

**Close Brothers Group plc**  
Interim Report 2011



## Overview

- 01 Group Results
- 02 Chairman's and Chief Executive's Statement

## Business Review

- 04 Overview
- 10 Banking
- 12 Securities
- 14 Asset Management
- 16 Principal Risks and Uncertainties

## Governance

- 17 Director's Responsibility Statement

## Financial Statements

- 18 Independent Review Report
- 19 Consolidated Income Statement
- 20 Consolidated Statement of Comprehensive Income
- 21 Consolidated Balance Sheet
- 22 Consolidated Statement of Changes in Equity
- 23 Consolidated Cash Flow Statement
- 24 The Notes
- 43 Cautionary Statement

Close Brothers Group plc is a UK based financial services group. It operates through three divisions, Banking, Securities and Asset Management, and its clients include small and medium sized companies, individuals and financial institutions. Close Brothers was established in 1878, is listed on the London Stock Exchange and is a constituent of the FTSE 250. The group employs over 2,500 people, principally in the UK.

# Group Results

for the six months ended 31 January 2011

01

## Financial Highlights

**£65.4m**

(2010: £62.0m)

Adjusted<sup>1</sup> operating profit from continuing operations

**34.1p**

(2010: 32.1p)

Adjusted<sup>1</sup> earnings per share from continuing operations

**13.5p**

(2010: 13.5p)

Ordinary dividend per share

**£55.8m**

(2010: £61.8m)

Operating profit before tax from continuing operations

**27.4p**

(2010: 31.9p)

Basic earnings per share from continuing operations

**£739.0m**

(2010: £735.4m)

Total equity

**£14.6m**

(2010: £46.1m)

Profit attributable to shareholders from continuing and discontinued operations

**10.1p**

(2010: 32.2p)

Basic earnings per share from continuing and discontinued operations

<sup>1</sup>Stated before exceptional items, goodwill impairment and amortisation of intangible assets on acquisition.

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

# Chairman's and Chief Executive's Statement

02



**Strone Macpherson** Chairman

**Preben Prebensen** Chief Executive

The group delivered a good overall performance for the first half of the financial year. The Banking division had a strong performance and continued to grow its specialised lending businesses. The Securities division had another good result, driven by strong activity levels at Winterflood. The Asset Management division is in the process of implementing its strategy and established good momentum in attracting Private Client assets both directly and through acquisitions. As expected, the division recorded a small loss in the first half.

The group continues to focus on developing its three key business areas: pursuing growth in Banking; maintaining its position as a leading market-maker in Securities; and transforming Asset Management to create a leader in UK wealth and asset management. The group recently announced the sale of its UK offshore trust, fund administration, asset management and banking business ("UK offshore business"), adding further focus to the group's operations, and is evaluating alternatives with regards to its business in the Cayman Islands.

## Results and Dividend

Adjusted operating profit from continuing operations increased 5% to £65.4 million (2010: £62.0 million) driven by a strong contribution from the Banking division. Adjusted earnings per share from continuing operations increased 6% to 34.1p (2010: 32.1p) whilst basic earnings per share from continuing operations decreased 14% to 27.4p (2010: 31.9p) as a result of exceptional items and an impairment of goodwill in Asset Management.

The group recorded a £24.7 million estimated loss on disposal of the UK offshore business which resulted in basic earnings per share from continuing and discontinued operations of 10.1p (2010: 32.2p).

The group has continued to improve the quality and efficiency of its balance sheet whilst remaining focused on maintaining a sound liquidity position. Loans and advances to customers ("the loan book") increased 9% to £3.2 billion (31 July 2010: £2.9 billion) whilst treasury assets reduced 23% to £1.6 billion (31 July 2010: £2.0 billion). This reflects the redeployment of funds from lower yielding treasury assets into the loan book and into high quality liquid assets.

The group remains strongly capitalised and has flexibility to pursue growth opportunities whilst remaining comfortably above the new regulatory minimum proposed under Basel 3. At 31 January 2011, the core tier 1 capital ratio was 13.1% (31 July 2010: 13.9%) and the total capital ratio was 14.9% (31 July 2010: 15.8%).

The board has declared a maintained interim dividend of 13.5p (2010: 13.5p) per share.

## Divisional Performance

The **Banking** division continued to build on its leading position in specialised finance in the UK whilst retaining its disciplined approach to lending.

The division has developed its infrastructure and sales capabilities over the last twelve months, which has allowed it to take advantage of a favourable operating environment. This has resulted in an increase in new

business volumes across the division, particularly in asset finance within Commercial. At the same time, the division has enjoyed good customer retention and high levels of repeat business.

As a result the division achieved organic loan book growth of 9% to £3,169.6 million (31 July 2010: £2,912.6 million) in the six months. This additional lending has been achieved at strong margins with the overall net interest margin improving to 10.0% (2010: 9.7%). Impairment losses on loans and advances also reduced slightly to 2.4% (2010: 2.5%) and as a result, adjusted operating profit increased 33% to £48.6 million (2010: £36.5 million).

