad and doubtful debts	8,804	10,365	22,781
Amortisation of goodwill	4,160	4,451	17,603
Total operating expenses	154,218	141,164	299,839
Operating profit on ordinary activities before taxation	60,911	53,356	101,343
Taxation on profit on ordinary activities	18,740	16,794	33,925
Profit on ordinary activities after taxation	42,171	36,562	67,418
Minority interests – equity	982	1,092	2,209
Profit attributable to shareholders	41,189	35,470	65,209
Interim dividend	13,636	12,875	38,479
Retained profit	27,553	22,595	26,730
Dividend per share	9.5p	9.0p	27.0p
Earnings per share before amortisation of goodwill	31.2p	27.7p	57.3p
Earnings per share on profit attributable to shareholders	28.4p	24.6p	45.1p
Diluted earnings per share	28.3p	24.5p	45.0p

All income and profits are in respect of continuing operations.

	31st January, 2005 (Unaudited) £'000	31st January, 2004 (Unaudited) £'000	31st July, 2004 (Audited) £'000
Assets			
Cash and balances at central banks	923	970	844
Loans and advances to banks	715,399	631,192	733,029
Loans and advances to customers	1,978,149	1,684,206	1,757,074
Non-recourse borrowings	(250,000)	(225,000)	(250,000)
	1,728,149	1,459,206	1,507,074
Debt securities – long positions	55,966	50,297	54,521
Debt securities – other	862,809	790,760	777,509
Settlement accounts	544,330	437,675	366,213
Equity shares – long positions	41,184	41,338	34,714
Loans to money brokers against stock advanced	139,222	106,175	113,116
Equity shares – investments	24,661	24,585	26,770
Intangible fixed assets – goodwill	97,566	104,413	98,628
Tangible fixed assets	36,285	32,607	32,855
Share of gross assets of joint ventures	21,826	21,637	21,855
Share of gross liabilities of joint ventures	(21,183)	(21,079)	(21,358)
	643	558	497
Other assets	78,067	68,146	84,708
Deferred taxation	18,140	12,813	14,377
Prepayments and accrued income	46,860	32,072	35,589
Total assets	4,390,204	3,792,807	3,880,444
Liabilities			
Deposits by banks	124,588	116,894	79,188
Customer accounts	1,752,796	1,527,004	1,681,152
Bank loans and overdrafts	545,047	621,275	621,360
Debt securities – loan notes issued	350,000	100,000	100,000
Debt securities – short positions	45,415	47,930	52,842
Settlement accounts	479,931	354,680	301,159
Equity shares – short positions	19,857	10,307	14,406
Loans from money brokers against stock advanced	158,502	136,746	105,639
Other liabilities	171,953	176,772	207,615
Accruals and deferred income	101,735	93,226	106,208
Subordinated loan capital	96,937	96,937	96,937
Minority interests – equity	5,080	6,704	4,674
Total liabilities	3,851,841	3,288,475	3,371,180
Shareholders' funds			
Called up share capital	36,135	36,033	36,066
Share premium account	251,642	249,935	250,430
ESOP trust reserve	(3,868)	(4,116)	(3,962)
Profit and loss account	254,454	222,480	226,730
Total equity shareholders' funds	538,363	504,332	509,264
Total liabilities and shareholders' funds	4,390,204	3,792,807	3,880,444
Memorandum items			
Contingent liabilities – guarantees	5,606	3,083	5,889
Commitments – other	223,153	190,229	194,284

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Six months ended 31st January, 2005 (Unaudited) £'000	2004 (Unaudited) £'000	Year ended 31st July, 2004 (Audited) £'000
Profit attributable to shareholders	41,189	35,470	65,209
Exchange adjustment	94	(1,488)	(1,554)
Total recognised gains and losses	41,283	33,982	63,655

CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 31st January, 2005 (Unaudited) £'000	2004 (Unaudited) £'000	Year ended 31st July, 2004 (Audited) £'000
Net cash inflow from operating activities (Note 1(a))	345,639	180,985	113,868
Returns on investments and servicing of finance:			
Interest paid on subordinated loan capital	(3,938)	(3,917)	(7,834)
Dividends paid to minorities	(512)	(743)	(1,419)
	(4,450)	(4,660)	(9,253)
Taxation:			
Taxation paid	(21,431)	(12,063)	(32,184)
Capital expenditure and financial investment:			
Purchase of tangible fixed assets	(8,731)	(5,253)	(18,613)
Sale of tangible fixed assets	1,180	223	630
Purchase of equity shares held for investment	(5,824)	(763)	(2,839)
Sale of equity shares held for investment	14,843	2,377	5,677
	1,468	(3,416)	(15,145)
Acquisitions and disposals:			
Minority interests acquired for cash	(2,622)	(36)	(2,950)
Purchase of loan book	(130,530)	–	–
Purchase of subsidiaries (Note 1(b))	(16,623)	(7,956)	(11,772)
	(149,775)	(7,992)	(14,722)
Equity dividends paid	(25,604)	(24,482)	(37,357)
Net cash inflow before financing	145,847	128,372	5,207
Financing:			
Issue of ordinary share capital including premium	1,281	438	966
Increase in cash	147,128	128,810	6,173

In the directors' view, cash is an integral part of the operating activities of the group, since it is a bank's stock in trade. Nevertheless, as required by Financial Reporting Standard No. 1 (Revised), cash is not treated as cash flow from operating activities but is required to be shown separately in accordance with the format above.

