Close Brothers Interim Report 2009

Close Brothers Group plc

Our Goal

Our goal is to deliver consistent, long term growth in profit and dividends. We strive to achieve this through our core strategy of specialisation and diversification across a range of financial services and, in particular, by:

> Focusing on higher margin activities

> Managing business risk whilst maintaining return on capital

> Attracting and supporting management teams of the highest calibre

> Fostering entrepreneurship, independent thinking and a willingness to innovate

> Placing the highest importance on quality, professionalism and integrity in everything we do

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Group Results

Financial Highlights
for the six months ended 31 January 2009

	First half 2009	First half 2008
Operating profit before tax	**£38.5m**	£69.8m
Basic earnings per share	**17.4p**	31.4p
Adjusted operating profit[1]	**£62.0m**	£75.3m
Adjusted earnings per share[2]	**33.0p**	35.1p
Ordinary dividend per share	**13.5p**	13.5p
Total equity	**£678.0m**	£720.9m
Total assets	**£6.0bn**	£5.4bn

[1] Adjusted operating profit is before exceptional items, impairment losses on goodwill, and amortisation of intangible fixed assets on acquisition.
[2] Adjusted earnings per share is before exceptional items, impairment losses on goodwill, amortisation of intangible fixed assets on acquisition, and the tax effect of such adjustments.

Chairman and Chief Executive's Statement

The first half of the 2009 financial year has been characterised by difficult and volatile market conditions, and significant changes to the UK and international banking landscape. Nevertheless, the group has delivered a sound overall performance reflecting the quality of our businesses and the diversity of our operations, and we remain soundly funded and well capitalised.

Strone Macpherson Chairman

Adjusted operating profit for the group was £62.0 million (2008: £75.3 million), down 18% year on year but in line with the second half of 2008, as we benefited from a particularly strong performance in the Securities division.

Adjusted earnings per share declined 6% to 33.0p (2008: 35.1p), while basic earnings per share declined 45% to 17.4p (2008: 31.4p).

During the period we incurred exceptional expenses of £4.2 million related to restructuring, including additional cost saving initiatives in the Asset Management division. Alongside the ongoing restructuring of the Asset Management division we also undertook a review of the goodwill assets in the division in the first half of the financial year in the light of the deterioration of the economic environment. This has resulted in a goodwill impairment charge of £19.0 million which relates to acquisitions made over a number of years, and reflects the change in market conditions affecting the asset management industry.

Divisional Performance

In the **Asset Management** division, net new funds was a small positive, as a result of net inflows in our Private Clients business, although market factors have affected the level of funds under management. The restructuring of the division is well under way, and during the period we reorganised our interests in Close Brothers Private Equity and Close Ventures Limited, resulting in the deconsolidation of some £0.6 billion of funds under management. Adjusted operating profit was £6.6 million (2008: £18.0 million).

Performance in the **Banking** division has remained solid. The loan book increased by 3% to £2.3 billion as a result of the acquisition of a premium finance loan book in August 2008. Operating income increased 16% year on year and the net interest margin improved from 8.7% to 9.0%. However the level of bad debts has increased resulting in a 15% decline in adjusted operating profit to £32.0 million.

The **Corporate Finance** division has been affected by low levels of activity in M&A and restructuring, particularly in the UK, and reported an adjusted operating loss of £2.9 million (2008: profit of £4.6 million).

The **Securities** division has performed very well throughout the period and delivered a 39% increase in adjusted operating profit to £33.2 million. Winterflood has experienced good volumes, and in October 2008 recorded its highest monthly activity level ever, at 1.1 million bargains. Mako, our derivatives market-maker associate, also benefited from strong volumes and high volatility in the period, and produced an excellent result.

Our capital base remains strong and comfortably above regulatory requirements, with a core tier 1 capital ratio of 13.3% (31 July 2008: 14.4%) and a total capital ratio of 15.0% (31 July 2008: 16.1%) as at 31 January 2009. We remain soundly funded from a wide range of sources and our £2.3 billion loan book is more than twice covered by committed facilities and deposits.

Interim Dividend

The board has declared an interim cash dividend of 13.5p per share (2008: 13.5p). This reflects our solid performance in the first half of the financial year and strong capital position, notwithstanding the increasingly challenging market conditions.

The interim dividend will be paid on 15 April 2009 to shareholders on the register as at 20 March 2009.

Colin Keogh Chief Executive

Board Changes

In February we announced the appointment of Preben Prebensen as Chief Executive Officer of Close Brothers Group with effect from 1 April 2009. Preben joins from Catlin Group plc, where he was Chief Investment Officer and a Member of the Group Executive Committee. He was previously Chief Executive of Wellington Group plc, which was acquired by Catlin in 2006, and has held a number of senior management positions at JPMorgan where he worked for over 20 years.

As announced in September 2008, Colin Keogh will be stepping down after 23 years with the group and six as Chief Executive. Colin has played an important part in the growth of Close Brothers, and led the business with a steady hand through some challenging and exciting years. The board thanks him for his significant contribution and wishes him all the best for the future.

During the period we appointed Ray Greenshields to the board as an independent non-executive director. Ray has over 30 years of financial services executive experience, most recently as Managing Director of Barclays Wealth Management.

Sadly, Peter Buckley, an alternate director of the company, passed away after a short period of illness in December 2008. Peter had made a significant contribution as a director of the group over many years.

Outlook

We continue to plan for difficult conditions through the remainder of the year. Our focus remains on managing our businesses through the current downturn and improving the operational performance of each of our divisions.

We are confident that our strong businesses and robust financial position will allow us to continue to deliver a solid overall performance in the current market environment, and leave us well placed to take advantage of better conditions when markets recover.

Business Review

Financial Results

All data relates to the six month period to 31 January, unless otherwise indicated. Throughout this report, the term “adjusted” refers to income, expenses, profit or earnings before exceptional items (as defined in note 1(j) of our 2008 Annual Report); impairment losses on goodwill; amortisation of intangible fixed assets on acquisition; and the tax effect of such adjustments where applicable.

Financial Highlights

	First half 2009 £ million	First half 2008 £ million	Change %
Adjusted operating income	**266.4**	253.0	5
Adjusted operating expenses	**(181.0)**	(168.1)	8
Impairment losses on loans and advances	**(23.4)**	(9.6)	144
Adjusted operating profit	**62.0**	75.3	(18)
Exceptional expenses	**(4.2)**	(5.5)	
Impairment losses on goodwill	**(19.0)**	–	
Amortisation of intangible fixed assets on acquisition	**(0.3)**	–	
Operating profit before tax	**38.5**	69.8	(45)
Adjusted earnings per share	**33.0p**	35.1p	(6)
Basic earnings per share	**17.4p**	31.4p	(45)
Ordinary dividend per share	**13.5p**	13.5p	–

Adjusted operating income was £266.4 million (2008: £253.0 million), a 5% increase. Net interest income increased 14% to £82.7 million (2008: £72.8 million), accounting for 31% (2008: 29%) of adjusted operating income, while non-interest income increased 2% to £183.7 million (2008: £180.2 million).

Adjusted operating expenses increased by 8% to £181.0 million (2008: £168.1 million) primarily due to acquisitions and higher variable costs in Securities. The expense/income ratio (adjusted operating expenses on adjusted operating income, excluding associate income) was 71% (2008: 68%), while the compensation ratio (total staff costs excluding exceptional items on adjusted operating income, excluding associate income) was stable at 45% (2008: 45%).

Impairment losses on loans and advances (“bad debts”) in the Banking division increased to £23.4 million (2008: £9.6 million), reflecting the increasingly difficult economic conditions facing borrowers across the lending businesses.

As a result, adjusted operating profit declined 18% to £62.0 million (2008: £75.3 million). This corresponded to an operating margin of 19% (2008: 28%).

Exceptional expenses in the period comprised £4.2 million of restructuring costs, the majority of which related to cost saving initiatives in the Asset Management division. In the first half of 2008 we incurred £5.5 million of exceptional advisers’ fees. A full segmental analysis of exceptional items can be found in note 2 to the financial statements.