In the **Securities** division, Winterflood continues to focus on maintaining its leading market position in UK market-making to retail brokers. It has also been exploring opportunities to expand its business and increase order flow from the US and Europe and is investing in technology and key personnel to promote its expertise in outsourced dealing and execution.

Winterflood had a good performance during the first half with adjusted operating profit of £25.0 million (2010: £27.6 million). Winterflood has again demonstrated consistency in its trading performance with no loss days (2010: two loss days) in the period. However, adjusted operating profit reduced 9% compared to a very strong prior year period.

In the other Securities businesses, Seydler has benefited from an increase in German equity and debt capital markets activity and improved its adjusted operating profit to £4.9 million (2010: £3.0 million). This was offset by lower associate income from Mako, which is currently being impacted by low volumes and low volatility but remains well positioned for a recovery in its markets.

Overall, adjusted operating profit from the Securities division reduced 9% to £31.1 million (2010: £34.0 million).

The **Asset Management** division is in the early stages of implementing its

strategy to become a leading provider of UK wealth and asset management and is making good progress on its propositions for mass affluent to high net worth private clients.

The division is also making good progress on asset gathering both organically and through acquisition. The Private Clients business had net inflows of £172 million in the six months to 31 January 2011 reflecting good sales to high net worth clients. Additionally, since 31 July 2010, the group has acquired over £1.1 billion of advisory and execution only client assets including Chartwell Group Limited ("Chartwell"), with client assets of £705 million, in September 2010 and, post period end, Allenbridge Group plc, a London-based execution only retail broker with client assets of around £440 million, in February 2011.

Overall, in the six months to 31 January 2011, Funds under Management ("FuM") increased 20% to £8,317 million (31 July 2010: £6,954 million) driven by the Chartwell acquisition, net inflows and positive market movements. This excludes the UK offshore business, classified as a discontinued operation under IFRS 5, which had FuM of £457 million (31 July 2010: £474 million), but includes the Property funds business with £554 million FuM at 31 January 2011, the sale of which was announced in October 2010 and completed post the period end.

Adjusted operating income from continuing operations increased 13% to £34.8 million (2010: £30.8 million) reflecting higher FuM and a stable revenue margin. However, as a result of its ongoing investment, the division made a small loss in the first half of £4.0 million (2010: profit of £2.2 million) from continuing operations.

#### Board Changes

Geoffrey Howe was appointed as an independent non-executive director of Close Brothers Group plc with effect from 4 January 2011. Geoffrey is currently chairman of Nationwide Building Society and of Jardine Lloyd Thompson Group plc.

#### Outlook

The group remains strongly capitalised and is well positioned to support future growth opportunities.

Given the Banking division's loan book growth in the first half, it expects a good performance in the second half of the year with a modest improvement in bad debts for the financial year as a whole.

The Securities division remains well positioned in its markets, and since the half year end trading activity has been resilient.

The Asset Management division continues to invest in implementing its strategy and as a result expects a further small loss for the second half of the financial year.

Overall, the group is confident that it will deliver a satisfactory performance for the 2011 financial year.

# Overview

04

## Group Income Statement

	First half 2011 £ million	First half 2010 £ million	Change %
<b>Continuing operations<sup>1</sup></b>			
Adjusted operating income	<b>280.1</b>	249.1	12
Adjusted operating expenses	<b>(177.5)</b>	(156.5)	13
Impairment losses on loans and advances	<b>(37.2)</b>	(30.6)	22
Adjusted operating profit	<b>65.4</b>	62.0	5
Exceptional items	<b>(4.5)</b>	–	
Impairment losses on goodwill	<b>(4.5)</b>	–	
Amortisation of intangible assets on acquisition	<b>(0.6)</b>	(0.2)	
Operating profit before tax	<b>55.8</b>	61.8	(10)
Tax	<b>(15.8)</b>	(15.9)	(1)
Non-controlling interests	<b>(0.5)</b>	(0.2)	
<b>Profit attributable to shareholders: continuing operations</b>	<b>39.5</b>	45.7	(14)
(Loss)/profit from discontinued operations	<b>(24.9)</b>	0.4	
<b>Profit attributable to shareholders: continuing and discontinued operations</b>	<b>14.6</b>	46.1	(68)
Adjusted earnings per share: continuing operations <sup>2</sup>	<b>34.1p</b>	32.1p	6
Basic earnings per share: continuing operations	<b>27.4p</b>	31.9p	(14)
Basic earnings per share: continuing and discontinued operations	<b>10.1p</b>	32.2p	(69)
Ordinary dividend per share	<b>13.5p</b>	13.5p	–

<sup>1</sup>Results from continuing operations for first half 2011 and first half 2010 exclude the trading result from the UK offshore business, the sale of which was announced on 10 March 2011.

