



Close Brothers Group plc
Interim Report 2013

Close Brothers is a specialist financial services group which makes loans, trades securities and provides advice and investment management solutions to a wide range of clients.

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Corporate Overview

Financial Highlights

for the six months ended 31 January 2013

£79.8m

(2012: £63.2m)

Adjusted¹ operating profit

41.8p

(2012: 31.9p)

Adjusted² basic earnings
per share

£77.3m

(2012: £66.8m)

Operating profit before tax

40.4p

(2012: 34.8p)

Basic earnings per share

£58.8m

(2012: £50.5m)

Profit attributable to shareholders

15.0p

(2012: 14.0p)

Ordinary dividend per share

1 Stated before exceptional items and amortisation of intangible assets on acquisition.

2 Stated before exceptional items and amortisation of intangible assets on acquisition and the tax effect of such adjustments.

All data in this report relates to the six month period to 31 January, unless otherwise indicated.

Corporate Overview

Chairman's and Chief Executive's Statement



Strone Macpherson, Chairman.



Preben Prebensen, Chief Executive.

We are pleased to report a good result for Close Brothers for the first half of the year.

The Banking division has achieved strong profit growth with a solid increase in the loan book and improved credit performance.

In Securities, Winterflood remained consistently profitable in continued difficult market conditions.

Asset Management has made progress in the first half and we remain focused on our medium term targets for the division.

We have maintained our strong capital, funding and liquidity position, and are well placed for the remainder of the 2013 financial year.

Good Performance in the First Half

Overall, adjusted operating profit increased 26% to £79.8 million (2012: £63.2 million) resulting in a 31% increase in adjusted basic earnings per share to 41.8p (2012: 31.9p). This reflects a strong performance in Banking, modestly lower profitability in Securities and a small profit in Asset Management.

There were no exceptional items in the period. After charges for amortisation of intangible assets on acquisition of £2.5 million (2012: £2.3 million) and exceptional income of £5.9 million in the prior year only, operating profit before tax increased 16% to £77.3 million (2012: £66.8 million). Basic earnings per share also increased 16% to 40.4p (2012: 34.8p).

We continue to access a diverse range of funding sources and have maintained a strong funding position. During the period, our customer deposit base continued to grow, increasing total available funding to £6.2 billion (31 July 2012: £5.9 billion). We also strengthened the maturity of our funding through the renewal of several facilities and maintained a prudent maturity profile, with 72% (31 July 2012: 67%) of the loan book covered by term funding over one year at the balance sheet date.

Our capital position has remained strong and at 31 January 2013, our core tier 1 capital ratio was 12.7% (31 July 2012: 12.8%), and the leverage ratio was 9.3% (31 July 2012: 9.7%). The capital position is comfortably above current and proposed regulatory requirements and is not expected to be materially affected by Basel III.

As a result of the strong performance in the period, the group's return on opening equity increased to 16% (2012: 11%).

The board has declared an interim dividend of 15.0p (2012: 14.0p) per share, an increase of 1.0p, or 7%, reflecting the strong profit growth in the period.

Strong profit growth in Banking

The Banking division has delivered another period of strong profit growth with a 26% increase in adjusted operating profit to £77.7 million (2012: £61.8 million).

The strategic priority in the Banking division is to capture sustainable growth while maintaining our distinctive specialist lending model and the quality of our loan book. The loan book increased 6% to £4.4 billion at 31 January 2013 (31 July 2012: £4.1 billion),

corresponding to 16% growth over the last 12 months. Although growth in the period has been slightly lower, it remains solid across Retail, Commercial and Property. Given our strong market share, high repeat business levels and established customer relationships, we continue to see solid prospects for further growth.

Our niche, specialist lending serves the financing needs of UK SMEs across a diverse range of assets including heavy commercial vehicles, plant and machinery, agricultural equipment and invoice receivables. In addition, we lend to property companies for residential developments as well as providing insurance premium and car financing to retail and commercial borrowers through intermediaries. This breadth, together with our local expertise, means we remain confident of the market opportunities in the UK for our core lending. We also continue to explore new growth opportunities which share the strong risk and return profile of our core lending activities, such as structured finance to the middle ticket market. Overall, this leaves us well positioned to continue making the most of the operating environment through the cycle.

We remain focused on maintaining strong returns and in the period the return on net loan book increased further to 3.7% (2012: 3.4%), slightly above the ten year average of 3.6%. Our consistently strong returns reflect our discipline in maintaining our lending model and the combination of a strong net interest margin, which was 8.9% (2012: 9.6%) in the period, and low bad debt ratio, which improved further to 1.2% (2012: 1.7%). We remain focused on managing and controlling the business as it grows, and have significantly strengthened our infrastructure and systems in order to be well positioned to manage future growth.

Difficult market conditions continued for Securities

The strategic priority for the Securities division is to maintain its leading market position and maximise profitability in all trading conditions. However, performance in the period has continued to be impacted by difficult market conditions. As widespread macro-economic uncertainty and risk aversion amongst retail investors continued, Winterflood remained consistently profitable with adjusted operating profit of £7.4 million (2012: £8.4 million). Overall adjusted operating profit for Securities reduced to £10.5 million (2012: £13.2 million) reflecting a lower contribution from Mako.

In the recent difficult trading conditions, average bargains per day reduced, reflecting low retail investor risk appetite, while income per bargain has increased slightly. Despite some periods of increased market activity during January and February, we are not yet seeing signs of any sustained shift in risk appetite.

Winterflood has retained its strong market position as a leading market-maker to UK retail brokers. It has maintained its sales and trading capacity and delivered a consistent performance with only one loss day (2012: six loss days) in 128 trading days (2012: 128 trading days) in the period. We remain confident that Winterflood's core business is well positioned to capture any sustainable increase in retail trading activity. We have also made progress with Winterflood Business Services, although it remains at an early stage, as we capture increased demand for outsourced dealing and custody services.

Adjusted operating profit at Seydler improved to £2.2 million (2012: loss of £0.9 million), an increase on the prior year reflecting higher capital markets activity, although trading volumes in Germany also remained low. Seydler has retained strong relationships with German mid-cap corporates and remains well positioned in its market.

The contribution from Mako reduced to £0.9 million (2012: £5.7 million) largely reflecting low market volatility in the period, and a lower shareholding of 27.3% compared to the prior year.

Progress in Asset Management

The Asset Management division has made progress towards its objective of moving into profitability during the course of the 2013 financial year. It has achieved good revenue growth, with an increase in the revenue margin to 84 basis points (2012: 73 basis points), as well as a stable cost base year on year. Underlying performance improved and overall the division delivered adjusted operating profit of £1.1 million (2012: loss of £2.6 million) including the benefit of a small profit on the sale of our residual investment in a private equity fund.

During the period we have achieved good sales to new private clients both through our own advisers and fund managers, and through third party IFAs, and inflows increased on the prior year. However, these were offset by outflows including redemptions from institutional clients and the maturity of a legacy structured fund. In the period, we benefited from positive

market movements and as a result overall Assets under Management ("AuM") increased 6% to £8,854 million at 31 January 2013 (31 July 2012: £8,320 million).

We remain focused on driving revenue margin expansion, partly by increasing the proportion of our assets which are both managed and advised by us. In the period, these increased to £2,052 million (31 July 2012: £1,651 million) as we progressed with sales of our integrated proposition to existing clients, including clients previously acquired. We are pleased that our range of investment products has been well received by both existing and new clients, and further endorsed by our advisers and third party IFA sales channels.

Our business model provides high quality advice and investment management to private clients and remains well positioned in the current market and regulatory environment. We remain focused on our medium-term targets, as set out in the 2012 preliminary results, to achieve a revenue margin of around 100 basis points and an operating margin of at least 15% by the 2015 financial year.

Outlook

Performance in the first half of the 2013 financial year was good, and our businesses are well placed for the remainder of the year.

In Banking, we continue to see solid prospects for loan book growth and expect a similar performance in the second half.

In Securities, Winterflood remains well positioned to benefit from any sustained recovery in market conditions.

Asset Management continues to make progress and remains on track.

Overall, we look forward with confidence and expect a good result for the year as a whole.

Business Review

Overview

Close Brothers has delivered a good result for the first half of the 2013 financial year driven by continued strong profit growth in the Banking division, supported by consistent profitability at Winterflood and an improved result in Asset Management. Overall, adjusted operating profit increased 26% to £79.8 million (2012: £63.2 million).

Strong Profit Growth

Total adjusted operating income rose 8% to £283.0 million (2012: £261.8 million) in the first half of the financial year. This was driven by good income growth in the Banking division and an increase in income on AuM in the Asset Management division, although Securities income reduced slightly in continued difficult market conditions.

The group remains committed to managing costs carefully, whilst maintaining the capacity and flexibility to support growth in its businesses. Adjusted operating expenses increased 5% to £177.4 million (2012: £168.7 million), principally driven by higher costs in the Banking division reflecting strong loan book growth in the last year. Asset Management costs were stable as the division substantially completed its restructuring in the last financial year, while expenses in the Securities division reduced slightly. Overall, the group's expense/income ratio improved to 63% (2012: 66%) and the compensation ratio (total staff costs on adjusted operating income excluding associate income) was stable at 38% (2012: 38%).

Impairment losses on loans and advances ("bad debts") reduced to £25.8 million (2012: £29.9 million) reflecting strong credit performance across the portfolio. As a result, the bad debt ratio improved to 1.2% (2012: 1.7%).

Total adjusted operating profit for the group increased 26% to £79.8 million (2012: £63.2 million), principally driven by profit growth in the Banking division. The loan book has grown 6% in the first half of the year and 16% over the last 12 months, which together with the reduction in bad debts led to adjusted operating profit growth of 26% to £77.7 million (2012: £61.8 million). The Asset Management division delivered a small adjusted operating profit of £1.1 million (2012: loss of £2.6 million), partially offsetting a £2.7 million decrease in Securities adjusted operating profit to £10.5 million (2012: £13.2 million) principally reflecting a lower contribution from Mako. The net of group income and expenses was substantially unchanged at £9.5 million (2012: £9.2 million) for the first half. Overall, the group's operating margin was enhanced by 6% to 28% (2012: 22%) and return on opening equity increased to 16% (2012: 11%).