The group recorded a £19.0 million goodwill impairment charge related to a number of past acquisitions in the Asset Management division.

The group also incurred a £0.3 million charge for amortisation of intangible fixed assets on acquisition, related to acquisitions in the Banking division.

On a statutory basis, operating profit before tax was £38.5 million (2008: £69.8 million), down 45%.

The tax charge for the period was £13.5 million (2008: £21.2 million), corresponding to an effective tax rate of 35% (2008: 30%). The effective tax rate is above the UK corporation tax rate of 28% principally due to goodwill impairment, which is non tax deductible. The effective tax rate on profit before goodwill impairment was 23%. This reflects the increased profit contribution from Mako, which as an associate is included within operating profit in the Consolidated Income Statement on an after tax basis.

Basic earnings per share was 17.4p (2008: 31.4p), a 45% reduction. Adjusted earnings per share was 33.0p (2008: 35.1p), down 6%.

The board has declared an interim cash dividend of 13.5p per share (2008: 13.5p).

Divisional Performance

Adjusted operating profit in the **Asset Management** division was down 63% to £6.6 million (2008: £18.0 million). This reflects lower Funds under Management ("FuM"), a shift in mix towards lower fee products, and a reduction in Performance fees and investment income.

In the **Banking** division, adjusted operating profit was £32.0 million (2008: £37.7 million), as a 16% increase in operating income was more than offset by an increase in the bad debt provision.

The **Corporate Finance** division has been affected by low activity in M&A and restructuring and posted an adjusted operating loss of £2.9 million (2008: profit of £4.6 million).

In the **Securities** division, adjusted operating profit increased by 39% to £33.2 million (2008: £23.8 million), as a result of a particularly strong performance from Winterflood and Mako.

Adjusted group net costs were £6.9 million (2008: £8.8 million). Group adjusted operating income was £3.0 million (2008: £2.2 million) and group adjusted operating expenses were £9.9 million (2008: £11.0 million).

Divisional Adjusted Operating Profit

	First half 2009		First half 2008		Change
	£ million	**%**	£ million	%	%
Asset Management	**6.6**	**10**	18.0	21	(63)
Banking	**32.0**	**46**	37.7	45	(15)
Corporate Finance	**(2.9)**	**(4)**	4.6	6	(163)
Securities	**33.2**	**48**	23.8	28	39
	68.9	**100**	84.1	100	
Group	**(6.9)**		(8.8)		
Adjusted operating profit	**62.0**		75.3		

Balance Sheet

In the six months to 31 January 2009, the loan book increased 3% to £2,307.8 million (31 July 2008: £2,232.2 million). This included the £80 million acquisition of Kaupthing Singer & Friedlander's premium finance business in August 2008. The loan book comprises loans to SMEs and consumers, and the vast majority of loans are secured.

Certificates of deposit and loans and advances to banks increased 3% to £1,687.8 million (31 July 2008: £1,633.5 million).

Floating rate notes ("FRNs") classified as available for sale amounted to £773.2 million (31 July 2008: £751.3 million). These FRNs are issued by a range of financial institutions, and the significant majority are rated AA or above. The FRN portfolio has been marked to market during the period, resulting in a charge to reserves of £30.1 million, net of tax. However, the book value of these assets has increased as a result of currency translation differences.

Total borrowings were £1,877.6 million (31 July 2008: £1,241.5 million), a £636.1 million increase which reflects new debt facilities obtained during the period, and comprised loans and overdrafts from banks, promissory notes and other debt securities, non-recourse borrowings, and subordinated loan capital. Customer deposits were relatively stable at £2,542.7 million (31 July 2008: £2,641.7 million), while deposits by banks decreased £263.8 million to £34.4 million.

As at 31 January 2009 the group held £661.0 million (31 July 2008: £656.8 million) of assets on the balance sheet related to market-making activities, which comprised settlement accounts, long trading positions, and loans to money brokers against stock advanced. These were offset by £568.7 million (31 July 2008: £556.9 million) of corresponding liabilities, related to settlement accounts, short trading positions, and loans from money brokers against stock advanced.

Total equity as at 31 January 2009 was £678.0 million (31 July 2008: £720.4 million). Profit attributable to shareholders of £24.7 million for the first six months was more than offset by £36.2 million paid in respect of the 2008 final dividend; £22.2 million paid in respect of the purchase of shares into Treasury for the purpose of satisfying option grants and share awards; and other movements in equity reserves.

During the period a total of 3.9 million shares have been purchased by the company resulting in 5.7 million of the company's shares being held in Treasury as at 31 January 2009.

Business Review

	31 January 2009 £ million	31 July 2008 £ million
Assets		
Certificates of deposit and loans and advances to banks	**1,687.8**	1,633.5
Floating rate notes classified as available for sale	**773.2**	751.3
Loans and advances to customers	**2,307.8**	2,232.2
Settlement accounts, long trading positions and stock borrowing	**661.0**	656.8
Intangible assets	**146.2**	134.4
Other assets	**427.3**	344.5
Total assets	**6,003.3**	5,752.7
Liabilities		
Deposits by customers	**2,542.7**	2,641.7
Deposits by banks	**34.4**	298.2
Borrowings	**1,877.6**	1,241.5
Settlement accounts, short trading positions and stock lending	**568.7**	556.9
Other liabilities	**301.9**	294.0
Total liabilities	**5,325.3**	5,032.3
Equity	**678.0**	720.4
Total liabilities and equity	**6,003.3**	5,752.7

Funding and Liquidity

The group remains soundly funded, and has diversified its sources of funding in a difficult wholesale market. As at 31 January 2009, the group had £2.2 billion (31 July 2008: £1.8 billion) of drawn and undrawn committed facilities with an average maturity of 23 months (31 July 2008: 30 months). In addition, the group had £2.5 billion (31 July 2008: £2.6 billion) of deposits, including £0.4 billion (31 July 2008: £0.0 billion) with a maturity of twelve months or more. This reflects term funds raised in the retail deposit market over the course of the period.

As a result, the £2.3 billion loan book is more than twice covered by committed facilities and deposits, giving good headroom and resilience. The average maturity of the loan book as at 31 January 2009 was twelve months (31 July 2008: twelve months).

During the period we raised a €390 million two year syndicated loan facility in September 2008, and a £400 million one year repo facility, secured against our FRN portfolio, in November 2008. In January 2009, we were granted eligibility to access the Government's Credit Guarantee Scheme, which gives us access to a further potential source of medium-term funding.

Capital

The capital base remains comfortably above regulatory requirements, with a core tier 1 capital ratio of 13.3% (31 July 2008: 14.4%) and total capital ratio of 15.0% (31 July 2008: 16.1%).

	31 January 2009 Basel II Pro forma £ million	31 July 2008 Basel II Pro forma £ million
Risk weighted assets (notional)*	**3,989.0**	3,804.0
Core tier 1 capital	**531.3**	547.2
Total regulatory capital	**598.5**	613.6
Core tier 1 capital ratio	**13.3%**	14.4%
Total capital ratio	**15.0%**	16.1%

*Notional risk weighted assets calculated under Basel II include a notional adjustment for operational and market risk requirements.

Total regulatory capital reduced by £15.1 million during the period to £598.5 million (31 July 2008: £613.6 million), as £43.7 million of earnings pre-goodwill were more than offset by £36.2 million paid in respect of the 2008 final dividend, £22.2 million purchase of our own shares into Treasury and other movements in equity reserves. Risk weighted assets increased by 5% to £3,989.0 million (31 July 2008: £3,804.0 million), reflecting growth in the loan book and other balance sheet assets.

Key Financial Ratios ("KFRs")

	First half 2009	First half 2008
Operating margin[1]	**19%**	28%
Expense/income ratio[2]	**71%**	68%
Compensation ratio[3]	**45%**	45%
Return on opening capital[4]	**9%**	13%

[1]Adjusted operating profit on adjusted operating income.
[2]Adjusted operating expenses on adjusted operating income.
[3]Total staff costs excluding exceptional items on adjusted operating income.
[4]Adjusted operating profit after tax and minority interests on opening total equity.