<sup>2</sup>Adjusted earnings per share: continuing operations excludes exceptional items, impairment losses on goodwill, amortisation of intangible assets on acquisition, discontinued operations and the tax effect of such adjustments.

Adjusted operating income from continuing operations increased 12%, or £31.0 million, to £280.1 million (2010: £249.1 million) principally reflecting strong income in the Banking division from good growth in the loan book.

Adjusted operating expenses from continuing operations increased 13%, or £21.0 million, to £177.5 million (2010: £156.5 million). In the Banking division, costs increased £11.7 million reflecting volume related growth and an increase in headcount as the division added to its sales capacity in the second half of the 2010 financial year. Costs in the Asset Management division increased due to £5 million of planned non-recurring investment spend and an increase in staff and infrastructure costs associated with the transformation of the division.

Impairment losses on loans and advances (“bad debts”) as a percentage of the average loan book (“bad debt ratio”) reduced to 2.4% (2010: 2.5%). However, as a result of the 23% growth in the average loan book over the period, the charge for bad debts increased £6.6 million to £37.2 million (2010: £30.6 million).

Close Brothers Group plc (“Close Brothers”) has achieved a good performance in the first half of the 2011 financial year with an increase of 5% in adjusted operating profit from continuing operations to £65.4 million (2010: £62.0 million). The Banking division continued to see good momentum with 9% growth in loans and advances to customers (“the loan book”) in the first half and a 33% increase in adjusted operating profit. Securities also had a good performance underpinned by a 7% increase in trading volumes at Winterflood, although adjusted operating profit reduced 9% compared to a very strong prior year period. The Asset Management division is in the process of implementing its growth strategy in wealth and asset management and, as expected, investment during the period resulted in a small loss.

The group reports adjusted operating profit before exceptional items, impairment losses on goodwill and amortisation of intangible assets on acquisition. During the period, the group had an exceptional charge of £4.5 million relating to an onerous lease provision taken in conjunction with the sale of the UK offshore trust, fund administration, asset management and banking business ("UK offshore business"). Additionally, as part of the strategic development process for the Asset Management division, a review of the division's goodwill was carried out at 31 January 2011 for indications of impairment in the last six months. As a result, an impairment charge on goodwill of £4.5 million has been recognised in the period relating to the group's Cayman Islands business. The group also incurred a charge for amortisation of intangible assets on acquisition of £0.6 million (2010: £0.2 million). There were no exceptional items or impairment losses on goodwill in the prior year period.

Operating profit before tax from continuing operations, after these items, decreased 10% to £55.8 million (2010: £61.8 million).

The tax charge on continuing operations for the first six months was £15.8 million (2010: £15.9 million) which represents an

effective tax rate of 28% (2010: 26%), broadly in line with the statutory tax rate.

Adjusted earnings per share from continuing operations increased 6% to 34.1p (2010: 32.1p) and basic earnings per share from continuing operations decreased 14% to 27.4p (2010: 31.9p) reflecting the impairment losses on goodwill and exceptional items in the Asset Management division.

On 10 March 2011, the group announced the sale of the UK offshore business for a cash consideration of £29.1 million subject to adjustment by reference to the net asset position of the business at the time of completion. This business has been classified as a discontinued operation under IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations" for the period. The post tax loss from discontinued operations was £24.9 million. This includes an estimated loss on disposal of £24.7 million, including an £11.2 million impairment of goodwill, and a £0.2 million trading loss in the six months to 31 January 2011. Additionally, in conjunction with the disposal, the group recorded a provision of £4.5 million for an onerous lease commitment and this has been treated as an exceptional item in the period.

As a result, profit attributable to shareholders from continuing and discontinued operations was £14.6 million (2010: £46.1 million), a 68% reduction. Basic earnings per share from continuing and discontinued operations reduced 69% to 10.1p (2010: 32.2p).

The board has declared a maintained interim dividend of 13.5p (2010: 13.5p) per share. The dividend will be paid on 20 April 2011 to shareholders on the register at 25 March 2011.

### Divisional Performance

The group's good performance in the first half reflects a significant contribution from the Banking division with adjusted operating profit up 33% to £48.6 million (2010: £36.5 million) due to good loan book growth. As a result, the division's contribution to adjusted operating profit before group net expenses from continuing operations increased to 64% (2010: 50%).

In the Securities division, Winterflood had a good performance benefiting from strong retail activity. Close Brothers Seydler Bank ("Seydler") also performed well although this was offset by a lower contribution from Mako. Overall, the division contributed £31.1 million (2010: £34.0 million), or 41% (2010: 47%) to group adjusted operating profit before group net expenses from continuing operations.

The Asset Management division is in the process of implementing its wealth and asset management strategy and made a small loss of £4.0 million (2010: profit of £2.2 million) from continuing operations as expected, reflecting investment during the period.