1. Consolidated cash flow statement

	Six months ended 31st January, 2005 (Unaudited) £'000	2004 (Unaudited) £'000	Year ended 31st July, 2004 (Audited) £'000
(a) Reconciliation of operating profit on ordinary activities before taxation to net cash inflow from operating activities			
Operating profit on ordinary activities before taxation	60,911	53,356	101,343
(Increase)/decrease in:			
Interest receivable and prepaid expenses	(11,196)	(4,859)	(8,376)
Net settlement accounts	655	(9,168)	8,773
Net equity shares held for trading	(1,019)	(26,017)	(15,294)
Net debt securities held for trading	(8,872)	4,264	4,952
(Decrease)/increase in interest payable and accrued expenses	(4,601)	(3,423)	9,559
Depreciation and amortisation	9,259	8,838	28,436
Net cash inflow from trading activities	45,137	22,991	129,393
(Increase)/decrease in:			
Debt securities held for liquidity	(85,300)	(246,934)	(233,683)
Loans and advances to customers	(25,065)	(68,592)	(141,460)
Loans and advances to banks not repayable on demand	164,679	244,112	19,764
Other assets less other liabilities	9,242	41,148	10,067
Increase/(decrease) in:			
Deposits by banks	45,400	9,022	(28,684)
Customer accounts	71,644	125,522	279,670
Bank loans and overdrafts	(130,098)	3,716	3,801
Non-recourse borrowings	–	50,000	75,000
Debt securities – loan notes issued	250,000	–	–
Net cash inflow from operating activities	345,639	180,985	113,868
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries			
Cash consideration in respect of current year purchases	(16,204)	(9,563)	(9,563)
Loan stock redemptions and deferred consideration paid in respect of prior year purchases	(419)	(4,992)	(8,808)
Net movement in cash balances	–	6,599	6,599
	(16,623)	(7,956)	(11,772)
(c) Analysis of changes in financing			
Share capital (including premium) and subordinated loan capital:			
Opening balance	383,433	382,467	382,467
Shares issued for cash	1,281	438	966
Closing balance	384,714	382,905	383,433

(d) Analysis of cash balances	Movement in the period £'000	2005 £'000	2004 £'000	31st July 2004 £'000
Cash and balances at central banks	79	923	970	844
Loans and advances to banks repayable on demand	147,049	283,584	259,046	136,535
	147,128	284,507	260,016	137,379

2. Basis of preparation

The interim accounts, which are unaudited, have been prepared on the basis of the accounting policies set out in the 2004 annual accounts.

The figures shown for the full year ended 31st July, 2004 represent an abridged version of the full accounts of Close Brothers Group plc for that year, which have been filed with the Registrar of Companies and on which the auditors have given an unqualified report. The financial information contained in this interim report does not constitute the group's statutory accounts within the meaning of Section 240 of the Companies Act 1985.

3. Earnings per share

Earnings per share before amortisation of goodwill is based on profit of £45,349,000 (2004 – £39,921,000), being profit after taxation and minority interests but before goodwill amortisation, and on 145,162,000 (2004 – 144,272,000) ordinary shares, being the weighted average number of shares in issue and contingently issuable during the period excluding those held by the employee benefit trust. This earnings per share has been disclosed because, in the opinion of the directors, it reflects operational performance.

Earnings per share on profit attributable to shareholders is based on profit after taxation and minority interests of £41,189,000 (2004 – £35,470,000) and on the same number of shares as above.

Diluted earnings per share is based on this same profit after taxation and minority interests, but on 145,600,000 (2004 – 144,856,000) ordinary shares, being the weighted average number of shares in issue disclosed above, plus the weighted dilutive potential on ordinary shares of exercisable employee share options in issue during the period.

Independent Review Report to Close Brothers Group plc

Introduction

We have been instructed by the company to review the financial information for the six months ended 31st January, 2005 which comprises the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the cash flow statement and related notes 1 to 3. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom auditing standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31st January, 2005.

Deloitte & Touche LLP

Chartered Accountants

London

7th March, 2005

Copies of this report are available at the Registered Office of Close Brothers Group plc,
10 Crown Place, London EC2A 4FT.

Printed by **St Ives Burrups** B781187/16745