Note: All KFRs exclude associate income, exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition.

Divisional Review: Asset Management

- Funds under Management at £6.9 billion
- Adjusted operating profit down 63% to £7 million
- Management fees/average FuM down 10 bps to 78 bps

Key divisional metrics

	First half 2009 £ million	First half 2008 £ million	Change %
Adjusted operating income	**49.9**	69.0	(28)
Management fees on FuM	**29.4**	39.5	(26)
Income on Assets under Administration and deposits	**20.7**	21.5	(4)
Performance fees and investment income	**(0.2)**	8.0	(103)
Adjusted operating expenses	**(43.3)**	(51.0)	(15)
Adjusted operating profit	**6.6**	18.0	(63)
Management fees/average FuM	**78bps**	88bps	(11)
Opening FuM	**8,195**	9,148	(10)
Closing FuM	**6,870**	8,869	(23)
Average FuM	**7,533**	9,009	(16)

In the Asset Management division, adjusted operating income was £49.9 million (2008: £69.0 million), a decline of 28%.

Management fees on FuM declined by 26% to £29.4 million (2008: £39.5 million). This was the result of a 16% decline in average FuM, to £7.5 billion (2008: £9.0 billion) and a 10 bps decline in management fees/average FuM to 78 bps, as a result of lower activity levels and changes in the mix of funds towards lower fee products.

Income on Assets under Administration and deposits reduced by 4% to £20.7 million (2008: £21.5 million), primarily reflecting lower margins on deposits as a result of the reduction in interest rates.

Performance fees and investment income were £(0.2) million (2008: £8.0 million), as a result of lower income and a mark to market valuation adjustment on the division's corporate private equity investment portfolio during the period.

Adjusted operating expenses were reduced by 15% to £43.3 million. This reflects the benefit of cost saving initiatives taken in the last financial year; the deconsolidation of Close Brothers Private Equity; and lower variable costs. However, the reduction in costs was more than offset by the decline in adjusted operating income, and as a result the expense/income ratio increased to 87% (2008: 74%) and the compensation ratio increased to 58% (2008: 49%).

During the first half of 2009 the division has identified additional areas for cost reductions, which has resulted in £3.4 million of restructuring costs which have been recorded as an exceptional item. Together with the steps taken in 2008, this is expected to lead to a reduction in headcount of around 80, or around 10% of the July 2008 level, by the end of the current financial year.

Adjusted operating profit declined by 63% to £6.6 million (2008: £18.0 million). This corresponds to a decline in the operating margin to 13% from 26%.

Funds under Management

	Private Clients £ million	Funds £ million	Total £ million
As at 1 August 2008	3,316	4,879	**8,195**
New funds raised	269	345	**614**
Redemptions, realisations and withdrawals	(201)	(406)	**(607)**
Net new funds	68	(61)	**7**
Market movement	(254)	(470)	**(724)**
Deconsolidation*	–	(608)	**(608)**
As at 31 January 2009	3,130	3,740	**6,870**
Change	(6)%	(23)%	**(16)%**

*Deconsolidation of £608 million of FuM related to Close Brothers Private Equity and Close Ventures Limited.

As at 31 January 2009, FuM were £6.9 billion (31 July 2008: £8.2 billion), a 16% decline. Net new funds was a small positive as a result of a £68 million net inflow in Private Clients, offset by a net outflow of £61 million in Funds. Against a backdrop of very significant market falls in most asset classes, the negative market movement in the period was £724 million (9% of opening FuM). In addition, during the period the division reorganised its interests in Close Brothers Private Equity and Close Ventures Limited, leading to the deconsolidation of £608 million of FuM.

Business Review

Overall, Private Clients FuM declined by 6% to £3,130 million (31 July 2008: £3,316 million) while Funds FuM declined by 23% to £3,740 million (31 July 2008: £4,879 million).

The investment performance of both Funds and Private Clients was affected by market conditions, although the majority of the private client portfolios outperformed relevant APCIMS indices.

Asset Management KFRs

	First half 2009	First half 2008
Operating margin	**13%**	26%
Expense/income ratio	**87%**	74%
Compensation ratio	**58%**	49%
Net new funds/opening FuM	**0.2%**	0.5%

Note: All KFRs exclude associate income, exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition.

Divisional Review: Banking

- 3% loan book growth to £2.3 billion
- 16% increase in adjusted operating income to £115 million
- Adjusted operating profit down 15% to £32 million
- Bad debt ratio increased to 2.1%

Key divisional metrics

	First half 2009 £ million	First half 2008 £ million	Change %
Adjusted operating income	**115.4**	99.8	16
Net interest and fees on loan book	**102.3**	86.2	19
Treasury and other non-lending income	**13.1**	13.6	(4)
Adjusted operating expenses	**(60.0)**	(52.5)	14
Impairment losses on loans and advances	**(23.4)**	(9.6)	144
Adjusted operating profit	**32.0**	37.7	(15)
Net interest margin[1]	**9.0%**	8.7%	
Bad debt ratio[2]	**2.1%**	1.0%	
Opening loan book	**2,232.2**	1,962.5	14
Closing loan book	**2,307.8**	2,005.8	15
Average net loan book	**2,270.0**	1,984.2	14

[1]Net interest and fees on average net loans and advances to customers
[2]Impairment losses on average net loans and advances to customers

In the Banking division, adjusted operating income increased by 16% to £115.4 million (2008: £99.8 million). This was the result of 14% growth in average loans and advances to customers ("the loan book"), as well as an increase in the net interest margin to 9.0% (2008: 8.7%), despite increases in funding costs. Treasury and other non-lending income reduced by 4% to £13.1 million (2008: £13.6 million).

Adjusted operating expenses increased 14% to £60.0 million (2008: £52.5 million), primarily reflecting the impact of acquisitions as well as a £1.3 million charge related to the Financial Services Compensation Scheme. This corresponds to an expense/income ratio of 52% (2008: 53%). The compensation ratio also reduced marginally to 30% (2008: 31%).

Impairment losses on loans and advances ("bad debts") increased to £23.4 million (2008: £9.6 million), reflecting the increasingly difficult economic conditions facing borrowers across the lending businesses. This corresponds to a bad debt ratio of 2.1% (2008: 1.0%). The division continues to apply prudent, consistent criteria to lending decisions and bad debt provisioning, but is planning for a period of higher bad debts.

As a result, adjusted operating profit declined 15% to £32.0 million (2008: £37.7 million). This corresponds to an operating margin of 28% (2008: 38%) and a return on the average net loan book of 2.8% (2008: 3.8%).

During the first six months of the financial year, the loan book grew by 3% to £2,307.8 million as at 31 January 2009 (31 July 2008: £2,232.2 million). This included the acquisition of an £80 million premium finance loan book in August 2008. Excluding the impact of this acquisition, the loan book was broadly flat overall and in each of the five main lending operations as shown in the table below. This reflected our cautious approach to new lending in the current economic environment.

Loan book analysis

	31 January 2009 £ million	31 July 2008 £ million
Asset finance	**787.3**	757.3
Premium finance	**471.0**	403.8
Property finance	**455.9**	446.4
Motor finance	**408.8**	414.3
Invoice finance	**184.8**	210.4
Closing loan book	**2,307.8**	2,232.2

The funding position remains sound against a backdrop of reduced market liquidity. As at 31 January 2009, the group had £2.2 billion of committed facilities of which £1.4 billion had a maturity over twelve months. Customer deposits were £2.5 billion, including £0.4 billion with a maturity of twelve months or more. Total deposits include £0.7 billion of offshore customer deposits attributed to the Asset Management division for segmental reporting purposes.

The Bank's long term and short term credit ratings were recently reaffirmed at A2/P1 by Moody's and at A/F1 by Fitch. The outlook by Moody's remains stable, however Fitch changed the outlook on our long term credit rating to negative on 13 February 2009.