Group net expenses were slightly lower at £10.3 million (2010: £10.7 million).

### Divisional Adjusted Operating Profit (Continuing Operations)

	First half 2011		First half 2010		Change
	£ million	%	£ million	%	%
Banking	48.6	64	36.5	50	33
Securities	31.1	41	34.0	47	(9)
Asset Management	(4.0)	(5)	2.2	3	-
Total divisions	75.7	100	72.7	100	4
Group	(10.3)		(10.7)		(4)
<b>Adjusted operating profit</b>	<b>65.4</b>		62.0		5

## Overview continued

06

**Balance Sheet**

In accordance with IFRS 5, the operations of the UK offshore business have been treated as held for sale at 31 January 2011 and separately disclosed on the balance sheet. This has resulted in a total of £190.3 million of assets and £562.4 million of liabilities held for sale at 31 January 2011 with the difference principally reflecting those funds which were on deposit with the Banking division at the balance sheet date. In accordance with IFRS 5, the prior period has not been restated.

The group has maintained a strong balance sheet position whilst enhancing its efficiency. During the period, total assets increased 4% to £6,488.1 million (31 July 2010: £6,259.6 million) mainly through organic growth in the loan book of 9% to £3,169.6 million (31 July 2010: £2,912.6 million). The loan book is predominantly secured, originated on conservative loan to value ratios and short term, with an average maturity of twelve months (31 July 2010: twelve months).

Cash and loans and advances to banks increased £254.8 million to £866.0 million (31 July 2010: £611.2 million) primarily driven by an increase of £219.3 million in cash on deposit at the Bank of England to £671.9 million (31 July 2010: £452.6 million).

Non trading debt securities, which includes the group's certificates of deposit ("CDs"), gilts and government guaranteed debt and floating rate notes ("FRNs"), reduced £678.3 million to £903.8 million (31 July 2010: £1,582.1 million) as £388.3 million of CDs matured and £171.2 million of FRNs were sold or matured. A further £151.2 million of non trading debt securities held in the UK offshore business were reclassified as held for sale at the balance sheet date. To improve the efficiency of the balance sheet, the group has redeployed the cash from the sales and maturities of these assets to fund loan book growth and to increase the group's holding of high quality liquid assets, notably deposits with the Bank of England.

**Group Balance Sheet**

	31 January 2011 £ million	31 July 2010 £ million
<b>Assets</b>		
Cash and loans and advances to banks	866.0	611.2
Settlement balances, long trading positions and loans to money brokers <sup>1</sup>	915.6	713.3
Loans and advances to customers	3,169.6	2,912.6
Non trading debt securities	903.8	1,582.1
Intangible assets	111.1	107.5
Other assets	331.7	332.9
Assets held for sale	190.3	–
<b>Total assets</b>	<b>6,488.1</b>	<b>6,259.6</b>
<b>Liabilities</b>		
Settlement balances, short trading positions and loans from money brokers	814.3	597.8
Deposits by banks	24.3	48.1
Deposits by customers	2,657.4	3,115.5
Borrowings	1,471.4	1,472.0
Other liabilities	219.3	271.8
Liabilities held for sale	562.4	–
<b>Total liabilities</b>	<b>5,749.1</b>	<b>5,505.2</b>
<b>Equity</b>	<b>739.0</b>	<b>754.4</b>
<b>Total liabilities and equity</b>	<b>6,488.1</b>	<b>6,259.6</b>

<sup>1</sup>Includes £50.3 million (31 July 2010: £54.1 million) long trading positions in debt securities.

At 31 January 2011, the group had £444.1 million (31 July 2010: £615.4 million) of FRNs classified as available for sale. These had a negative mark to market adjustment to equity of £2.9 million during the period, net of tax, resulting in an aggregate negative mark to market adjustment on FRNs at 31 January 2011 of £15.6 million (31 July 2010: £12.7 million), net of tax.

Settlement balances, long and short trading positions and loans to and from money brokers relate to the group's market-making activities in the Securities division. The net balance was stable at £101.3 million (31 July 2010: £115.5 million). On the asset side these increased to £915.6 million (31 July 2010: £713.3 million) and on the liability side these increased to £814.3 million (31 July 2010: £597.8 million) largely due to higher settlement balances, principally reflecting higher market levels at the balance sheet date.

Intangible assets increased to £111.1 million (31 July 2010: £107.5 million) and principally reflects an increase in goodwill and intangibles as a result of the acquisition of Chartwell Group Limited ("Chartwell") partly offset by impairment losses on goodwill in Asset Management.

Deposits by customers, which include deposits from both retail and corporate clients, decreased 15%, or £458.1 million, to £2,657.4 million (31 July 2010: £3,115.5 million). The reduction in the period reflects the classification of £549.3 million customer deposits in the UK offshore business as held for sale. Excluding this, customer deposits increased by £91.2 million. Deposits by banks reduced to £24.3 million (31 July 2010: £48.1 million).