There were no exceptional items in the period. Exceptional income of £5.9 million was recorded in the prior year period principally relating to foreign exchange gains realised on the reduction of our investment in Mako during that period. In line with our normal accounting policy, we recorded a charge for amortisation of intangible assets on acquisition of £2.5 million (2012: £2.3 million).

Operating profit before tax, after exceptional income and amortisation of intangible assets on acquisition, increased 16% to £77.3 million (2012: £66.8 million).

The tax charge for the period was £17.9 million (2012: £15.5 million), corresponding to an effective tax rate of 23% (2012: 23%), broadly in line with the UK corporation tax rate of 24% (2012: 26%).

Profit attributable to shareholders increased 16% to £58.8 million (2012: £50.5 million) and basic earnings per share also increased 16% to 40.4p (2012: 34.8p). Excluding exceptional income in the prior year and amortisation of intangible assets on acquisition, adjusted basic earnings per share increased 31% to 41.8p (2012: 31.9p).

Dividend per share

The board has declared an interim dividend per share of 15.0p (2012: 14.0p), representing a year on year increase of 7%. This reflects strong profit growth in the period which has enabled the group to increase the dividend in line with our progressive dividend policy, whilst strengthening our dividend cover. The dividend will be paid on 24 April 2013 to shareholders on the register at 22 March 2013.

Group Income Statement

	First half 2013 £ million	First half 2012 £ million	Change %
Adjusted operating income	283.0	261.8	8
Adjusted operating expenses	(177.4)	(168.7)	5
Impairment losses on loans and advances	(25.8)	(29.9)	(14)
Adjusted operating profit	79.8	63.2	26
Exceptional income	–	5.9	
Amortisation of intangible assets on acquisition	(2.5)	(2.3)	9
Operating profit before tax	77.3	66.8	16
Tax	(17.9)	(15.5)	15
Non-controlling interests	(0.6)	(0.8)	(25)
Profit attributable to shareholders	58.8	50.5	16
Adjusted basic earnings per share	41.8p	31.9p	31
Basic earnings per share	40.4p	34.8p	16
Ordinary dividend per share	15.0p	14.0p	7

Note: Adjusted operating income, expenses, operating profit and earnings per share exclude the effect of exceptional items and amortisation of intangible assets on acquisition, and the tax effect of such adjustments.

Divisional Adjusted Operating Profit/(Loss)

	First half 2013		First half 2012		Change %
	£ million	%	£ million	%	
Banking	77.7	87	61.8	85	26
Securities	10.5	12	13.2	18	(20)
Asset Management	1.1	1	(2.6)	(3)	
Total divisions	89.3	100	72.4	100	23
Group	(9.5)		(9.2)		3
Adjusted operating profit	79.8		63.2		26

Business Review

Overview continued

Strong Balance Sheet Maintained

The group has maintained its simple and transparent balance sheet which is principally made up of customer loans, trading assets and liabilities and the group's funding and liquidity holdings. During the period, total assets increased by 10% to £6,963.3 million (31 July 2012: £6,355.8 million) driven by growth in the loan book as well as a higher level of liquid assets and settlement balances at the balance sheet date.

Loans and advances to customers accounted for 63% (31 July 2012: 65%) of the group's total assets and increased by 6%, or £247.3 million, to £4,373.2 million (31 July 2012: £4,125.9 million). The group continues to apply prudent and consistent criteria to lending decisions and the loan book remains small ticket, predominantly secured, on prudent loan-to-value ("LTV") ratios and short-term, with an average maturity of 13 months (31 July 2012: 14 months).

Cash and loans and advances to banks principally relate to Bank of England deposits held for liquidity purposes by the group's Treasury function. The balance increased 36% to £1,111.4 million (31 July 2012: £816.8 million), as a result of the timing of new funding which was not deployed in the loan book at the balance sheet date.

The group has now substantially completed the process of optimising balance sheet efficiency through the reduction in our holding of less liquid floating rate notes ("FRNs") which reduced slightly in the period. Our holding of certificates of deposit ("CDs") also reduced and gilts remained broadly stable, with the result that total non-trading debt securities were lower at £204.5 million (31 July 2012: £353.0 million).

Settlement balances, long and short trading positions and loans to and from money brokers reflect the market-making activity at Winterflood and Seydler around the balance sheet date. As a result of higher trading activity at 31 January 2013, these increased to £794.3 million (31 July 2012: £598.5 million) on the asset side and to £707.3 million (31 July 2012: £501.7 million) on the liability side, although the net balance reduced modestly to £87.0 million (31 July 2012: £96.8 million).

Total liabilities increased in the period reflecting an increase in the group's funding, as deposits by customers grew by £485.3 million to £3,933.4 million (31 July 2012: £3,448.1 million). Borrowings, which relate to the group's wholesale funding, decreased slightly to £1,228.1 million (31 July 2012: £1,322.3 million) reflecting lower drawdowns on debt facilities as a result of the strong liquidity position at the period end.

Total equity increased to £800.4 million (31 July 2012: £769.8 million) reflecting profit for the period of £59.4 million and other positive reserve movements, partly offset by the 2012 final dividend payment of £39.7 million.

Funding and liquidity

The objective of the group's Treasury function is to fund the loan book with a focus on diversity and maturity, while maintaining a sound level of high quality liquidity.

Diverse range of funding sources

The group maintained a strong funding position in the period with good access to a diverse range of funding sources. Total group funding at 31 January 2013 increased 6% to £6,202.3 million (31 July 2012: £5,859.1 million), principally driven by an increase in customer deposits. This continues to represent a good level of funding to support growth in the loan book, equating to 142% (31 July 2012: 142%) of the loan book at 31 January 2013, unchanged from the prior year end.

The group has built up a strong and reliable retail deposit base over the last three years and through a number of recent successful savings product campaigns, we raised over £400 million new retail term deposits in the first half. The group also has long standing, established relationships with corporate customers for deposit taking and these deposits also increased in the period. As a result total customer deposits increased to £3,933.4 million (31 July 2012: £3,448.1 million).

Wholesale funding includes the group bond of £204.8 million (31 July 2012: £204.5 million) and drawn and undrawn facilities of £1,263.7 million (31 July 2012: £1,436.7 million) at the balance sheet date. During the period the group renewed three facilities totalling £575 million that were approaching maturity, including the £350 million securitisation on the premium finance loan book.

Group Balance Sheet

	31 January 2013 £ million	31 July 2012 £ million
Assets		
Cash and loans and advances to banks	1,111.4	816.8
Settlement balances, long trading positions and loans to money brokers	794.3	598.5
Loans and advances to customers	4,373.2	4,125.9
Non-trading debt securities	204.5	353.0
Intangible assets	138.9	139.7
Other assets	341.0	321.9
Total assets	6,963.3	6,355.8
Liabilities		
Settlement balances, short trading positions and loans from money brokers	707.3	501.7
Deposits by banks	60.6	88.0
Deposits by customers	3,933.4	3,448.1
Borrowings	1,228.1	1,322.3
Other liabilities	233.5	225.9
Total liabilities	6,162.9	5,586.0
Equity	800.4	769.8
Total liabilities and equity	6,963.3	6,355.8

Group Funding Overview

	31 January 2013 £ million	31 July 2012 £ million	Change £ million
Deposits by customers	3,933.4	3,448.1	485.3
Drawn and undrawn facilities ¹	1,263.7	1,436.7	(173.0)
Group bond	204.8	204.5	0.3
Equity	800.4	769.8	30.6
Total available funding	6,202.3	5,859.1	343.2

¹ Includes £257.8 million (31 July 2012: £331.9 million) of undrawn facilities and excludes £17.4 million (31 July 2012: £13.0 million) of non-facility overdrafts included in borrowings.

Business Review

Overview continued

Prudent maturity profile

The group remains committed to maintaining a prudent maturity profile of funding relative to the loan book. Renewals of wholesale funding and an increase in term deposits in the first half of the year led to an increase in the group's term funding, with a residual maturity greater than one year, to £3,136.3 million (31 July 2012: £2,758.7 million). This continues to represent a prudent level relative to the loan book, which was 72% (31 July 2012: 67%) covered by term funding at the balance sheet date.

The weighted average maturity of this term funding, excluding equity, was broadly unchanged at 28 months (31 July 2012: 27 months) and continues to significantly exceed the average loan book maturity of 13 months (31 July 2012: 14 months).

Sound level of high quality liquidity

The group's liquidity position remains comfortably ahead of regulatory requirements. The group's Treasury function continually monitors the level and quality of the group's liquid assets to ensure it maintains a sound level of liquidity.

At the balance sheet date, the group had high quality liquid assets of £1,079.4 million (31 July 2012: £806.9 million). The balance fluctuates depending on the timing of new funding raised, and increased in the first half as a result of new funding not yet deployed in the loan book at the balance sheet date. This increase was primarily reflected in higher Bank of England deposits which rose to £981.3 million (31 July 2012: £706.8 million) while gilts remained broadly stable at £98.1 million (31 July 2012: £100.1 million). At the same time, the CD portfolio reduced to £25.0 million (31 July 2012: £130.3 million).

We have now substantially completed the run-off of our holding of less liquid securities, with the FRN portfolio reducing further to £81.4 million (31 July 2012: £122.6 million) in the period. The portfolio had an average residual maturity of 11 months (31 July 2012: 12 months) at the balance sheet date.

Credit ratings

The credit ratings for Close Brothers Group plc and Close Brothers Limited ("CBL"), the group's regulated banking subsidiary, from Fitch Ratings ("Fitch") and Moody's Investors Services ("Moody's") were unchanged in the first half of the year. In November 2012 Fitch reaffirmed its ratings for Close Brothers Group and CBL at A/F1, both with stable outlooks. Moody's ratings for Close Brothers Group and CBL are unchanged since the financial year end at Baa1/P2 and A3/P2 respectively, both with negative outlooks.

Maintained strong capital position

Despite several years of strong loan book growth, the group has maintained its strong capital position and comfortably continues to meet all regulatory capital requirements.