Banking KFRs

	First half 2009	First half 2008
Operating margin	**28%**	38%
Expense/income ratio	**52%**	53%
Compensation ratio	**30%**	31%
Return on opening capital[1]	**15%**	18%
Return on net loan book[2]	**2.8%**	3.8%

[1]Adjusted operating profit after tax and minority interests on opening total equity.
[2]Banking division adjusted operating profit before tax on the average net loan book.

Note: All KFRs exclude associate income, exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition.

Divisional Review: Corporate Finance

- Adjusted operating loss of £3 million
- Advised on 33 transactions

Key divisional metrics

	First half 2009 £ million	First half 2008 £ million	Change %
Adjusted operating income	**17.3**	26.2	(34)
Adjusted operating expenses	**(20.2)**	(21.6)	(6)
Adjusted operating (loss)/profit	**(2.9)**	4.6	(163)
Number of transactions	**33**	50	(34)

In the Corporate Finance division, adjusted operating income was £17.3 million (2008: £26.2 million), a 34% decline, reflecting low levels of activity particularly in the UK. The number of transactions advised on also declined 34%, to 33 (2008: 50), with income per transaction stable.

Corporate Finance experienced lower activity in both M&A and Debt advisory and restructuring, which accounted for 86% (2008: 85%) and 14% (2008: 15%) of income in the period, respectively. The UK accounted for 26% (2008: 48%) of total operating income, while the French, German and Spanish operations accounted for 28%, 25% and 21% respectively (2008: 52% combined).

Adjusted operating expenses were reduced by 6% to £20.2 million (2008: £21.6 million), reflecting lower bonus costs, partly offset by the consolidation of the Spanish operation, Atlas Capital Close Brothers, where the group acquired the outstanding 55% in September 2008. Adjusted operating expenses exclude £0.1 million of exceptional restructuring costs related to cost reductions in the Spanish operation.

The adjusted operating loss for the period was £2.9 million (2008: profit of £4.6 million).

Corporate Finance KFRs

	First half 2009	First half 2008
Operating margin	**(20)%**	16%
Expense/income ratio	**120%**	84%
Compensation ratio	**74%**	60%

Note: All KFRs exclude associate income, exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition.

Business Review

Divisional Review: Securities

- Adjusted operating profit up 39% to £33 million
- Winterflood bargains per trading day increased 34% to 38,000
- Mako generated £13 million of associate income

Key divisional metrics

	First half 2009 £ million	First half 2008 £ million	Change %
Adjusted operating income	**80.8**	55.8	45
Adjusted operating expenses	**(47.6)**	(32.0)	49
Adjusted operating profit	**33.2**	23.8	39

In the Securities division, total adjusted operating income increased 45% to £80.8 million (2008: £55.8 million). This includes £12.7 million (2008: £4.5 million) of associate income from our 49.9% stake in Mako. Total adjusted operating profit for the division increased 39% to £33.2 million (2008: £23.8 million), as a result of a particularly strong performance from Winterflood and Mako.

Key Winterflood metrics

	First half 2009 £ million	First half 2008 £ million	Change %
Adjusted operating income	**55.0**	38.6	42
Adjusted operating expenses	**(36.3)**	(26.8)	35
Adjusted operating profit	**18.7**	11.8	58
Number of bargains (million)	**4.8**	3.6	33
Average bargains per trading day	**37,861**	28,197	34
Income per bargain	**£11.46**	£10.72	7

Winterflood adjusted operating income was £55.0 million (2008: £38.6 million), a 42% increase. This was the result of a significant increase in trading volumes with average bargains per trading day up 34% to 37,861 (2008: 28,197) benefiting from retail activity in financial stocks and an increased focus on counterparty risk among market participants. Income per bargain increased 7% to £11.46 (2008: £10.72).

Adjusted operating expenses increased 35% reflecting higher variable costs as a result of strong trading performance.

Adjusted operating profit increased 58% to £18.7 million (2008: £11.8 million).

Key Seydler metrics

	First half 2009 £ million	First half 2008 £ million	Change %
Adjusted operating income	**13.1**	12.7	3
Adjusted operating expenses	**(11.3)**	(5.2)	117
Adjusted operating profit	**1.8**	7.5	(76)

Adjusted operating income at **Seydler** was £13.1 million (2008: £12.7 million), a 3% increase, reflecting continued challenging conditions in the German retail market.

Adjusted operating expenses were £11.3 million (2008: £5.2 million). Expenses in the prior year period include the impact of the reversal of a £4.1 million provision originally charged in the prior two years. Operating profit for the first half was £1.8 million (2008: £7.5 million, including the impact of the provision reversal).

Key Mako metrics

	First half 2009 £ million	Four months to 31 January 2008[1] £ million
Adjusted operating profit	**17.4**	4.5
Tax on adjusted operating profit	**4.7**	1.6
Profit after tax	**12.7**	2.9
Number of contracts (million)[2]	**46.0**	40.2

[1] 49.9% acquired in October 2007.
[2] Total number of contracts for Mako.

The investment in **Mako** generated £12.7 million of post tax associate income. Mako benefited from high volatility during the period. The fixed income desk in particular benefited from market activity related to interest rate movements.

Securities KFRs

	First half 2009	First half 2008
Operating margin	**30%**	38%
Expense/income ratio	**70%**	62%
Compensation ratio	**44%**	44%

Note: All KFRs exclude associate income, exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition.

Principal Risks and Uncertainties

The group's risk management and internal control systems are designed to identify, monitor, measure and manage the principal financial and non-financial risks facing the group. These risks are set out in the 2008 Annual Report and on the group's website at www.closebrothers.co.uk/RiskManagement.asp. There has been significant change in the external environment in which the group operates since its 2008 Annual Report was published. However, the group's risk management and internal control systems detailed in that 2008 Annual Report have enabled the group to trade profitably during some of the most challenging and unpredictable trading conditions it has experienced.

The principal risks and uncertainties foreseen in the second six months of the year are outlined below. The risks outlined should not be regarded as a comprehensive list of all the risks and uncertainties the group may potentially face in the period.

Economic Conditions

The economic outlook in all the markets in which the group undertakes its activities has deteriorated markedly in the first six months of the financial year. The outlook for the next six months is significantly uncertain and therefore the impact of worsening economic conditions on the group's customers and markets has the potential to adversely impact the group's business plans and earnings. The group's risk management, internal control systems and overall business model are designed so as to enable the group to continue to trade profitably through downturns in the economic cycle.

Regulatory Change

The regulatory environment is expected to change significantly in the near future in response to the banking crisis of late 2008. These changes have the potential to impact the group in terms of the cost of compliance with uncertainty about regulatory requirements. The group continues to maintain a conservative approach with a strong, well capitalised balance sheet and believes it is well placed to react to regulatory change.

Funding

There is significant uncertainty surrounding credit markets and it is possible that further deterioration in those markets may occur. The group requires access to sources of funding in order to grow its business and achieve future objectives. The dislocation seen in credit markets in the second half of 2008 increases the risk that the group will not be able to obtain access to funding as its existing facilities fall due. However, despite the credit market dislocation, the group has successfully raised over £1 billion in the wholesale and retail markets since 31 July 2008, reflecting its strong capital position.

Counterparty Exposure

The group has material cash and cash equivalent assets with individual financial institutions. A failure of one or more of these financial institutions would have a material impact on the group's financial position. The group mitigates this risk by setting maximum individual counterparty limits which are monitored daily.

Key Personnel

The success of the group is closely linked to the abilities and experience of its employees. The earnings of the group could be adversely affected by the loss of the services of certain key teams. The group has succession plans in place and reward and incentive schemes are regularly reviewed.