## Group Funding Overview

	31 January 2011 £ million	31 July 2010 £ million	Change £ million
Drawn and undrawn facilities <sup>1</sup>	<b>1,425.4</b>	1,487.5	(62.1)
Group bond	<b>198.0</b>	197.8	0.2
Deposits by customers <sup>2</sup>	<b>2,656.1</b>	3,114.3	(458.2)
Equity	<b>739.0</b>	754.4	(15.4)
<b>Total available funding</b>	<b>5,018.5</b>	5,554.0	(535.5)

<sup>1</sup>Includes £165.9 million (31 July 2010: £227.0 million) of undrawn facilities and excludes £13.9 million (31 July 2010: £13.7 million) of non-facility overdrafts included in borrowings.

<sup>2</sup>Deposits by customers at 31 January 2011 exclude £549.3 million (31 July 2010: £nil) of deposits relating to the UK offshore business classified as held for sale, and £1.3 million (31 July 2010: £1.2 million) of deposits held within the Securities division.

## Group Funding Maturity Profile

	Less than one year £ million	One to two years £ million	Greater than two years £ million	Total £ million
Drawn and undrawn facilities <sup>1</sup>	517.1	411.4	496.9	1,425.4
Group bond	–	–	198.0	198.0
Deposits by customers <sup>2</sup>	2,263.7	346.3	46.1	2,656.1
Equity	–	–	739.0	739.0
<b>Total available funding at 31 January 2011</b>	<b>2,780.8</b>	<b>757.7</b>	<b>1,480.0</b>	<b>5,018.5</b>
Total available funding at 31 July 2010	3,996.4	431.4	1,126.2	5,554.0

<sup>1</sup>Drawn facilities exclude £13.9 million (31 July 2010: £13.7 million) of non-facility overdrafts included in borrowings.

<sup>2</sup>Deposits by customers at 31 January 2011 exclude £549.3 million (31 July 2010: £nil) of deposits relating to the UK offshore business classified as held for sale, and £1.3 million (31 July 2010: £1.2 million) of deposits held within the Securities division.

Borrowings include the group's loans and overdrafts from banks, debt securities in issue, non-recourse borrowings and subordinated loan capital. Overall total borrowings were broadly unchanged at £1,471.4 million (31 July 2010: £1,472.0 million) as loans from banks that matured during the period were replaced with additional borrowings and a non-recourse securitisation.

Total equity decreased £15.4 million to £739.0 million (31 July 2010: £754.4 million) principally due to profit attributable to shareholders for the period of £14.6 million, including a loss from discontinued operations of £24.9 million, less a dividend payment in the period of £36.4 million.

During the period to 31 January 2011, the group released shares due to the exercise of options and share awards. As a result, the shares held in treasury reduced to 4.5 million (31 July 2010: 4.8 million).

## Funding and Liquidity

The group has retained its strong and diversified funding position with good levels of liquidity. Total available funding at 31 January 2011 was £5.0 billion (31 July 2010: £5.6 billion) corresponding to 1.6 times (31 July 2010: 1.9 times) the loan book of £3.2 billion at 31 January 2011 (31 July 2010: £2.9 billion). This excludes £0.5 billion of UK offshore deposits classified as held for sale.

The group's approach to funding is to maintain a diverse mix of funding sources and a prudent maturity profile whilst considering cost efficiency. This approach gives the group sufficient flexibility to meet existing funding requirements and support future growth.

Total drawn and undrawn facilities were broadly unchanged at £1.4 billion (31 July 2010: £1.5 billion). During the period, the group has further diversified its wholesale funding sources by raising an additional £1.0 billion of long-term funding including a securitisation, a syndication and a repurchase agreement, which replaced short-term funding maturing in the period.

## Overview continued

08

## Treasury Assets

	31 January 2011 £ million	31 July 2010 £ million	Change £ million
Gilts and government guaranteed debt	280.6	285.6	(5.0)
Bank of England deposits <sup>1</sup>	671.9	452.6	219.3
Certificates of deposit	177.0	672.1	(495.1)
<b>Liquid assets</b>	<b>1,129.5</b>	1,410.3	(280.8)
Floating rate notes	446.2	624.4	(178.2)
<b>Treasury assets<sup>2</sup></b>	<b>1,575.7</b>	2,034.7	(459.0)

<sup>1</sup>Excludes £0.1 million (31 July 2010: £0.1 million) deposits with central banks held by the Securities division.

<sup>2</sup>Excludes £151.2 million (31 July 2010: £nil) treasury assets relating to the UK offshore business classified as held for sale.

The group has a resilient customer deposit base of £2.7 billion (31 July 2010: £3.1 billion) including term retail and shorter term corporate deposits. This includes £0.4 billion (31 July 2010: £0.2 billion) of deposits with a maturity over one year at the balance sheet date. Post the period end, the group has announced the acquisition of the retail structured deposit book of Dunbar Bank plc. On completion, which is expected by the end of the current financial year subject to court approval, Close Brothers will assume approximately £0.3 billion of deposits with an average maturity of 19 months.