In the first half of the 2013 financial year, the group's core tier 1 capital ratio was largely unchanged at 12.7% (31 July 2012: 12.8%), reflecting strong profitability in the period and continued loan book growth. We do not expect our core tier 1 capital ratio to be materially affected by Basel III, given that we do not have complex trading book exposures which give rise to higher credit and counterparty risk charges, or material deferred tax assets which are subject to new capital deductions.

In the first half of the year our core tier 1 capital increased to £648.4 million (31 July 2012: £620.8 million), as profit attributable to shareholders and other reserve movements were partly offset by the payment of the 2012 final dividend of £39.7 million. Risk weighted assets increased 5% to £5,105.7 million (31 July 2012: £4,859.7 million), principally due to an increase in credit and counterparty risk as a result of loan book growth.

The group has also maintained a strong leverage ratio, which is a transparent measure of capital strength not affected by risk weightings. In the first half this ratio reduced slightly to 9.3% (31 July 2012: 9.7%), reflecting growth in total balance sheet assets of 10%, through a combination of loan book growth, a higher liquidity position and higher settlement balances at the balance sheet date. Taken together with the core tier 1 capital ratio, this ratio continues to demonstrate the strength of the group's capital position.

Group Funding Maturity Profile

	Less than one year £ million	One to two years £ million	Greater than two years £ million	Total £ million
Deposits by customers	2,468.4	1,132.0	333.0	3,933.4
Drawn and undrawn facilities ¹	591.4	75.0	597.3	1,263.7
Group bond	6.2	–	198.6	204.8
Equity	–	–	800.4	800.4
Total available funding at 31 January 2013	3,066.0	1,207.0	1,929.3	6,202.3
Total available funding at 31 July 2012	3,100.4	1,492.5	1,266.2	5,859.1

¹ Includes £257.8 million (31 July 2012: £331.9 million) of undrawn facilities and excludes £17.4 million (31 July 2012: £13.0 million) of non-facility overdrafts included in borrowings.

Treasury Assets

	31 January 2013 £ million	31 July 2012 £ million	Change £ million
Gilts	98.1	100.1	(2.0)
Bank of England deposits	981.3	706.8	274.5
High quality liquid assets	1,079.4	806.9	272.5
Certificates of deposit	25.0	130.3	(105.3)
Floating rate notes	81.4	122.6	(41.2)
Total Treasury assets	1,185.8	1,059.8	126.0

Group Capital Position

	31 January 2013 £ million	31 July 2012 £ million
Core tier 1 capital ratio	12.7%	12.8%
Total capital ratio	14.3%	14.5%
Leverage ratio ¹	9.3%	9.7%
Core tier 1 capital	648.4	620.8
Total regulatory capital	731.8	702.9
Risk weighted assets	5,105.7	4,859.7

¹ Core tier 1 capital as a percentage of total balance sheet assets, adjusting for intangible assets and certain off balance sheet exposures.

Business Review

Banking

Strong Performance in the First Half of 2013

The Banking division has delivered another strong performance with solid loan book growth and improved credit performance leading to an increase in adjusted operating profit of 26% to £77.7 million (2012: £61.8 million). As a result, the return on opening equity improved to 24% (2012: 20%).

Adjusted operating income increased 11% to £195.7 million (2012: £176.5 million) reflecting growth across the portfolio in net interest and fees on the loan book, which increased 10%. Treasury and other non-lending income increased to £6.4 million (2012: £3.8 million) reflecting one-off income from the settlement of a long standing legal case.

Adjusted operating expenses increased 9% to £92.2 million (2012: £84.8 million), largely reflecting costs associated with the strong loan book growth over the last year, including additional staff costs particularly in asset finance and motor finance. Overall, the expense/income ratio improved slightly to 47% (2012: 48%) and the compensation ratio remained unchanged at 27% (2012: 27%).

Given the strong credit performance across the portfolio, bad debt charges reduced to £25.8 million (2012: £29.9 million) in the period.

Continued solid loan book growth

In the six months to 31 January 2013, the loan book increased 6% to £4.4 billion (31 July 2012: £4.1 billion) corresponding to 16% growth over the last 12 months. Overall, growth has remained solid albeit slower than the prior year, reflecting a moderation in demand in some of our markets. Our priority remains to maintain the discipline of our lending criteria to protect our business model and the strong returns of our loan portfolio.

The Retail loan book increased 7% to £1,820.6 million in the six months to 31 January 2013 (31 July 2012: £1,707.8 million). The motor finance loan book increased 7% to £1,164.4 million (31 July 2012: £1,086.8 million). It continues to benefit from strong relationships with existing and new motor dealers across the UK, notwithstanding a slowdown in demand for second hand cars in the period. The premium finance loan book increased 6% to £656.2 million (31 July 2012: £621.0 million) reflecting continued modest growth in personal, and seasonal growth in commercial lines.

The Commercial loan book increased 5% to £1,724.0 million (31 July 2012: £1,635.9 million) driven by asset finance which increased 7% to £1,420.9 million (31 July 2012: £1,327.2 million) with good growth in manufacturing and middle ticket lending. Invoice finance remained broadly unchanged at £303.1 million (31 July 2012: £308.7 million) reflecting the continued discipline of our lending criteria in a competitive market.

In Property, the loan book increased 6% to £828.6 million (31 July 2012: £782.2 million), corresponding to 24% growth over the last 12 months. Whilst new loan growth in the period has remained strong, this was partly offset by a higher level of repayments following exceptionally strong growth in the prior year.

Consistent lending model and strong returns

As we continue to lend with consistent, prudent criteria, the quality of the loan book and returns from our lending remain strong. Our niche, specialist lending businesses serve a wide range of SMEs and individuals across different asset types, and vary by maturity, size and LTV, but share a similar risk and return profile. Our overall loan book remains predominantly secured, on conservative LTVs, and short-term with an average maturity of 13 months (31 July 2012: 14 months). In the first half, the return on net loan book improved further to 3.7% (2012: 3.4%), slightly above the ten year average of 3.6%.

The net interest margin, which includes net interest income and other lending related income, remained strong in the period at 8.9% (2012: 9.6%), although lower than the prior year. This principally reflects changes in mix over the last year including growth in lower margin areas such as middle ticket lending and larger motor dealerships, as well as lower income from settlement fees and default fees as a result of improved credit performance. Other income, which principally includes net fees and commissions related to our lending activities, accounted for 24% (2012: 26%) of total net interest and fee income in the period, broadly consistent with prior years.

The bad debt ratio has continued to improve to 1.2% (2012: 1.7%) in the period reflecting our credit discipline during the strong loan book growth over the last 12 months. Bad debt improved in Property and Commercial, and remains at historically low levels in Retail.

The Banking division remains well positioned and continues to see solid prospects for loan book growth while remaining focused on protecting its distinctive lending model.

Key Financials

	First half 2013 £ million	First half 2012 £ million	Change %
Adjusted operating income	195.7	176.5	11
Net interest and fees on loan book ¹	189.3	172.7	10
Retail	75.8	71.7	6
Commercial	84.0	78.9	6
Property	29.5	22.1	33
Treasury and other non-lending income	6.4	3.8	68
Adjusted operating expenses	(92.2)	(84.8)	9
Impairment losses on loans and advances	(25.8)	(29.9)	(14)
Adjusted operating profit	77.7	61.8	26

1 Includes £144.2 million (2012: £127.2 million) net interest income and £45.1 million (2012: £45.5 million) other income. Other income includes net fees and commissions, operating lease income, and other miscellaneous income.

Key Performance Indicators

	First half 2013	First half 2012
Net interest margin ¹	8.9%	9.6%
Bad debt ratio ²	1.2%	1.7%
Expense/income ratio ³	47%	48%
Return on opening equity ⁴	24%	20%

1 Net interest and fees on average net loans and advances to customers.

2 Impairment losses on average net loans and advances to customers.

3 Adjusted operating expenses on adjusted operating income.

4 Adjusted operating profit after tax and non-controlling interests on opening equity.

Loan Book Analysis

	31 January 2013 £ million	31 July 2012 £ million	Change %
Retail	1,820.6	1,707.8	7
Motor finance	1,164.4	1,086.8	7
Premium finance	656.2	621.0	6
Commercial	1,724.0	1,635.9	5
Asset finance	1,420.9	1,327.2	7
Invoice finance	303.1	308.7	(2)
Property	828.6	782.2	6
Closing loan book	4,373.2	4,125.9	6

Business Review

Securities

First Half of 2013 Performance Impacted by Continued Difficult Market

The difficult market conditions which affected the Securities division's performance during most of the previous financial year continued in the first half of the 2013 financial year. Low trading volumes across the market impacted both Winterflood and Seydler, with Winterflood's performance in particular continuing to be affected by low retail investor risk appetite. Notwithstanding the market conditions, Winterflood was consistently profitable, maintaining its trading capacity and market leading position, and remaining well placed to benefit from any market recovery.

Adjusted operating income reduced 7% to £47.9 million (2012: £51.6 million) due to continued low trading income at Winterflood, with a lower contribution from Mako offset by improved performance from Seydler. Adjusted operating expenses reduced slightly to £37.4 million (2012: £38.4 million) and as a result the expense/income ratio reduced to 80% (2012: 84%) and the compensation ratio was 45% (2012: 47%). Overall, adjusted operating profit reduced to £10.5 million (2012: £13.2 million) although return on opening equity, which excludes Mako associate income after tax, was higher at 16% (2012: 11%).

Winterflood consistently profitable

Market sentiment during the period continued to be characterised by low risk appetite, particularly amongst retail investors, and trading activity remained subdued. In spite of the difficult conditions, Winterflood remained consistently profitable, having just one loss day (2012: six loss days) out of 128 trading days (2012: 128 trading days) in the six month period.

Winterflood's adjusted operating income decreased slightly to £34.7 million (2012: £37.6 million). Average bargains per day fell to 41,583 (2012: 48,202) reflecting low client trading activity, partly offset by a small rise in income per bargain to £6.52 (2012: £6.09). However, income per bargain continues to reflect difficult trading conditions and low volumes in higher margin AIM and small-cap stocks.