IT Infrastructure

A number of the group's banking and securities trading businesses are highly reliant on their IT infrastructure in their daily operations. The businesses keep their IT systems and contingency plans under constant review to ensure they can continue to adequately support ongoing operations.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

(a) The condensed set of consolidated financial statements has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting";

(b) The Interim Report 2009 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

(c) The Interim Report 2009 includes a fair review of the information required by Disclosure and Transparency Rule 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the board

PSS Macpherson
Chairman

CD Keogh
Chief Executive

10 March 2009

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 2009 for the six months ended 31 January 2009 which comprises the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Recognised Income and Expense, the Consolidated Cash Flow Statement and related notes 1 to 15. We have read the other information contained in the Interim Report 2009 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 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 2009 is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Report 2009 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 2009 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 2009 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 2009 for the six months ended 31 January 2009 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

Deloitte LLP
Chartered Accountants and Statutory Auditors
London, UK

10 March 2009

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Consolidated Income Statement
for the six months ended 31 January 2009

	Note	Six months ended 31 January 2009 Unaudited £ million	Six months ended 31 January 2008 Unaudited £ million	Year ended 31 July 2008 Audited £ million
Interest income		**184.4**	180.2	366.4
Interest expense		**(101.7)**	(107.4)	(213.1)
Net interest income		**82.7**	72.8	153.3
Fee and commission income		**118.0**	140.8	286.3
Fee and commission expense		**(18.1)**	(21.8)	(42.8)
Gains less losses arising from dealing in securities		**62.5**	45.1	89.8
Share of profit of associates		**13.2**	5.1	8.1
Other income		**8.1**	11.0	14.5
Non-interest income		**183.7**	180.2	355.9
Operating income		**266.4**	253.0	509.2
Administrative expenses		**177.8**	167.2	337.6
Depreciation and amortisation		**7.4**	6.4	16.6
Impairment losses on loans and advances	8	**23.4**	9.6	27.5
Impairment losses on goodwill		**19.0**	–	–
Amortisation of intangible fixed assets on acquisition		**0.3**	–	–
Total operating expenses before exceptional items, goodwill impairment and amortisation of intangible fixed assets on acquisition		**204.4**	177.7	371.7
Exceptional items	3	**4.2**	5.5	10.0
Impairment losses on goodwill	4	**19.0**	–	–
Amortisation of intangible fixed assets on acquisition		**0.3**	–	–
Total operating expenses		**227.9**	183.2	381.7
Operating profit before exceptional items, goodwill impairment and amortisation of intangible fixed assets on acquisition and tax		**62.0**	75.3	137.5
Exceptional items	3	**(4.2)**	(5.5)	(10.0)
Impairment losses on goodwill	4	**(19.0)**	–	–
Amortisation of intangible fixed assets on acquisition		**(0.3)**	–	–
Operating profit before tax		**38.5**	69.8	127.5
Tax	5	**13.5**	21.2	34.9
Profit after tax		**25.0**	48.6	92.6
Profit attributable to minority interests		**0.3**	1.9	2.6
Profit attributable to the shareholders of the company		**24.7**	46.7	90.0
Basic earnings per share	6	**17.4p**	31.4p	61.5p
Diluted earnings per share	6	**17.2p**	31.1p	60.7p
Ordinary dividend per share	7	**13.5p**	13.5p	39.0p

All income and profit are in respect of continuing operations.

Consolidated Balance Sheet
at 31 January 2009

	Note	31 January 2009 Unaudited £ million	31 January 2008 Unaudited £ million	31 July 2008 Audited £ million
Assets				
Cash and balances at central banks		**1.7**	1.8	1.5
Settlement accounts		**524.1**	392.4	450.0
Loans and advances to customers	8	**2,307.8**	2,005.8	2,232.2
Loans and advances to banks		**344.7**	447.3	307.8
Debt securities and equity shares: Long trading positions		**64.9**	85.0	100.0
Financial instruments classified as available for sale	9	**800.0**	790.1	784.3
Equity shares valued at fair value	9	**10.5**	16.9	16.2
Certificates of deposit classified as loans and receivables	9	**1,341.4**	1,107.6	1,324.2
Floating rate notes held to maturity	9	**22.5**	30.8	23.4
Loans to money brokers against stock advanced		**72.0**	132.2	106.8
Intangible assets: Goodwill		**135.2**	113.3	126.8
Intangible assets: Other		**11.0**	6.7	7.6
Property, plant and equipment		**39.6**	35.3	32.6
Interests in associates		**101.9**	65.8	73.2
Deferred tax assets		**34.7**	34.2	29.0
Current tax assets		**4.3**	–	–
Prepayments and accrued income		**100.4**	89.1	89.9
Other receivables		**36.4**	55.1	36.3
Derivative financial instruments		**50.2**	6.1	10.9
Total assets		**6,003.3**	5,415.5	5,752.7
Liabilities				
Settlement accounts		**479.3**	379.1	451.4
Deposits by customers	10	**2,542.7**	2,435.4	2,641.7
Deposits by banks	10	**34.4**	213.0	298.2
Loans and overdrafts from banks	10	**1,652.6**	973.9	981.8
Promissory notes and other debt securities	10	**24.0**	18.6	19.7
Debt securities and equity shares: Short trading positions		**30.5**	43.7	38.5
Loans from money brokers against stock advanced		**58.9**	98.1	67.0
Non-recourse borrowings		**126.0**	167.0	165.0
Subordinated loan capital		**75.0**	75.0	75.0
Other liabilities		**161.3**	141.4	155.3
Current tax liabilities		**–**	14.4	2.4
Accruals and deferred income		**119.3**	126.2	134.4
Derivative financial instruments		**21.3**	8.8	1.9
Total liabilities		**5,325.3**	4,694.6	5,032.3
Equity				
Called up share capital		**37.4**	37.3	37.3
Share premium account	11	**274.5**	272.9	274.1
Profit and loss account	11	**418.9**	411.9	432.0
Other reserves and minority interests	11	**(52.8)**	(1.2)	(23.0)
Total equity		**678.0**	720.9	720.4
Total liabilities and equity		**6,003.3**	5,415.5	5,752.7

Consolidated Statement of Recognised Income and Expense

for the six months ended 31 January 2009

	Six months ended 31 January		Year ended 31 July
	2009 Unaudited £ million	2008 Unaudited £ million	2008 Audited £ million
Profit after tax	**25.0**	48.6	92.6
Currency translation differences	**37.6**	2.3	2.1
Cash flow hedging	**(10.5)**	(4.4)	(0.1)
Share-based transactions	**(1.6)**	2.2	(1.1)
Movement on financial instruments classified as available for sale			
Floating rate notes	**(30.1)**	(7.2)	(15.7)
Equity shares	**(6.6)**	(5.3)	(8.7)
	(11.2)	(12.4)	(23.5)
	13.8	36.2	69.1
Of which, attributable to:			
Minority interests	**0.3**	1.9	2.6
Shareholders	**13.5**	34.3	66.5
	13.8	36.2	69.1

Consolidated Cash Flow Statement

for the six months ended 31 January 2009

		Six months ended 31 January		Year ended 31 July
	Note	**2009 Unaudited £ million**	2008 Unaudited £ million	2008 Audited £ million
Net cash inflow from operating activities	15(a)	**165.7**	329.3	482.0
Net cash outflow from investing activities:				
Dividends paid to minority interests		**(1.1)**	(0.5)	(1.4)
Purchase of:				
Assets let under operating leases		**(3.5)**	(2.5)	(3.8)
Property, plant and equipment		**(3.7)**	(3.8)	(8.5)
Intangible assets		**(0.9)**	(1.0)	(2.6)
Equity shares held for investment		**(1.6)**	(14.9)	(22.2)
Own shares for employee share award schemes		**(22.2)**	(5.8)	(19.2)
Minority interests		**(0.5)**	(0.5)	(9.6)
Subsidiaries and associates	15(b)	**(18.5)**	(65.3)	(111.2)
Sale of:				
Property, plant and equipment		**1.3**	4.2	6.4
Equity shares held for investment		**0.1**	6.4	8.3
		(50.6)	(83.7)	(163.8)
Net cash inflow before financing		**115.1**	245.6	318.2
Financing activities:				
Issue of ordinary share capital		**0.5**	8.8	10.0
Equity dividends paid		**(36.2)**	(72.8)	(92.7)
Interest paid on subordinated loan capital		**(3.0)**	(2.8)	(5.6)
Reclassification of floating rate notes classified as available for sale		**(773.2)**	–	–
Net (decrease)/increase in cash		**(696.8)**	178.8	229.9

The Notes

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 International Accounting Standard ("IAS") 34 – "Interim Financial Reporting". 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. They represent condensed financial statements in accordance with IAS 34.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the half yearly condensed financial statements. The accounting policies, presentation and methods of computation used are consistent with those set out in the group's latest annual audited 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 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 240 of the Companies Act 1985. However, the information has been reviewed by the company's auditors, Deloitte LLP, and their report appears on page 13.