At 31 January 2011, the group had £2.2 billion (31 July 2010: £1.6 billion) of available funding with a residual maturity over one year ("term funding") which includes drawn and undrawn facilities, the group bond, customer deposits and equity. This corresponds to 45%

(31 July 2010: 28%) of total funding and had a weighted average maturity, excluding equity, of 34 months (31 July 2010: 48 months). This term funding covers 71% (31 July 2010: 53%) of the group's £3.2 billion (31 July 2010: £2.9 billion) loan book, which has an average maturity of twelve months.

The strategic focus of the group's treasury activities is on funding the loan book and holding an appropriate level and mix of liquid assets. The group maintains a strong liquidity position and believes it is well positioned for the FSA's recently introduced new liquidity framework (Individual Liquidity Adequacy Standards).

Over the last two years, the group has enhanced the quality of its treasury assets and in the period the group has further increased its holding of high quality liquid assets by increasing its

deposits at the Bank of England to £671.9 million (31 July 2010: £452.6 million).

At the same time the group has continued to improve balance sheet efficiency by managing down its portfolio of less liquid FRNs to £446.2 million (31 July 2010: £624.4 million). The cash that was funding these lower yielding assets, and that received from CDs that matured in the period, has been primarily redeployed into the loan book and as a result, total treasury assets decreased to £1,575.7 million (31 July 2010: £2,034.7 million).

The credit ratings for Close Brothers Group plc, issued by Fitch Ratings ("Fitch") and Moody's Investors Services ("Moody's"), have remained at A/F1 and A3/P2 respectively. Close Brothers Limited ("CBL"), the group's regulated banking subsidiary, has credit ratings of

## Group Capital Position

	31 January 2011 £ million	31 July 2010 £ million
Core tier 1 capital	<b>587.2</b>	603.3
Total regulatory capital	<b>669.2</b>	683.8
Risk weighted assets	<b>4,497.1</b>	4,338.7
Core tier 1 capital ratio	<b>13.1%</b>	13.9%
Total capital ratio	<b>14.9%</b>	15.8%

## Group Key Financial Ratios

	First half 2011	First half 2010
Operating margin <sup>1</sup>	<b>23%</b>	24%
Expense/income ratio <sup>2</sup>	<b>64%</b>	64%
Compensation ratio <sup>3</sup>	<b>40%</b>	41%
Return on opening equity <sup>4</sup>	<b>13%</b>	13%

<sup>1</sup>Adjusted operating profit on adjusted operating income.

<sup>2</sup>Adjusted operating expenses on adjusted operating income.

<sup>3</sup>Total staff costs excluding exceptional items on adjusted operating income.

<sup>4</sup>Adjusted operating profit after tax and non-controlling interests on opening total equity.

Note: All KFRs exclude associate income, exceptional items, impairment losses on goodwill and amortisation of intangible assets on acquisition, and are in respect of continuing operations.

A/F1 by Fitch and A2/P1 by Moody's. During the period to 31 January 2011 Fitch upgraded both Close Brothers Group plc and CBL outlooks to stable whilst Moody's remained unchanged with negative outlooks.

### Capital

The group has maintained a strong capital position with a core tier 1 capital ratio of 13.1% (31 July 2010: 13.9%) and total capital ratio of 14.9% (31 July 2010: 15.8%). These strong capital ratios have allowed the group to support both growth in the loan book as well as an acquisition in the Asset Management division.

Core tier 1 capital has reduced to £587.2 million (31 July 2010: £603.3 million) principally reflecting a £15.4 million decrease in equity as a result of the loss on discontinued operations. Risk weighted assets increased by £158.4

million, or 4%, to £4,497.1 million (31 July 2010: £4,338.7 million), primarily reflecting growth in the loan book during the period. This includes £68 million of risk weighted assets attributable to assets held for sale at the balance sheet date.

Based on information available to date, the group does not expect to be materially impacted by proposed changes under the new Basel 3 regime. Close Brothers' capital ratios are already comfortably above the new regulatory minimum proposed under Basel 3. In addition, the group does not have complex trading book exposures and therefore does not expect a significant impact under the new counterparty credit risk rules. The group will continue to monitor any future changes to requirements set by the European Commission and the FSA.

The group has maintained a conservative capital position and prudent approach to capital management. This gives it flexibility to pursue growth opportunities, which may result in capital ratios moderating somewhat over the coming periods, whilst remaining comfortably above the minimum regulatory requirements.

### Key Financial Ratios

The group's key financial ratios ("KFRs"), which it uses to monitor performance, have remained consistent with the prior year period. The group's expense/income ratio remained unchanged at 64% (2010: 64%) whilst the compensation ratio reduced slightly to 40% (2010: 41%). The operating margin also reduced slightly to 23% (2010: 24%) whilst return on opening equity was unchanged at 13% (2010: 13%).