The low fixed cost structure of Winterflood enabled the business to reduce costs to reflect the reduction in trading income in the period. Adjusted operating expenses decreased 7% to £27.3 million (2012: £29.2 million) reflecting a reduction in volume and performance related costs. At the same time, Winterflood has maintained its sales and trading capacity, reflecting our continued confidence in our business model. Overall, Winterflood delivered an adjusted operating profit of £7.4 million (2012: £8.4 million) in the period.

Increased capital markets activity in Seydler

Adjusted operating income for Seydler increased £4.0 million, or 48%, to £12.3 million (2012: £8.3 million) reflecting higher capital market fees, although trading volumes remained low. Adjusted operating expenses increased 10% to £10.1 million (2012: £9.2 million), resulting in a small adjusted operating profit of £2.2 million (2012: loss of £0.9 million). Seydler maintains a strong position in the German small and mid-cap market, with a strong capital markets transaction pipeline.

Associate income from Mako of £0.9 million (2012: £5.7 million) reduced, due to lower market volatility and the group's reduced shareholding compared to the prior year period. The group's current holding in Mako is unchanged since the year end at 27.3% (31 January 2012: 33.3%).

Key Financials

	First half 2013 £ million	First half 2012 £ million	Change %
Adjusted operating income	47.9	51.6	(7)
Winterflood	34.7	37.6	(8)
Seydler	12.3	8.3	48
Mako (associate income after tax)	0.9	5.7	(84)
Adjusted operating expenses	(37.4)	(38.4)	(3)
Winterflood	(27.3)	(29.2)	(7)
Seydler	(10.1)	(9.2)	10
Adjusted operating profit/(loss)	10.5	13.2	(20)
Winterflood	7.4	8.4	(12)
Seydler	2.2	(0.9)	
Mako (associate income after tax)	0.9	5.7	(84)

Key Performance Indicators

	First half 2013	First half 2012
Winterflood income per bargain	£6.52	£6.09
Winterflood average bargains per day ('000)	42	48
Operating margin ¹	20%	16%
Return on opening equity ²	16%	11%

1 Adjusted operating profit on adjusted operating income after excluding associate income.

2 Adjusted operating profit excluding associate income after tax and non-controlling interests on opening equity.

Business Review

Asset Management

Progress in the First Half of 2013

The Asset Management division has made progress towards its objective of moving into profitability during the course of the 2013 financial year and we remain focused on our medium-term targets for the division.

In the first half, adjusted operating income increased 10% to £37.2 million (2012: £33.9 million) as we expanded the revenue margin, principally through an increase in higher margin private client assets.

Following the last few years of restructuring and investment we are now focused on optimising the division's cost base, and in the period we held adjusted operating expenses broadly flat at £36.1 million (2012: £36.5 million). This corresponded to an improved expense/income ratio of 97% (2012: 108%) and a compensation ratio of 63% (2012: 65%).

The underlying performance of the division has improved in the period. Overall we reported a small profit of £1.1 million (2012: loss of £2.6 million) including a gain on the sale of our residual investment in a private equity fund, reported in other income. As a result, the operating margin improved to 3% (2012: (8%)) and the return on opening equity increased to 4% (2012: (8%)).

Good sales momentum

During the period we achieved good sales both through our own financial advisers and fund managers, and through third party IFAs. As a result, inflows were ahead of the prior year period at £506 million (2012: £467 million) with a good proportion of new advice business also moving into our discretionary fund management and on to our platform. However, we also recorded outflows including redemptions from institutional clients and the maturity of a legacy structured fund, and as a result net new funds were modestly negative overall.

This was offset by positive market movements of £601 million, benefiting from strong financial market performance, particularly in January, resulting in overall AuM increasing 6% to £8,854 million (31 July 2012: £8,320 million).

In the six months to 31 December 2012, the performance of our five directly invested funds was mixed with the balanced and growth funds outperforming respective IMA sector benchmarks, although the income focused and conservative funds underperformed, reflecting their defensive positioning in a rising market. The average performance of our bespoke portfolios outperformed respective ARC peer groups in all risk profiles over the same period.

Increase in revenue margin reflecting improved AuM mix

Overall income on AuM increased 9% to £36.0 million (2012: £32.9 million) corresponding to an improved revenue margin on total assets of 84 basis points (2012: 73 basis points), principally reflecting the greater proportion of higher margin private client assets relative to the prior year.

We remain focused on improving the mix of AuM towards higher margin assets, particularly increasing the proportion which are both managed and advised. In the period, these increased to £2,052 million (31 July 2012: £1,651 million), corresponding to 42% (31 July 2012: 36%) of advised client assets. This was achieved through sales of our integrated proposition to new clients as well as transitioning existing advised clients, including those previously acquired, into our integrated proposition. As we continue to increase assets that are both managed and advised, the revenue margin will benefit over time.

Total advised AuM increased 7% to £4,942 million (31 July 2012: £4,639 million) reflecting positive market movements and good new business levels. Income from advice and other services increased 14% to £16.6 million (2012: £14.5 million) reflecting the benefit of acquisitions in the prior year and higher initial fees. Overall, the revenue margin on total advised assets increased to 70 basis points (2012: 65 basis points).

Managed AuM increased to £5,964 million (31 July 2012: £5,332 million) reflecting sales to new and existing clients and positive market movements, partly offset by the outflow of lower margin institutional client assets. As a result of the improved mix, investment management income increased 5% to £19.4 million (2012: £18.4 million) and the revenue margin on managed assets increased to 69 basis points (2012: 60 basis points).

Going forward, we remain focused on driving revenue and profit growth through sales of our integrated proposition, and streamlining and optimising the cost base.

Key Financials

	First half 2013 £ million	First half 2012 £ million	Change %
Adjusted operating income	37.2	33.9	10
Income on AuM	36.0	32.9	9
Advice and other services ¹	16.6	14.5	14
Investment management	19.4	18.4	5
Other income ²	1.2	1.0	20
Adjusted operating expenses	(36.1)	(36.5)	(1)
Adjusted operating profit/(loss)	1.1	(2.6)	

1 Income from financial advice and self directed services, excluding investment management income.

2 Interest income and expense, income on investment assets and other income.

Note: Prior year income numbers have been re-presented to reflect the division's increased focus on the managed and advised private client business.

Key Performance Indicators

	First half 2013	First half 2012
Net (outflows)/inflows (£ million) ¹	(67)	181
Revenue margin (bps) ²	84	73
Operating margin	3%	(8)%
Return on opening equity ³	4%	(8)%

1 First half 2012 relates to assets previously reported in the Private Clients segment only.

2 Income from advice and other services and investment management over average AuM.

3 Adjusted operating profit after tax and non-controlling interests on opening equity.

Movement in Assets under Management

	£ million
At 1 August 2012	8,320
Inflows	506
Outflows	(573)
Net outflows	(67)
Market movement	601
At 31 January 2013	8,854
Change	6%

Assets under Management by Type

	31 January 2013 £ million	31 July 2012 £ million	Change %
Total AuM	8,854	8,320	6
Advised AuM ¹	4,942	4,639	7
Managed AuM ²	5,964	5,332	12
Both advised and managed AuM	2,052	1,651	24

1 All personal and corporate advised and self directed client assets, including those which are also managed by Close Brothers.

2 All client assets which are invested in Close Brothers' investment products, including funds, separately managed accounts and bespoke high net worth client portfolios.

Business Review

Principal Risks and Uncertainties

The group seeks to achieve an appropriate balance between taking risk and achieving an acceptable return for shareholders by:

- Closely following the well established business model;
- Clearly defining and monitoring its risk appetite; and
- Maintaining an integrated risk management approach.

During the six months to 31 January 2013, there has been no significant change to our business model, risk appetite or risk management approach. The group has not identified any new principal risks and uncertainties that it is likely to face in the second half of the financial year.

A detailed description of the principal risks and uncertainties the group faces and its approach to managing and mitigating those risks is set out on pages 24 to 27 of the Annual Report 2012 which can be accessed via the link on the home page of the group's website at www.closebrothers.com.

The summary below highlights the principal risks and uncertainties the group expects to face in the second half of the financial year. It should not be regarded as a comprehensive list of all the risks and uncertainties the group may face.

Key risk and uncertainty	Description
Economic environment	Significant macro-economic shocks may reduce demand for the group's products and services as well as potentially adversely affecting existing clients and counterparties.
Credit losses	<p>The group has £4.4 billion of loans and advances to a range of corporate, SME and individual customers. Although these loans are predominantly secured, we are exposed to losses if customers are unable to make repayments.</p> <p>Further exposures exist to financial institutions with whom we place surplus funding, trade or hold derivatives for hedging purposes.</p>
Availability of funding	The group requires access to funding to support its lending activities and to maintain appropriate levels of liquidity.
Operational risks and regulatory change	<p>The group relies on its employees and IT systems in its day to day activities. Employee error or failures in systems could adversely impact the group's performance.</p> <p>The group operates in a highly regulated environment and changes in regulation have the potential to impact the group's performance.</p>
Exposure to markets	Levels of market activity, changes in interest and exchange rates, and equity/fixed income prices could impact the group's performance.

Governance

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 Interim Report 2013 includes a fair review of the information required by Disclosure 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 Interim Report 2013 includes a fair review of the information required by Disclosure and Transparency Rule 4.2.8R (disclosure of related parties' transactions and changes therein).

On behalf of the board

P.S.S. Macpherson
Chairman

P. Prebensen
Chief Executive

12 March 2013

Financial Statements

Independent Review Report

Independent Review Report to Close Brothers Group plc

We have been engaged by the company to review the condensed set of consolidated financial statements in the Interim Report 2013 for the six months ended 31 January 2013 which comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and related notes 1 to 17. We have read the other information contained in the Interim Report 2013 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of consolidated financial statements.

This report is made solely to the company 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. Our work has been undertaken so that we might state to the company those matters we are required to state to it 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 2013 is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Report 2013 in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of consolidated financial statements included in this Interim Report 2013 has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of consolidated financial statements in the Interim Report 2013 based on our review.