The financial information for the year ended 31 July 2008 contained within this Interim Report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. A copy of those statutory accounts has been reported on by Deloitte LLP and delivered to the Registrar of Companies. The report of the auditors on those statutory accounts was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

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 four primary divisions namely Asset Management, Banking, Corporate Finance and Securities.

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 having regard to commercial demands. Substantially all of the group's activities and revenue are located within the British Isles.

The Notes

2. Segmental analysis continued

	Asset Management £ million	Banking £ million	Corporate Finance £ million	Securities £ million	Group £ million	**Total £ million**
Summary Income Statement for the six months ended 31 January 2009						
Operating income before exceptional items	**49.9**	**115.4**	**17.3**	**80.8**	**3.0**	**266.4**
Administrative expenses, depreciation and amortisation	**(43.3)**	**(60.0)**	**(20.2)**	**(47.6)**	**(9.9)**	**(181.0)**
Impairment losses on loans and advances	–	**(23.4)**	**–**	**–**	**–**	**(23.4)**
Total operating expenses before exceptionals	**(43.3)**	**(83.4)**	**(20.2)**	**(47.6)**	**(9.9)**	**(204.4)**
Operating profit before exceptional items, goodwill impairment, amortisation of intangible fixed assets on acquisition and tax	**6.6**	**32.0**	**(2.9)**	**33.2**	**(6.9)**	**62.0**
Exceptional items: Restructuring costs	**(3.4)**	**–**	**(0.1)**	**–**	**(0.7)**	**(4.2)**
Impairment losses on goodwill	**(19.0)**	**–**	**–**	**–**	**–**	**(19.0)**
Amortisation of intangible fixed assets on acquisition	**–**	**(0.3)**	**–**	**–**	**–**	**(0.3)**
Operating profit before tax	**(15.8)**	**31.7**	**(3.0)**	**33.2**	**(7.6)**	**38.5**
Tax	**(0.4)**	**(9.6)**	**0.6**	**(5.9)**	**1.8**	**(13.5)**
Minority interests	**(0.1)**	**–**	**(0.2)**	**–**	**–**	**(0.3)**
Profit after tax and minority interests	**(16.3)**	**22.1**	**(2.6)**	**27.3**	**(5.8)**	**24.7**

For the six months ended 31 January 2009, the operating income before exceptional items and the operating profit before tax of the Securities division included £12.7 million relating to its share of profit of associates.

	Asset Management £ million	Banking £ million	Corporate Finance £ million	Securities £ million	Group £ million	Total £ million
Summary Income Statement for the six months ended 31 January 2008						
Operating income before exceptional items	69.0	99.8	26.2	55.8	2.2	253.0
Administrative expenses, depreciation and amortisation	(51.0)	(52.5)	(21.6)	(32.0)	(11.0)	(168.1)
Impairment losses on loans and advances	–	(9.6)	–	–	–	(9.6)
Total operating expenses before exceptionals	(51.0)	(62.1)	(21.6)	(32.0)	(11.0)	(177.7)
Operating profit before exceptional items, goodwill impairment, amortisation of intangible fixed assets on acquisition and tax	18.0	37.7	4.6	23.8	(8.8)	75.3
Exceptional items: Advisers' fees	–	–	–	–	(5.5)	(5.5)
Operating profit before tax	18.0	37.7	4.6	23.8	(14.3)	69.8
Tax	(4.0)	(10.7)	(1.8)	(7.4)	2.7	(21.2)
Minority interests	(0.4)	(0.3)	(0.9)	–	(0.3)	(1.9)
Profit after tax and minority interests	13.6	26.7	1.9	16.4	(11.9)	46.7

For the six months ended 31 January 2008, the operating income before exceptional items and the operating profit before tax of the Securities division included £4.5 million relating to its share of profit of associates.

	Asset Management £ million	Banking £ million	Corporate Finance £ million	Securities £ million	Group £ million	Total £ million
Summary Income Statement for the year ended 31 July 2008						
Operating income before exceptional items	133.5	207.1	56.5	110.0	2.1	509.2
Administrative expenses, depreciation and amortisation	(100.9)	(105.1)	(46.5)	(71.3)	(20.4)	(344.2)
Impairment losses on loans and advances	–	(27.5)	–	–	–	(27.5)
Total operating expenses before exceptionals	(100.9)	(132.6)	(46.5)	(71.3)	(20.4)	(371.7)
Operating profit before exceptional items, goodwill impairment, amortisation of intangible fixed assets on acquisition and tax	32.6	74.5	10.0	38.7	(18.3)	137.5
Exceptional items: Advisers' fees and restructuring costs	(2.1)	(0.3)	(0.9)	(1.3)	(5.4)	(10.0)
Operating profit before tax	30.5	74.2	9.1	37.4	(23.7)	127.5
Tax	(5.9)	(21.6)	(2.8)	(8.5)	3.9	(34.9)
Minority interests	(0.6)	(0.1)	(1.6)	–	(0.3)	(2.6)
Profit after tax and minority interests	24.0	52.5	4.7	28.9	(20.1)	90.0

For the year ended 31 July 2008, the operating income before exceptional items and the operating profit before tax of the Securities division included £7.2 million relating to its share of profit of associates.

3. Exceptional items

	Six months ended 31 January		Year ended 31 July
	2009 Unaudited £ million	2008 Unaudited £ million	2008 Audited £ million
Exceptional expenses			
Advisers' fees in respect of potential offers for the group	–	(5.5)	(5.0)
Restructuring costs	**(4.2)**	–	(5.0)
	(4.2)	(5.5)	(10.0)

4. Goodwill impairment

It is the group's policy to test goodwill annually, and to perform an impairment test more frequently when there are indications that conditions have changed since the last goodwill impairment test that would result in a different outcome.

As a result of the deterioration in the economic environment, a review was carried out at 31 January 2009 for indications of impairment since 31 July 2008 for each of our operating divisions. Detailed impairment testing was subsequently performed where such indications existed and an impairment charge of £19.0 million relating to the Asset Management division has been recognised as impairment losses on goodwill in the Consolidated Income Statement.

5. Tax expense

The effective tax rate for the period is 35.1% (six months ended 31 January 2008: 30.4%; year ended 31 July 2008: 27.4%), 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 above the UK corporation tax rate of 28% due to goodwill impairment, other disallowable expenditure and a reduction in the deferred tax asset relating to employee benefits. These effects are offset by the inclusion of the share of profit of associates in the Consolidated Income Statement on an after tax basis in accordance with IAS 1 "Presentation of financial statements" and by the net lower tax rates applied to profits arising outside the UK.

The Notes

6. Earnings per share

Earnings per share is presented on four bases: basic; diluted; adjusted basic; and adjusted diluted. Basic earnings per share is in respect of all activities and diluted earnings per share takes into account the dilution effects which would arise on the conversion or vesting of share options and share awards in issue during the period. Adjusted basic earnings per share excludes exceptional items, goodwill impairment and amortisation of intangible fixed assets on acquisition and the tax effect of such adjustments to enable comparison of the underlying earnings of the business with prior periods and adjusted diluted earnings per share takes into account the same dilution effects as for diluted earnings per share described above.