# Banking

10

- Adjusted operating profit up 33% to £48.6 million
- 9% loan book growth to £3.2 billion since 31 July 2010
- 24% increase in adjusted operating income to £158.7 million
- Return on equity of 20%

## Key Figures

	First half 2011 £ million	First half 2010 £ million	Change %
Adjusted operating income	<b>158.7</b>	128.3	24
Net interest and fees on loan book	<b>151.4</b>	119.4	27
Retail	<b>63.2</b>	50.4	25
Commercial	<b>67.1</b>	51.9	29
Property	<b>21.1</b>	17.1	23
Treasury and other non-lending income	<b>7.3</b>	8.9	(18)
Adjusted operating expenses	<b>(72.9)</b>	(61.2)	19
Impairment losses on loans and advances	<b>(37.2)</b>	(30.6)	22
<b>Adjusted operating profit</b>	<b>48.6</b>	36.5	33
Net interest margin <sup>1</sup>	<b>10.0%</b>	9.7%	
Bad debt ratio <sup>2</sup>	<b>2.4%</b>	2.5%	
Closing loan book	<b>3,169.6</b>	2,577.7	23

<sup>1</sup>Net interest and fees on average net loans and advances to customers.

<sup>2</sup>Impairment losses on average net loans and advances to customers.

The strong performance in the Banking division has continued in the six months to 31 January 2011. The division has benefited from good new business levels driven by investment in sales teams and the development of its distinctive business model in a favourable operating environment.

Adjusted operating income increased 24% to £158.7 million (2010: £128.3 million). Growth of 27% in net interest and fees on loan book to £151.4 million (2010: £119.4 million) was driven by a 23% year on year increase in the average loan book to £3,041.1 million (2010: £2,471.3 million) and a strong net interest margin of 10.0% (2010: 9.7%). Treasury and other non-lending income declined 18% to £7.3 million (2010: £8.9 million) due to a reduced holding of treasury assets.

Adjusted operating expenses increased 19% to £72.9 million (2010: £61.2 million) reflecting volume related growth and an increase in staff which were recruited

largely in the second half of the last financial year. The division is continuing to build its infrastructure in order to increase the capacity of its lending operations whilst retaining the distinctive, localised business model which delivers strong net interest margins. The expense/income ratio reduced to 46% (2010: 48%), despite an increase in headcount across the division over the last year of 13%, or 180 people.

The bad debt ratio has reduced slightly to 2.4% (2010: 2.5%) notwithstanding the impact of a bad debt in the legacy Property portfolio in the first quarter of the financial year. Commercial saw modest improvements whilst Retail has remained at low levels. The charge for impairment losses on loans and advances increased £6.6 million to £37.2 million (2010: £30.6 million) as a result of 23% loan book growth over the prior year period. For the 2011 financial year as a whole, the bad debt ratio is expected to be slightly down on the 2.4% reported in the 2010 financial year.

## Loan Book Analysis

	31 January 2011 £ million	31 July 2010 £ million	Change %
<b>Retail</b>	<b>1,348.2</b>	1,201.9	12
Premium finance	<b>611.3</b>	553.6	10
Motor finance	<b>736.9</b>	648.3	14
<b>Commercial</b>	<b>1,250.4</b>	1,162.9	8
Invoice finance	<b>270.1</b>	262.1	3
Asset finance	<b>980.3</b>	900.8	9
<b>Property</b>	<b>571.0</b>	547.8	4
<b>Closing loan book</b>	<b>3,169.6</b>	2,912.6	9

In the six months to 31 January 2011, the loan book increased 9%, or £257.0 million, to £3,169.6 million (31 July 2010: £2,912.6 million) driven by organic growth across all the lending businesses.

In Retail, the loan book increased 12% to £1,348.2 million (31 July 2010: £1,201.9 million). Expansion of the branch network and sales teams in motor finance, in the second half of the last financial year, resulted in an increase in the number of intermediating dealers to over 6,000 (31 July 2010: 5,800) and 14% loan book growth. The premium finance loan book increased 10% as it continued to benefit from good new business levels, particularly in personal lines. Income increased 25% to £63.2 million (2010: £50.4 million) reflecting a 25% increase in the average loan book over the last twelve months.

The Commercial loan book increased £87.5 million, or 8%, to £1,250.4 million (31 July 2010: £1,162.9 million). Good demand led to an increase in the average loan book of 26% over the prior year period and strong margins, resulting in a 29% increase in income to £67.1 million (2010: £51.9 million). In the six month period, asset finance increased its loan book by 9% following investment in its sales capacity, benefiting from a favourable operating environment. Despite the ongoing impact of the economic environment on its small and medium enterprise borrowers, invoice finance increased its loan book by 3%.