Scope of review

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 inquiries, 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 Ireland) 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the Interim Report 2013 for the six months ended 31 January 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP

Chartered Accountants and Statutory Auditor
London, United Kingdom

12 March 2013

Financial Statements

Consolidated Income Statement

for the six months ended 31 January 2013

	Note	Six months ended 31 January		Year ended 31 July 2012
		2013 Unaudited £ million	2012 Unaudited £ million	Audited £ million
Interest income		222.8	200.6	412.2
Interest expense		(75.9)	(70.0)	(141.3)
Net interest income		146.9	130.6	270.9
Fee and commission income		85.4	81.4	167.0
Fee and commission expense		(11.5)	(9.9)	(21.1)
Gains less losses arising from dealing in securities		39.3	40.8	78.8
Share of profit of associate	16	0.9	5.7	7.2
Other income		22.0	13.2	28.9
Non-interest income		136.1	131.2	260.8
Operating income		283.0	261.8	531.7
Administrative expenses		(177.4)	(168.7)	(339.9)
Impairment losses on loans and advances	7	(25.8)	(29.9)	(57.6)
Total operating expenses before exceptional income and amortisation of intangible assets on acquisition		(203.2)	(198.6)	(397.5)
Operating profit before exceptional income and amortisation of intangible assets on acquisition		79.8	63.2	134.2
Exceptional income	3	-	5.9	5.6
Amortisation of intangible assets on acquisition		(2.5)	(2.3)	(4.9)
Operating profit before tax		77.3	66.8	134.9
Tax	4	(17.9)	(15.5)	(33.5)
Profit after tax for the period		59.4	51.3	101.4
Profit attributable to non-controlling interests		0.6	0.8	1.7
Profit attributable to shareholders		58.8	50.5	99.7
Basic earnings per share	5	40.4p	34.8p	68.6p
Diluted earnings per share	5	39.7p	34.3p	67.5p
Ordinary dividend per share	6	15.0p	14.0p	27.5p

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Consolidated Statement of Comprehensive Income

for the six months ended 31 January 2013

	Six months ended 31 January		Year ended 31 July 2012
	2013 Unaudited £ million	2012 Unaudited £ million	Audited £ million
Profit after tax for the period	59.4	51.3	101.4
Other comprehensive income/(expense) that may be transferred to income statement			
Currency translation gains/(losses)	3.5	(0.2)	(2.2)
Gains/(losses) on cash flow hedging	2.2	(0.2)	(2.3)
Gains/(losses) on financial instruments classified as available for sale:			
Gilts	–	–	1.1
Floating rate notes	0.8	6.1	7.6
Equity shares	1.0	–	0.3
Transfer to income statement of realised currency translation gains	–	(5.9)	(7.3)
Total other comprehensive income/(expense) that may be transferred to income statement	7.5	(0.2)	(2.8)
Other comprehensive (expense)/income that may not be transferred to income statement			
Non-controlling interests	(3.9)	–	–
Other gains/(losses)	1.7	(0.4)	(3.8)
Total other comprehensive expense that may not be transferred to income statement	(2.2)	(0.4)	(3.8)
Other comprehensive income/(expense) for the period, net of tax	5.3	(0.6)	(6.6)
Total comprehensive income for the period	64.7	50.7	94.8
Attributable to			
Non-controlling interests	0.6	0.8	1.7
Shareholders	64.1	49.9	93.1
	64.7	50.7	94.8

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Consolidated Balance Sheet

at 31 January 2013

	Note	31 January		31 July
		2013 Unaudited £ million	2012 Unaudited £ million	2012 Audited £ million
Assets				
Cash and balances at central banks		981.4	488.7	706.8
Settlement balances		593.0	493.8	442.0
Loans and advances to banks		130.0	116.5	110.0
Loans and advances to customers	7	4,373.2	3,755.1	4,125.9
Debt securities	8	273.8	730.3	406.4
Equity shares	9	59.9	56.4	52.9
Loans to money brokers against stock advanced		87.2	75.7	68.7
Derivative financial instruments		55.4	47.0	50.6
Investment in associate		–	28.6	21.8
Intangible assets		138.9	138.2	139.7
Property, plant and equipment		81.7	70.0	75.0
Deferred tax assets		32.6	29.2	28.0
Prepayments, accrued income and other assets		133.9	144.8	128.0
Investment in associate classified as held for sale	16	22.3	–	–
Total assets		6,963.3	6,174.3	6,355.8
Liabilities				
Settlement balances and short positions	10	630.3	510.9	465.5
Deposits by banks	11	60.6	190.4	88.0
Deposits by customers	11	3,933.4	3,182.5	3,448.1
Loans and overdrafts from banks	11	95.6	361.4	205.0
Debt securities in issue	11	1,055.3	798.3	1,040.0
Loans from money brokers against stock advanced		77.0	54.5	36.2
Derivative financial instruments		48.6	42.2	44.2
Accruals, deferred income and other liabilities		184.9	224.1	181.7
Subordinated loan capital		77.2	75.0	77.3
Total liabilities		6,162.9	5,439.3	5,586.0
Equity				
Called up share capital		37.6	37.6	37.6
Share premium account		283.5	283.2	283.4
Retained earnings		474.6	425.9	454.3
Other reserves		1.6	(14.5)	(9.2)
Total shareholders' equity		797.3	732.2	766.1
Non-controlling interests		3.1	2.8	3.7
Total equity		800.4	735.0	769.8
Total liabilities and equity		6,963.3	6,174.3	6,355.8

Financial Statements

Consolidated Statement of Changes in Equity

for the six months ended 31 January 2013

	Called up share capital £ million	Share premium account £ million	Retained earnings £ million	Other reserves				Total attributable to equity holders £ million	Non-controlling interests £ million	Total equity £ million
				Available for sale movements reserve £ million	Share-based reserves £ million	Exchange movements reserve £ million	Cash flow hedging reserve £ million			
At 1 August 2011 (audited)	37.6	283.0	416.2	(2.5)	(23.0)	18.1	(3.0)	726.4	1.9	728.3
Profit for the period	–	–	50.5	–	–	–	–	50.5	0.8	51.3
Other comprehensive (expense)/income for the period	–	–	(0.4)	6.1	–	(6.1)	(0.2)	(0.6)	–	(0.6)
Total comprehensive income/(expense) for the period	–	–	50.1	6.1	–	(6.1)	(0.2)	49.9	0.8	50.7
Exercise of options	–	0.2	–	–	–	–	–	0.2	–	0.2
Dividends paid	–	–	(38.1)	–	–	–	–	(38.1)	–	(38.1)
Shares purchased	–	–	–	–	(10.3)	–	–	(10.3)	–	(10.3)
Shares issued	–	–	–	–	–	–	–	–	–	–
Shares released	–	–	–	–	5.8	–	–	5.8	–	5.8
Other movements	–	–	(2.3)	–	0.6	–	–	(1.7)	0.1	(1.6)
At 31 January 2012 (unaudited)	37.6	283.2	425.9	3.6	(26.9)	12.0	(3.2)	732.2	2.8	735.0
Profit for the period	–	–	49.2	–	–	–	–	49.2	0.9	50.1
Other comprehensive (expense)/income for the period	–	–	(3.4)	2.9	–	(3.4)	(2.1)	(6.0)	–	(6.0)
Total comprehensive income/(expense) for the period	–	–	45.8	2.9	–	(3.4)	(2.1)	43.2	0.9	44.1
Exercise of options	–	(0.1)	–	–	–	–	–	(0.1)	–	(0.1)
Dividends paid	–	–	(20.2)	–	–	–	–	(20.2)	(0.1)	(20.3)
Shares purchased	–	–	–	–	–	–	–	–	–	–
Shares issued	–	0.3	–	–	–	–	–	0.3	–	0.3
Shares released	–	–	–	–	2.5	–	–	2.5	–	2.5
Other movements	–	–	2.8	–	5.4	–	–	8.2	0.1	8.3
At 31 July 2012 (audited)	37.6	283.4	454.3	6.5	(19.0)	8.6	(5.3)	766.1	3.7	769.8
Profit for the period	–	–	58.8	–	–	–	–	58.8	0.6	59.4
Other comprehensive (expense)/income for the period	–	–	(2.2)	1.8	–	3.5	2.2	5.3	–	5.3
Total comprehensive income/(expense) for the period	–	–	56.6	1.8	–	3.5	2.2	64.1	0.6	64.7
Exercise of options	–	0.1	–	–	–	–	–	0.1	–	0.1
Dividends paid	–	–	(39.7)	–	–	–	–	(39.7)	–	(39.7)
Shares purchased	–	–	–	–	–	–	–	–	–	–
Shares issued	–	–	–	–	–	–	–	–	–	–
Shares released	–	–	–	–	2.5	–	–	2.5	–	2.5
Other movements	–	–	3.4	–	0.8	–	–	4.2	(1.2)	3.0
At 31 January 2013 (unaudited)	37.6	283.5	474.6	8.3	(15.7)	12.1	(3.1)	797.3	3.1	800.4

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Consolidated Cash Flow Statement

for the six months ended 31 January 2013

	Note	Six months ended 31 January		Year ended 31 July 2012
		2013 Unaudited £ million	2012 Unaudited £ million	Audited £ million
Net cash inflow/(outflow) from operating activities	17(a)	255.7	(396.8)	63.4
Net cash inflow/(outflow) from investing activities				
Dividends received from associate		-	2.6	8.7
Purchase of:				
Assets let under operating leases		(15.5)	(14.7)	(29.4)
Property, plant and equipment		(2.0)	(2.2)	(8.8)
Intangible assets – software		(4.5)	(5.3)	(13.9)
Equity shares held for investment		-	(0.3)	(0.3)
Subsidiaries and non-controlling interest	17(b)	(5.0)	(4.1)	(5.1)
Sale of:				
Property, plant and equipment		2.2	1.0	4.6
Equity shares held for investment		5.8	-	0.2
Subsidiaries and associate	17(c)	1.3	6.6	12.6
		(17.7)	(16.4)	(31.4)
Net cash inflow/(outflow) before financing		238.0	(413.2)	32.0
Financing activities				
Issue of ordinary share capital, net of transaction costs	17(d)	0.1	0.2	0.4
Purchase of own shares for employee share award schemes		-	(10.3)	(10.3)
Equity dividends paid		(39.7)	(38.1)	(58.3)
Dividends paid to non-controlling interests		-	-	(0.1)
Interest paid on subordinated loan capital and debt financing		(9.3)	(2.8)	(18.6)
Debt securities issued		-	250.0	-
Net increase/(decrease) in cash		189.1	(214.2)	(54.9)
Cash and cash equivalents at beginning of period		928.3	983.2	983.2
Cash and cash equivalents at end of period	17(e)	1,117.4	769.0	928.3

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1. Basis of preparation and accounting policies

The interim financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union ("EU"). These include International Accounting Standard ("IAS") 34, Interim Financial Reporting, which specifically addresses the contents of condensed interim 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 used are consistent with those set out on pages 65 to 70 of the Annual Report 2012.