	Six months ended 31 January		Year ended 31 July
	2009 Unaudited	2008 Unaudited	2008 Audited
Earnings per share			
Basic	**17.4p**	31.4p	61.5p
Diluted	**17.2p**	31.1p	60.7p
Adjusted basic	**33.0p**	35.1p	67.3p
Adjusted diluted	**32.7p**	34.8p	66.4p
	£ million	£ million	£ million
Profit attributable to shareholders	**24.7**	46.7	90.0
Adjustments:			
Exceptional expenses	**4.2**	5.5	10.0
Tax effect of exceptional expenses	**(1.2)**	–	(1.5)
Goodwill impairment	**19.0**	–	–
Amortisation of intangible fixed assets on acquisition	**0.3**	–	–
Adjusted profit attributable to shareholders	**47.0**	52.2	98.5
	million	million	million
Average number of shares			
Basic weighted	**142.3**	148.9	146.4
Effect of dilutive share options and awards	**1.4**	1.2	1.9
Diluted weighted	**143.7**	150.1	148.3

7. Dividends

	Six months ended 31 January		Year ended 31 July
	2009 Unaudited £ million	2008 Unaudited £ million	2008 Audited £ million
For each ordinary share:			
Interim dividend for previous financial year paid in April 2008: 13.5p	**–**	–	19.9
Special dividend for 2007 paid in November 2007: 25p	**–**	36.4	36.4
Final dividend for previous financial year paid in November 2008: 25.5p (2007: 25p)	**36.2**	36.4	36.4
	36.2	72.8	92.7

An interim dividend relating to the six months ended 31 January 2009 of 13.5p, amounting to an estimated £19.0 million, is proposed. This interim dividend, which is due to be paid on 15 April 2009, is not reflected in these financial statements.

8. Loans and advances to customers

	31 January		31 July
	2009 Unaudited £ million	2008 Unaudited £ million	2008 Audited £ million
Loans and advances are repayable:			
On demand or at short notice	**92.4**	102.1	151.6
Within three months	**699.3**	601.1	633.9
Between three months and one year	**816.7**	618.3	738.5
Between one and two years	**363.8**	355.0	360.0
Between two and five years	**383.4**	361.2	385.5
After more than five years	**10.7**	11.8	13.0
Impairment provisions	**(58.5)**	(43.7)	(50.3)
	2,307.8	2,005.8	2,232.2
Impairment provisions on loans and advances:			
Opening balance	**50.3**	44.4	44.4
Charge for the year	**23.4**	9.6	27.5
Amounts written off net of recoveries	**(15.2)**	(10.3)	(21.6)
	58.5	43.7	50.3

9. Non-trading financial instruments

	31 January		31 July
	2009 Unaudited £ million	2008 Unaudited £ million	2008 Audited £ million
Financial instruments classified as available for sale			
Equity shares			
Listed	**13.3**	21.4	17.2
Unlisted	**13.5**	10.7	15.8
	26.8	32.1	33.0
Floating rate notes	**773.2**	758.0	751.3
	800.0	790.1	784.3
Equity shares at fair value			
Unlisted	**10.5**	16.9	16.2

	31 January 2009		31 January 2008		31 July 2008	
	Book value Unaudited £ million	**Fair value Unaudited £ million**	Book value Unaudited £ million	Fair value Unaudited £ million	Book value Audited £ million	Fair value Audited £ million
Certificates of deposit classified as loans and receivables	**1,341.4**	**1,350.4**	1,107.6	1,107.9	1,324.2	1,324.0
Floating rate notes held to maturity	**22.5**	**15.7**	30.8	25.1	23.4	20.8

The Notes

9. Non-trading financial instruments continued

Movements on the book value of floating rate notes and equity shares held during the year comprise:

	Floating rate notes		Equity shares	
	Available for sale £ million	Held to maturity £ million	Available for sale £ million	Valued at fair value £ million
At 1 August 2008	751.3	23.4	33.0	16.2
Additions	–	–	–	1.6
Disposals	–	–	–	(0.4)
Redemptions at maturity	(15.0)	(1.7)	–	–
Currency translation differences	78.7	1.1	–	–
Impairment	–	(0.3)	–	–
Increase/(decrease) in carrying value of:				
Financial instruments classified as available for sale	(41.8)	–	–	–
Unlisted equity shares held at fair value	–	–	(6.2)	(6.9)
At 31 January 2009	**773.2**	**22.5**	**26.8**	**10.5**

In respect of floating rate notes, both classified as available for sale and held to maturity, £33.0 million (31 January 2008: £20.5 million; 31 July 2008: £21.8 million) were due to mature within one year and £28.5 million (31 January 2008: £32.6 million; 31 July 2008 £29.4 million) have been issued by corporates with the remainder issued by banks and building societies.

£660.0 million (31 January 2008: £103.5 million; 31 July 2008: £102.5 million) of the available for sale floating rate notes are subject to sale and repurchase agreements, with the corresponding facility amounts of £507.6 million (31 January 2008: £101.9 million; 31 July 2008: £104.9 million) being included within “loans and overdrafts from banks” on the balance sheet. The floating rate notes remain on the group’s balance sheet and the group retains the risks and rewards of ownership.

10. Financial liabilities

	On demand or at short notice Unaudited £ million	Within three months Unaudited £ million	Between three months and one year Unaudited £ million	Between one and two years Unaudited £ million	Between two and five years Unaudited £ million	After more than five years Unaudited £ million	**Total Unaudited £ million**
At 31 January 2009							
Deposits by customers	**698.1**	**950.7**	**497.4**	**358.5**	**38.0**	**–**	**2,542.7**
Deposits by banks	**6.7**	**19.6**	**5.0**	**3.1**	**–**	**–**	**34.4**
Loans and overdrafts from banks	**11.3**	**120.2**	**465.2**	**860.9**	**195.0**	**–**	**1,652.6**
Promissory notes and other debt securities	**–**	**–**	**–**	**–**	**–**	**24.0**	**24.0**
	716.1	**1,090.5**	**967.6**	**1,222.5**	**233.0**	**24.0**	**4,253.7**

	On demand or at short notice Unaudited £ million	Within three months Unaudited £ million	Between three months and one year Unaudited £ million	Between one and two years Unaudited £ million	Between two and five years Unaudited £ million	After more than five years Unaudited £ million	Total Unaudited £ million
At 31 January 2008							
Deposits by customers	640.8	1,553.0	206.9	16.7	18.0	–	2,435.4
Deposits by banks	21.8	117.0	74.2	–	–	–	213.0
Loans and overdrafts from banks	9.9	20.6	312.8	107.0	523.6	–	973.9
Promissory notes and other debt securities	–	–	–	–	–	18.6	18.6
	672.5	1,690.6	593.9	123.7	541.6	18.6	3,640.9

	On demand or at short notice Audited £ million	Within three months Audited £ million	Between three months and one year Audited £ million	Between one and two years Audited £ million	Between two and five years Audited £ million	After more than five years Audited £ million	Total Audited £ million
At 31 July 2008							
Deposits by customers	842.1	1,492.8	270.2	15.1	21.5	–	2,641.7
Deposits by banks	37.7	210.1	48.4	2.0	–	–	298.2
Loans and overdrafts from banks	14.2	80.6	205.1	274.4	407.5	–	981.8
Promissory notes and other debt securities	–	–	–	–	–	19.7	19.7
	894.0	1,783.5	523.7	291.5	429.0	19.7	3,941.4

11. Share premium and equity reserves

Share premium and profit and loss account

	Share premium account Unaudited £ million	**Profit and loss account Unaudited £ million**
At 1 August 2008	274.1	432.0
Profit attributable to shareholders	–	24.7
Dividends paid	–	(36.2)
Transfer from share-based reserves	–	–
Exercise of options	0.4	–
Other movements	–	(1.6)
At 31 January 2009	**274.5**	**418.9**

Other reserves and minority interests

	Available for sale movements reserve Unaudited £ million	Share-based reserves Unaudited £ million	Exchange movements reserve Unaudited £ million	Cash flow hedging reserve Unaudited £ million	Minority interests Unaudited £ million	**Total Unaudited £ million**
At 1 August 2008	(12.3)	(19.4)	2.3	1.4	5.0	**(23.0)**
Charge to the income statement	–	1.1	–	–	0.3	**1.4**
Shares purchased	–	(22.2)	–	–	–	**(22.2)**
Shares released	–	1.2	–	–	–	**1.2**
Movement on financial instruments classified as available for sale:						
Floating rate notes	(30.1)	–	–	–	–	**(30.1)**
Equity shares	(6.6)	–	–	–	–	**(6.6)**
Other movements	–	–	37.6	(10.5)	(0.6)	**26.5**
At 31 January 2009	**(49.0)**	**(39.3)**	**39.9**	**(9.1)**	**4.7**	**(52.8)**

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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 year ended 31 July 2008 and the period to 31 January 2009. The table below summarises the composition of regulatory capital as at those financial period ends.