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 interim financial statements.

The preparation of the Interim 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 Interim Report. Although these estimates and assumptions are based on the management's best judgement at that date, actual results may differ from these estimates.

The Interim 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, Deloitte LLP, and their report appears on page 18.

The financial information for the year ended 31 July 2012 contained within this Interim Report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of those statutory accounts has been reported on by Deloitte LLP and delivered to the Registrar of Companies. 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 primarily by class of business and present the segmental analysis on that basis. The group's activities are organised in three primary divisions: Banking, Securities and Asset Management.

Divisions charge market prices for services rendered to other parts of the group. Funding charges between segments are determined by the Banking division's Treasury operation taking into account commercial demands. More than 90% of all the group's activities, revenue and assets are located in the UK.

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Summary Income Statement for the six months ended 31 January 2013					
Net interest income/(expense)	147.8	(0.7)	(0.5)	0.3	146.9
Other income	47.9	48.6	37.7	1.9	136.1
Operating income before exceptional income	195.7	47.9	37.2	2.2	283.0
Administrative expenses	(82.5)	(36.4)	(35.4)	(11.3)	(165.6)
Depreciation and amortisation	(9.7)	(1.0)	(0.7)	(0.4)	(11.8)
Impairment losses on loans and advances	(25.8)	-	-	-	(25.8)
Total operating expenses before exceptional income	(118.0)	(37.4)	(36.1)	(11.7)	(203.2)
Adjusted operating profit/(loss)¹	77.7	10.5	1.1	(9.5)	79.8
Exceptional income	-	-	-	-	-
Amortisation of intangible assets on acquisition	(0.3)	-	(2.2)	-	(2.5)
Operating profit/(loss) before tax	77.4	10.5	(1.1)	(9.5)	77.3
Tax	(17.7)	(2.7)	0.1	2.4	(17.9)
Non-controlling interests	(0.5)	-	-	(0.1)	(0.6)
Profit/(loss) after tax and non-controlling interests	59.2	7.8	(1.0)	(7.2)	58.8

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

2. Segmental analysis continued

The following table provides further detail on group wide operating income:

	Six months ended 31 January		Year ended 31 July 2012
	2013 £ million	2012 £ million	£ million
Banking			
Retail	75.8	71.7	144.9
Commercial	84.0	78.9	161.1
Property	29.5	22.1	48.0
Treasury and other non-lending income	6.4	3.8	7.5
Securities			
Market-making and related activities	47.9	51.6	101.4
Asset Management¹			
Advice and other services	16.6	14.5	30.6
Investment management	19.4	18.4	37.9
Other income	1.2	1.0	1.1
Group	2.2	(0.2)	(0.8)
Operating income before exceptional income	283.0	261.8	531.7

¹ Prior year income numbers have been re-presented to reflect the division's increased focus on the managed and advised private client business.

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Summary Balance Sheet at 31 January 2013					
Assets					
Cash and loans and advances to banks	1,062.3	34.0	14.8	0.3	1,111.4
Settlement balances, long trading positions and loans to money brokers	–	794.3	–	–	794.3
Loans and advances to customers	4,373.2	–	–	–	4,373.2
Non-trading debt securities	204.5	–	–	–	204.5
Investment in associate	–	–	–	–	–
Intangible assets	45.9	28.7	64.1	0.2	138.9
Other assets	251.2	21.0	25.3	21.2	318.7
Investment in associate classified as held for sale	–	22.3	–	–	22.3
Intercompany balances	–	–	–	–	–
Total assets	5,937.1	900.3	104.2	21.7	6,963.3
Liabilities					
Settlement balances, short trading positions and loans from money brokers	–	707.3	–	–	707.3
Deposits by banks	60.6	–	–	–	60.6
Deposits by customers	3,923.1	10.3	–	–	3,933.4
Borrowings	1,012.4	10.9	–	204.8	1,228.1
Other liabilities	152.7	28.1	38.7	14.0	233.5
Intercompany balances	265.7	52.5	33.9	(352.1)	–
Total liabilities	5,414.5	809.1	72.6	(133.3)	6,162.9
Equity	522.6	91.2	31.6	155.0	800.4
Total liabilities and equity	5,937.1	900.3	104.2	21.7	6,963.3

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2. Segmental analysis continued

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Summary Income Statement for the six months ended 31 January 2012					
Net interest income/(expense)	131.0	(0.4)	(0.2)	0.2	130.6
Other income/(expense)	45.5	52.0	34.1	(0.4)	131.2
Operating income/(expense) before exceptional income	176.5	51.6	33.9	(0.2)	261.8
Administrative expenses	(77.5)	(37.3)	(36.2)	(8.6)	(159.6)
Depreciation and amortisation	(7.3)	(1.1)	(0.3)	(0.4)	(9.1)
Impairment losses on loans and advances	(29.9)	–	–	–	(29.9)
Total operating expenses before exceptional income	(114.7)	(38.4)	(36.5)	(9.0)	(198.6)
Adjusted operating profit/(loss)¹	61.8	13.2	(2.6)	(9.2)	63.2
Exceptional income	–	5.9	–	–	5.9
Amortisation of intangible assets on acquisition	(0.2)	–	(2.1)	–	(2.3)
Operating profit/(loss) before tax	61.6	19.1	(4.7)	(9.2)	66.8
Tax	(16.2)	(2.1)	1.6	1.2	(15.5)
Non-controlling interests	(0.6)	–	–	(0.2)	(0.8)
Profit/(loss) after tax and non-controlling interests	44.8	17.0	(3.1)	(8.2)	50.5

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

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Summary Balance Sheet at 31 January 2012					
Assets					
Cash and loans and advances to banks	573.7	16.5	13.2	1.8	605.2
Settlement balances, long trading positions and loans to money brokers	–	649.1	–	–	649.1
Loans and advances to customers	3,755.1	–	–	–	3,755.1
Non-trading debt securities	688.4	–	–	–	688.4
Investment in associate	–	28.6	–	–	28.6
Intangible assets	38.3	28.9	70.9	0.1	138.2
Other assets	234.9	23.2	29.6	22.0	309.7
Investment in associate classified as held for sale	–	–	–	–	–
Intercompany balances	1.0	(25.8)	–	24.8	–
Total assets	5,291.4	720.5	113.7	48.7	6,174.3
Liabilities					
Settlement balances, short trading positions and loans from money brokers	–	565.4	–	–	565.4
Deposits by banks	190.4	–	–	–	190.4
Deposits by customers	3,178.1	4.4	–	–	3,182.5
Borrowings	1,033.6	2.8	–	198.3	1,234.7
Other liabilities	181.0	28.5	42.1	14.7	266.3
Intercompany balances	247.7	31.0	37.9	(316.6)	–
Total liabilities	4,830.8	632.1	80.0	(103.6)	5,439.3
Equity	460.6	88.4	33.7	152.3	735.0
Total liabilities and equity	5,291.4	720.5	113.7	48.7	6,174.3

2. Segmental analysis continued

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Summary Income Statement for the year ended 31 July 2012					
Net interest income/(expense)	271.5	(0.7)	(0.4)	0.5	270.9
Other income/(expense)	90.0	102.1	70.0	(1.3)	260.8
Operating income/(expense) before exceptional income	361.5	101.4	69.6	(0.8)	531.7
Administrative expenses	(153.4)	(74.7)	(73.0)	(19.4)	(320.5)
Depreciation and amortisation	(15.5)	(2.2)	(0.9)	(0.8)	(19.4)
Impairment losses on loans and advances	(57.6)	–	–	–	(57.6)
Total operating expenses before exceptional income	(226.5)	(76.9)	(73.9)	(20.2)	(397.5)
Adjusted operating profit/(loss)¹	135.0	24.5	(4.3)	(21.0)	134.2
Exceptional income	–	5.6	–	–	5.6
Amortisation of intangible assets on acquisition	(0.6)	–	(4.3)	–	(4.9)
Operating profit/(loss) before tax	134.4	30.1	(8.6)	(21.0)	134.9
Tax	(36.1)	(4.9)	4.4	3.1	(33.5)
Non-controlling interests	(1.5)	–	–	(0.2)	(1.7)
Profit/(loss) after tax and non-controlling interests	96.8	25.2	(4.2)	(18.1)	99.7

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

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Summary Balance Sheet at 31 July 2012					
Assets					
Cash and loans and advances to banks	789.7	14.8	11.9	0.4	816.8
Settlement balances, long trading positions and loans to money brokers	–	598.5	–	–	598.5
Loans and advances to customers	4,125.9	–	–	–	4,125.9
Non-trading debt securities	353.0	–	–	–	353.0
Investment in associate	–	21.8	–	–	21.8
Intangible assets	44.2	28.6	66.8	0.1	139.7
Other assets	233.4	16.8	30.0	19.9	300.1
Investment in associate classified as held for sale	–	–	–	–	–
Intercompany balances	–	–	–	–	–
Total assets	5,546.2	680.5	108.7	20.4	6,355.8
Liabilities					
Settlement balances, short trading positions and loans from money brokers	–	501.7	–	–	501.7
Deposits by banks	88.0	–	–	–	88.0
Deposits by customers	3,443.1	5.0	–	–	3,448.1
Borrowings	1,115.7	2.1	–	204.5	1,322.3
Other liabilities	136.8	33.7	42.2	13.2	225.9
Intercompany balances	267.3	49.2	33.9	(350.4)	–
Total liabilities	5,050.9	591.7	76.1	(132.7)	5,586.0
Equity	495.3	88.8	32.6	153.1	769.8
Total liabilities and equity	5,546.2	680.5	108.7	20.4	6,355.8

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3. Exceptional income

There was no exceptional income during the period (six months ended 31 January 2012: £5.9 million; year ended 31 July 2012: £5.6 million). On 16 September 2011, the group announced the phased sale of its 49.9% investment in Mako to the Mako management team. Exceptional income in the prior periods principally reflects realised foreign exchange gains on the phased disposal. The tax impact of the exceptional income in the prior periods was £nil. See note 16 for further details.

4. Tax expense

	Six months ended 31 January		Year ended 31 July 2012
	2013 £ million	2012 £ million	2012 £ million
Tax charged/(credited) in the income statement			
Current tax:			
UK corporation tax	21.2	20.4	34.9
Foreign tax	0.8	(0.3)	0.5
Adjustments in respect of previous periods	(0.3)	(0.7)	(0.5)
	21.7	19.4	34.9
Deferred tax:			
Deferred tax credit for the current period	(3.8)	(4.9)	(1.5)
Adjustments in respect of previous periods	-	1.0	0.1
Tax charge	17.9	15.5	33.5
Tax on items not charged/(credited) to the income statement			
Current tax relating to:			
Financial instruments classified as available for sale	0.3	2.3	3.3
Share-based transactions	(0.2)	(0.3)	(0.3)
Deferred tax relating to:			
Cash flow hedging	0.7	0.1	(0.6)
Financial instruments classified as available for sale	-	-	(0.2)
Share-based transactions	(1.5)	0.5	0.3
	(0.7)	2.6	2.5

The effective tax rate for the period is 23.2% (six months ended 31 January 2012: 23.2%; year ended 31 July 2012: 24.8%), representing the best estimate of the annual effective tax rate expected for the full year, applied to the operating profit before tax for the six month period.

The effective tax rate for the period is broadly in line with the UK corporation tax rate of 23.7%.

5. 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 2012
	2013	2012	
Earnings per share			
Basic	40.4p	34.8p	68.6p
Diluted	39.7p	34.3p	67.5p
Adjusted basic ¹	41.8p	31.9p	67.3p
Adjusted diluted ¹	41.1p	31.4p	66.3p

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

	Six months ended 31 January		Year ended 31 July 2012
	2013 £ million	2012 £ million	2012 £ million
Profit attributable to shareholders	58.8	50.5	99.7
Adjustments:			
Exceptional income	–	(5.9)	(5.6)
Amortisation of intangible assets on acquisition	2.5	2.3	4.9
Tax effect of adjustments	(0.5)	(0.6)	(1.1)
Adjusted profit attributable to shareholders	60.8	46.3	97.9

	Six months ended 31 January		Year ended 31 July 2012
	2013 million	2012 million	2012 million
Average number of shares			
Basic weighted	145.5	145.3	145.4
Effect of dilutive share options and awards	2.6	2.0	2.2
Diluted weighted	148.1	147.3	147.6

6. Dividends

	Six months ended 31 January		Year ended 31 July 2012
	2013 £ million	2012 £ million	2012 £ million
For each ordinary share			
Interim dividend for previous financial year paid in April 2012: 14.0p	–	–	20.2
Final dividend for previous financial year paid in November 2012: 27.5p (2011: 26.5p)	39.7	38.1	38.1
	39.7	38.1	58.3

An interim dividend relating to the six months ended 31 January 2013 of 15.0p, amounting to an estimated £21.7 million, is declared. This interim dividend, which is due to be paid on 24 April 2013, is not reflected in these financial statements.

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7. 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 provision £ million	Total £ million
At 31 January 2013	20.6	1,213.0	1,434.3	866.9	892.0	15.2	(68.8)	4,373.2
At 31 January 2012	28.7	1,063.9	1,291.4	696.2	736.6	16.8	(78.5)	3,755.1
At 31 July 2012	25.4	1,146.1	1,352.6	777.9	861.3	32.9	(70.3)	4,125.9

	31 January		31 July 2012
	2013 £ million	2012 £ million	£ million
Impairment provisions on loans and advances to customers			
Opening balance	70.3	93.7	93.7
Charge for the period	25.8	29.9	57.6
Amounts written off net of recoveries	(27.3)	(45.1)	(81.0)
Impairment provisions	68.8	78.5	70.3

At 31 January 2013, gross impaired loans were £234.0 million (31 January 2012: £254.7 million; 31 July 2012: £233.6 million) and equate to 5% (31 January 2012: 7%; 31 July 2012: 6%) 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.

8. Debt securities

	Held for trading £ million	Available for sale £ million	Loans and receivables £ million	Total £ million
Long trading positions in debt securities	69.3	–	–	69.3
Certificates of deposit	–	–	25.0	25.0
Floating rate notes	–	81.4	–	81.4
Gilts	–	98.1	–	98.1
At 31 January 2013	69.3	179.5	25.0	273.8

	Held for trading £ million	Available for sale £ million	Loans and receivables £ million	Total £ million
Long trading positions in debt securities	41.9	–	–	41.9
Certificates of deposit	–	–	174.5	174.5
Floating rate notes	–	287.8	–	287.8
Gilts	–	226.1	–	226.1
At 31 January 2012	41.9	513.9	174.5	730.3

	Held for trading £ million	Available for sale £ million	Loans and receivables £ million	Total £ million
Long trading positions in debt securities	53.4	–	–	53.4
Certificates of deposit	–	–	130.3	130.3
Floating rate notes	–	122.6	–	122.6
Gilts	–	100.1	–	100.1
At 31 July 2012	53.4	222.7	130.3	406.4

8. Debt securities continued

The fair value of items carried at amortised cost together with their book value is as follows:

	31 January 2013		31 January 2012		31 July 2012	
	Book value £ million	Fair value £ million	Book value £ million	Fair value £ million	Book value £ million	Fair value £ million
Certificates of deposit classified as loans and receivables	25.0	25.0	174.5	174.6	130.3	130.3

Movements on the book value of gilts and floating rate notes ("FRNs") held during the period comprise:

	Available for sale		
	Gilts £ million	Floating rate notes £ million	Total £ million
At 1 August 2011	228.8	296.9	525.7
Disposals	–	(12.6)	(12.6)
Redemptions at maturity	–	–	–
Currency translation differences	–	(3.5)	(3.5)
Changes in fair value	(2.7)	7.0	4.3
At 31 January 2012	226.1	287.8	513.9
Disposals	–	–	–
Redemptions at maturity	(125.0)	(163.4)	(288.4)
Currency translation differences	–	(5.4)	(5.4)
Changes in fair value	(1.0)	3.6	2.6
At 31 July 2012	100.1	122.6	222.7
Disposals	–	(24.4)	(24.4)
Redemptions at maturity	–	(25.4)	(25.4)
Currency translation differences	–	7.6	7.6
Changes in fair value	(2.0)	1.0	(1.0)
At 31 January 2013	98.1	81.4	179.5

At 31 January 2013, £60.0 million (31 January 2012: £187.3 million; 31 July 2012: £48.7 million) of FRNs were due to mature within one year and £21.4 million (31 January 2012: £19.8 million; 31 July 2012: £19.2 million) have been issued by corporates with the remainder issued by banks and building societies.

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9. Equity shares

	31 January		31 July 2012 £ million
	2013 £ million	2012 £ million	
Equity shares classified as held for trading	44.8	37.7	34.4
Other equity shares	15.1	18.7	18.5
	59.9	56.4	52.9

Movements on the book value of other equity shares held during the period comprise:

	Available for sale £ million	Fair value through profit or loss £ million	Total £ million
At 1 August 2011	14.4	4.8	19.2
Additions	0.3	–	0.3
Disposals	–	–	–
Currency translation differences	(0.7)	–	(0.7)
Changes in fair value of:			
Equity shares classified as available for sale	(0.1)	–	(0.1)
Unlisted equity shares held at fair value	–	–	–
At 31 January 2012	13.9	4.8	18.7
Additions	(0.3)	0.3	–
Disposals	–	(0.2)	(0.2)
Currency translation differences	0.2	–	0.2
Changes in fair value of:			
Equity shares classified as available for sale	(0.5)	–	(0.5)
Unlisted equity shares held at fair value	–	0.3	0.3
At 31 July 2012	13.3	5.2	18.5
Additions	–	–	–
Disposals	–	(6.9)	(6.9)
Currency translation differences	1.0	–	1.0
Changes in fair value of:			
Equity shares classified as available for sale	–	–	–
Unlisted equity shares held at fair value	–	2.5	2.5
At 31 January 2013	14.3	0.8	15.1

10. Settlement balances and short positions

	31 January		31 July 2012 £ million
	2013 £ million	2012 £ million	
Settlement balances	572.4	457.4	389.6
Short positions held for trading:			
Debt securities	38.0	35.5	56.7
Equity shares	19.9	18.0	19.2
	57.9	53.5	75.9
	630.3	510.9	465.5

11. Financial liabilities

The contractual maturity of financial liabilities 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	43.6	9.2	7.8	–	–	–	60.6
Deposits by customers	215.2	814.6	1,438.6	1,132.0	333.0	–	3,933.4
Loans and overdrafts from banks	17.4	12.3	65.9	–	–	–	95.6
Debt securities in issue	–	6.2	500.4	–	548.7	–	1,055.3
At 31 January 2013	276.2	842.3	2,012.7	1,132.0	881.7	–	5,144.9

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
Deposits by banks	66.2	24.7	97.7	1.8	–	–	190.4
Deposits by customers	236.6	719.1	1,234.9	534.0	455.1	2.8	3,182.5
Loans and overdrafts from banks	16.7	21.9	19.2	303.6	–	–	361.4
Debt securities in issue	–	350.0	–	250.0	–	198.3	798.3
At 31 January 2012	319.5	1,115.7	1,351.8	1,089.4	455.1	201.1	4,532.6

	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	47.6	31.2	9.2	–	–	–	88.0
Deposits by customers	190.7	1,071.5	1,006.8	956.1	222.2	0.8	3,448.1
Loans and overdrafts from banks	13.0	0.1	175.5	16.4	–	–	205.0
Debt securities in issue	–	6.6	350.0	485.0	198.4	–	1,040.0
At 31 July 2012	251.3	1,109.4	1,541.5	1,457.5	420.6	0.8	4,781.1

The group has a repurchase agreement whereby FRNs to the value of £81.4 million (31 January 2012: £125.9 million; 31 July 2012: £98.2 million) have been lent in exchange for cash of £65.9 million (31 January 2012: £104.5 million; 31 July 2012: £78.8 million) which has been included within loans and overdrafts from banks. These FRNs remain on the group's Consolidated Balance Sheet as the group retains the risks and rewards of ownership. Residual maturities of the repurchase agreement are as follows:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
At 31 January 2013	–	–	65.9	–	–	–	65.9
At 31 January 2012	–	21.9	19.2	63.4	–	–	104.5
At 31 July 2012	–	–	62.4	16.4	–	–	78.8

The group has securitised without recourse and restrictions £1,090.7 million (31 January 2012: £842.4 million; 31 July 2012: £1,038.2 million) of its insurance premium and motor loan receivables in return for debt securities in issue of £850.0 million (31 January 2012: £600.0 million; 31 July 2012: £835.0 million). As the group has retained exposure to substantially all the credit risk and rewards of the residual benefit of the underlying assets it continues to recognise these assets in loans and advances to customers in its Consolidated Balance Sheet.