	31 January 2009 Basel II Pro forma £ million	31 January 2008 Basel II Pro forma £ million	31 July 2008 Basel II Pro forma £ million
Core tier 1 capital			
Called up share capital	**37.4**	37.3	37.3
Share premium account	**274.5**	272.9	274.1
Retained earnings and other reserves	**449.0**	379.3	404.7
Current year earnings	**24.7**	46.7	43.3
Minority interests	**4.7**	8.5	5.0
Deductions from core tier 1 capital			
Intangible assets	**(146.2)**	(120.0)	(134.4)
Goodwill in associates	**(56.3)**	(40.5)	(49.7)
Investment in own shares	**(54.1)**	(22.9)	(33.1)
Unrealised losses on available for sale equity shares	**(2.4)**	–	–
Core tier 1 capital after deductions	**531.3**	561.3	547.2
Tier 2 capital			
Subordinated debt	**75.0**	75.0	75.0
Unrealised gains on available for sale equity shares	**–**	7.5	4.2
Collective impairment allowances	**0.8**	2.8	2.2
Tier 2 capital	**75.8**	85.3	81.4
Deductions from total of tier 1 and tier 2 capital			
Participation in a non-financial undertaking	**(2.7)**	(12.8)	(6.5)
Other regulatory adjustments	**(5.9)**	(7.7)	(8.5)
Total regulatory capital	**598.5**	626.1	613.6
Risk weighted assets (notional)			
Credit and counterparty risk	**2,760.6**	2,369.9	2,542.8
Operational risk*	**1,099.9**	1,062.3	1,099.9
Market risk*	**128.5**	134.6	161.3
	3,989.0	3,566.8	3,804.0
	%	%	%
Core tier 1 capital ratio	**13.3**	15.7	14.4
Total capital ratio	**15.0**	17.6	16.1

*Operational and market risk include a notional adjustment at 8% in order to determine notional risk weighted assets under Basel II.

13. Contingent liabilities

A principal subsidiary of the group, Close Brothers Limited, by virtue of being a Financial Services Authority regulated deposit taker, contributes to the Financial Services Compensation Scheme ("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. In order to meet its obligations to the depositors of a number of institutions which failed last year the FSCS has borrowed amounts from HM Treasury on an interest only basis to September 2011. It is anticipated that these borrowings will be repaid wholly or substantially from the realisation of the assets of these institutions. However, if the assets of these institutions are insufficient, the FSCS will recoup any shortfalls in the form of additional levies based on the level of market participation of individual institutions. At the date of this Interim Report it is not possible to estimate with any certainty the amount or timing of any such additional levies.

The FSCS raises annual levies from the banking industry to meet its management expenses and compensation costs and individual institutions make payments based on their level of market participation. The group has accrued £1.3 million for its share of levies that will be raised by the FSCS including the interest on the loan from HM Treasury in respect of the levy years to 31 March 2010.

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 2008 Annual Report that could have a material effect on the financial position and performance of the group in the six months to 31 January 2009.

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15. Consolidated cash flow statement reconciliation

	Six months ended 31 January		Year ended 31 July
	2009 Unaudited £ million	2008 Unaudited £ million	2008 Audited £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities			
Operating profit on ordinary activities before tax	**38.5**	69.8	127.5
Tax paid	**(10.6)**	(34.1)	(59.0)
(Increase)/decrease in:			
Interest receivable and prepaid expenses	**(10.3)**	(6.7)	(5.2)
Net settlement accounts	**(46.2)**	127.1	141.8
Net money broker loans against stock advanced	**26.7**	(104.8)	(110.5)
Net debt securities and equity shares held for trading	**27.1**	8.5	(11.8)
Increase/(decrease) in:			
Interest payable and accrued expenses	**(17.8)**	(18.8)	(13.2)
Depreciation, amortisation and goodwill impairment losses	**26.7**	6.4	16.6
Net cash inflow from trading activities	**34.1**	47.4	86.2
(Increase)/decrease in:			
Loans and advances to customers	**8.5**	(43.3)	(120.2)
Loans and advances to banks not repayable on demand	**0.2**	4.6	4.8
Floating rate notes held to maturity	**0.9**	6.0	(5.6)
Other assets less other liabilities	**(57.9)**	(53.6)	(93.4)
Increase/(decrease) in:			
Deposits by customers	**(99.0)**	132.7	339.0
Deposits by banks	**(263.8)**	52.4	137.6
Loans and overdrafts from banks	**581.7**	516.1	468.6
Non-recourse borrowings	**(39.0)**	17.0	15.0
Promissory notes and other debt securities in issue	**–**	(350.0)	(350.0)
Net cash inflow/(outflow) from operating activities	**165.7**	329.3	482.0
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and associates			
Cash consideration in respect of current year purchases	**(16.8)**	(61.9)	(100.1)
Loan stock redemptions and deferred consideration paid in respect of prior year purchases	**(2.0)**	(3.4)	(12.4)
Net movement in cash balances	**0.3**	–	1.3
	(18.5)	(65.3)	(111.2)
(c) Analysis of changes in financing			
Share capital (including premium) and subordinated loan capital:			
Opening balance	**386.4**	376.4	376.4
Shares issued for cash	**0.5**	8.8	10.0
Closing balance	**386.9**	385.2	386.4

The Notes

15. Consolidated cash flow statement reconciliation continued

	Six months ended 31 January		Year ended 31 July
	2009 Unaudited £ million	2008 Unaudited £ million	2008 Audited £ million
(d) Analysis of cash and cash equivalent balances			
Cash and balances at central banks	**1.7**	1.8	1.5
Loans and advances to banks repayable on demand	**344.7**	446.9	307.6
Floating rate notes classified as available for sale	**–**	777.2	751.3
Certificates of deposit classified as loans and receivables	**1,341.4**	1,107.6	1,324.2
	1,687.8	2,333.5	2,384.6

Cash and cash equivalents comprise balances which have an original maturity of three months or less, together with highly liquid investments. The portfolio of floating rate notes classified as available for sale has been reclassified during the period for cash flow presentation purposes since the majority of the portfolio has been hedged as collateral for sale and repurchase agreements and the market for these instruments is no longer regarded as highly liquid due to the prevailing economic environment.

Cautionary Statement

This Interim Report has been prepared solely for existing members of the company in compliance with the Disclosure and Transparency Rules of the UK Financial Services Authority and is not audited. Statements in this Report reflect the knowledge and information available at the time of its preparation. Certain statements included or incorporated by reference within this Report may constitute "forward-looking statements" in respect of the group's operations, performance, prospects and/or financial condition. By their nature, forward looking statements involve a number of risks, uncertainties and assumptions and actual results or events may differ materially from those expressed or implied by those statements. Accordingly, no assurance can be given that any particular expectation will be met and reliance should not be placed on any forward-looking statement. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. No responsibility or obligation is accepted to update or revise any forward-looking statement resulting from new information, future events or otherwise. Nothing in this Report should be construed as a profit forecast. This Report does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase any shares in the company, nor shall it or any part of it or the fact of its distribution form the basis of, or be relied on in connection with, any contract or commitment or investment decisions relating thereto, nor does it constitute a recommendation regarding the shares of the company. Past performance cannot be relied upon as a guide to future performance. Liability arising from anything in this Report shall be governed by English Law. Nothing in this Report shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.

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