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12. Capital

The group's individual entities and the group as a whole complied with all of the externally imposed capital requirements to which they are subject for the periods to 31 January 2013 and 31 January 2012 and the year ended 31 July 2012. The table below summarises the composition of regulatory capital and Pillar 1 risk weighted assets at those financial period ends.

	31 January		31 July
	2013 £ million	2012 £ million	2012 £ million
Core tier 1 capital			
Called up share capital	37.6	37.6	37.6
Share premium account	283.5	283.2	283.4
Retained earnings and other reserves	508.1	453.1	483.5
Non-controlling interests	3.1	2.8	3.7
Deductions from core tier 1 capital			
Intangible assets	(138.9)	(138.2)	(139.7)
Goodwill in associate	(7.9)	(10.0)	(8.1)
Investment in own shares	(37.1)	(42.1)	(39.6)
Core tier 1 capital after deductions	648.4	586.4	620.8
Tier 2 capital			
Subordinated debt	75.0	75.0	75.0
Unrealised gains on available for sale equity shares	8.4	7.0	7.3
Tier 2 capital	83.4	82.0	82.3
Deductions from total of core tier 1 and tier 2 capital			
Participation in a non-financial undertaking	-	(0.8)	-
Other regulatory adjustments	-	(0.6)	(0.2)
Total regulatory capital	731.8	667.0	702.9
Risk weighted assets (notional)			
Credit and counterparty risk	4,193.4	3,798.6	3,973.4
Operational risk ¹	745.3	807.7	745.3
Market risk ¹	167.0	161.9	141.0
	5,105.7	4,768.2	4,859.7
Core tier 1 capital ratio	12.7%	12.3%	12.8%
Total capital ratio	14.3%	14.0%	14.5%

¹ Operational and market risk include a notional adjustment at 8% in order to determine notional risk weighted assets.

The following table shows a reconciliation between equity and core tier 1 capital after deductions:

	31 January		31 July
	2013 £ million	2012 £ million	2012 £ million
Equity	800.4	735.0	769.8
Regulatory deductions from equity:			
Intangible assets	(138.9)	(138.2)	(139.7)
Goodwill in associate	(7.9)	(10.0)	(8.1)
Other reserves not recognised for core tier 1 capital:			
Cash flow hedging reserve	3.1	3.2	5.3
Available for sale movements reserve	(8.3)	(3.6)	(6.5)
Core tier 1 capital after deductions	648.4	586.4	620.8

13. Contingent liabilities

Financial Services Compensation Scheme ("FSCS")

As disclosed in note 29 of the Annual Report 2012, 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. The FSCS raises levies on UK licensed deposit-taking institutions to meet such claims based on their share of UK deposits on 31 December of the year preceding the scheme (which runs from 1 April to 31 March).

Following the default of a number of deposit takers in 2008, the FSCS borrowed funds from HM Treasury to meet the compensation costs for customers of those firms. The interest rate on the borrowings with HM Treasury, which total approximately £20 billion, increased from 12 month LIBOR plus 30 basis points to 12 month LIBOR plus 100 basis points on 1 April 2012. Whilst it is expected that the substantial majority of the principal will be repaid from funds the FSCS receives from asset sales, surplus cash flow or other recoveries in relation to the assets of the institutions that defaulted, to the extent that there remains a shortfall, the FSCS will raise compensation levies on all deposit-taking participants.

The amount of any future compensation levies payable by the group also depends on a number of factors including participation in the market at 31 December, the level of protected deposits and the population of deposit-taking participants. Due to the uncertainty surrounding these factors, the group has not recognised a provision in respect of compensation levies in these financial statements.

14. Related party transactions

Related party transactions, including salary and benefits provided to directors and key management, were not material to 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 2012 that could have a material effect on the financial position and performance of the group in the six months to 31 January 2013.

15. Sovereign and banking sector exposure

The group has limited exposure outside the UK. However, given increased market and regulatory focus on such exposures, particularly in relation to Greece, Ireland, Italy, Portugal and Spain, the group considers it appropriate to provide the following disclosure.

The group has no direct exposure to debt issued by sovereign or financial institutions in any of the countries listed above.

The group has loans and advances to customers in Ireland and Spain. These relate to loans in the group's Retail and Commercial businesses and are issued with the same approach to lending as applied within the UK.

	31 January		31 July 2012 £ million
	2013 £ million	2012 £ million	
Loans and advances to customers			
Ireland	136.2	82.5	103.9
Spain	0.1	3.0	2.2
	136.3	85.5	106.1

The group has no other material exposure to these economies.

16. Investment in associate classified as held for sale

In the Consolidated Income Statement the share of profit from associate of £0.9 million (six months ended 31 January 2012: £5.7 million; year ended 31 July 2012: £7.2 million) relates to Mako, which is part of the Securities division. On 31 January 2013, Mako fulfilled the requirements of IFRS 5 to be classified as "held for sale" as it was considered highly probable that within the next year Mako would no longer meet the significant influence criteria under IAS 28. As a result, the group will cease to report share of profit of associate from 1 February 2013.

On the loss of significant influence, Mako ceases to be an associate and will be classified as an available for sale equity investment with gains and losses arising from changes in fair value recognised in other comprehensive income, until sold or impaired.

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17. Consolidated cash flow statement reconciliation

	Six months ended 31 January		Year ended 31 July 2012
	2013 £ million	2012 £ million	£ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities			
Operating profit on ordinary activities before tax	77.3	66.8	134.9
Tax paid	(13.1)	(24.8)	(46.2)
(Increase)/decrease in:			
Interest receivable and prepaid expenses	(6.3)	(8.7)	9.4
Net settlement balances and trading positions	(12.5)	47.3	45.5
Net money broker loans against stock advanced	22.3	(9.5)	(20.8)
(Decrease)/increase in:			
Interest payable and accrued expenses	(21.8)	(3.5)	(36.4)
Depreciation and amortisation	14.3	11.4	24.3
Net cash inflow from trading activities	60.2	79.0	110.7
(Increase)/decrease in:			
Loans and advances to banks not repayable on demand	(0.2)	(0.1)	(8.2)
Loans and advances to customers	(247.3)	(319.8)	(690.6)
Floating rate notes classified as available for sale	49.8	12.6	176.0
Debt securities held for liquidity	–	–	614.0
Other assets less other liabilities	44.7	(36.9)	(13.7)
(Decrease)/increase in:			
Deposits by banks	(27.4)	(2.4)	(104.8)
Deposits by customers	485.3	12.0	277.6
Loans and overdrafts from banks	(109.4)	(141.2)	(297.6)
Net cash inflow/(outflow) from operating activities	255.7	(396.8)	63.4
(b) Analysis of net cash (outflow)/inflow in respect of the purchase of subsidiaries and non-controlling interest			
Cash consideration in respect of current year purchases	(5.0)	(4.1)	(4.1)
Loan stock redemptions and deferred consideration paid in respect of prior year purchases	–	(1.0)	(1.0)
Net movement in cash balances	–	1.0	–
	(5.0)	(4.1)	(5.1)
(c) Analysis of net cash inflow/(outflow) in respect of the sale of subsidiaries and associate			
Cash consideration received	1.3	7.3	12.6
Cash and cash equivalents disposed of	–	(0.7)	–
	1.3	6.6	12.6
(d) Analysis of changes in financing activities			
Share capital (including premium) and subordinated loan capital ¹ :			
Opening balance	396.0	395.6	395.6
Shares issued for cash	0.1	0.2	0.4
Closing balance	396.1	395.8	396.0
(e) Analysis of cash and cash equivalents²			
Cash and balances at central banks	977.9	485.3	703.3
Loans and advances to banks repayable on demand	114.5	109.2	94.7
Certificates of deposit	25.0	174.5	130.3
	1,117.4	769.0	928.3

¹ Excludes accrued interest.

² Excludes Bank of England cash reserve account and amounts held as collateral.

Auditor

Deloitte LLP

Solicitor

Slaughter and May

Corporate Brokers

JP Morgan Cazenove
UBS Investment Banking

Registrar

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Shareholder helpline: 0871 664 0300 (Calls cost 10p per minute plus network extras)
From overseas: +44 (0)20 8639 3399
Lines are open 9.00 am to 5.30 pm Monday to Friday, excluding UK public holidays
Fax: 01484 601512
Email: ssd@capitaregistrars.com
Website: www.capitaregistrars.com

Registered Office

Close Brothers Group plc
10 Crown Place
London EC2A 4FT
Company No. 520241
Telephone: +44 (0)20 7655 3100
Fax: +44 (0)20 7655 8967
Email: enquiries@closebrothers.com
Website: www.closebrothers.com



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Close Brothers Group plc
10 Crown Place
London EC2A 4FT
Tel: +44 (0)20 7655 3100
Fax: +44 (0)20 7655 8967

www.closebrothers.com