The Property loan book increased 4% to £571.0 million (31 July 2010: £547.8 million) driven by shorter term bridging loans. The benign competitive environment has enabled the business

to continue to lend selectively and improve the quality of its loan book whilst maintaining its disciplined lending criteria. Income increased 23% to £21.1 million (2010: £17.1 million) as the average loan book increased 14% over the year.

The division's operating margin improved to 31% (2010: 28%) principally reflecting the strong growth in income. Improved profitability also led to an increase in return on opening equity to 20% (2010: 18%), in line with the ten year average, and the return on net loan book has improved to 3.2% (2010: 3.0%).

## Banking Key Financial Ratios

	First half 2011	First half 2010
Operating margin	<b>31%</b>	28%
Expense/income ratio	<b>46%</b>	48%
Compensation ratio	<b>27%</b>	27%
Return on opening equity	<b>20%</b>	18%
Return on net loan book <sup>1</sup>	<b>3.2%</b>	3.0%

<sup>1</sup>Banking division adjusted operating profit before tax on average net loans and advances to customers.

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

# Securities

12

- Adjusted operating profit down 9% from very strong prior year period
- Winterflood average bargains per trading day up 7% to over 48,000
- Seydler adjusted operating profit improved to £4.9 million
- Associate income from Mako reduced to £1.2 million

## Key Figures

	First half 2011 £ million	First half 2010 £ million	Change %
Adjusted operating income	<b>86.7</b>	89.6	(3)
Adjusted operating expenses	<b>(55.6)</b>	(55.6)	–
<b>Adjusted operating profit</b>	<b>31.1</b>	34.0	(9)
Winterflood	<b>25.0</b>	27.6	(9)
Seydler	<b>4.9</b>	3.0	63
Mako (associate income after tax)	<b>1.2</b>	3.4	(65)

The Securities division had a good overall performance, although adjusted operating income decreased 3% to £86.7 million (2010: £89.6 million) compared to a very strong prior year period. Winterflood had a good performance reflecting strong retail activity, whilst an improved performance from Seydler was offset by a lower contribution from Mako. Total adjusted operating profit for the division decreased 9% to £31.1 million (2010: £34.0 million) and as a result return on opening equity reduced marginally to 45% (2010: 46%). The operating margin and expense/income ratio remained unchanged at 35% (2010: 35%) and 65% (2010: 65%) respectively. The compensation ratio reduced 2% to 44% (2010: 46%).

Winterflood adjusted operating income was £69.1 million (2010: £73.0 million), a 5% decrease on a very strong prior year period. Retail investor activity was

strong, particularly in the second quarter of the financial year, with good flows in AIM listed stocks. Overall, average bargains per trading day increased 7% to 48,401 (2010: 45,262), the highest in any financial half year period to date. The total number of bargains traded in the period was 6.1 million (2010: 5.7 million), up 7%, although income per bargain decreased 12% to £11.24 (2010: £12.80) against the very strong prior year period.

Winterflood continued to demonstrate consistent trading performance with no loss days (2010: two loss days) out of a total 127 (2010: 126) trading days.

Adjusted operating expenses decreased 3% to £44.1 million (2010: £45.4 million) reflecting lower variable costs as adjusted operating income reduced. As a result, adjusted operating profit decreased 9% to £25.0 million (2010: £27.6 million).

Seydler performed well as the business's strong corporate relationships enabled it to take advantage of good levels of activity in the German mid-cap capital markets. Adjusted operating profit increased 63% to £4.9 million (2010: £3.0 million) and increased 73% on a constant currency basis. Adjusted operating income improved 24% to £16.4 million (2010: £13.2 million) whilst adjusted operating expenses were up 13% to £11.5 million (2010: £10.2 million) reflecting the increased levels of activity.

The group's 49.9% investment in Mako generated £1.2 million (2010: £3.4 million) of after tax associate income. This reflects difficult trading conditions due to low volatility and reduced volumes across both fixed income and equities in the institutional markets in which Mako operates. However, Mako's investment management business has continued to perform well and funds under management of Pelagus Capital, its fixed income relative-value fund, increased 24% to \$948 million (31 July 2010: \$766 million).

### Key Winterflood Figures

	First half 2011 £ million	First half 2010 £ million	Change %
Adjusted operating income	<b>69.1</b>	73.0	(5)
Adjusted operating expenses	<b>(44.1)</b>	(45.4)	(3)
<b>Adjusted operating profit</b>	<b>25.0</b>	27.6	(9)
Number of bargains (million)	<b>6.1</b>	5.7	7
Average bargains per trading day	<b>48,401</b>	45,262	7
Income per bargain	<b>£11.24</b>	£12.80	(12)

### Key Seydler Figures

	First half 2011 £ million	First half 2010 £ million	Change %
Adjusted operating income	<b>16.4</b>	13.2	24
Adjusted operating expenses	<b>(11.5)</b>	(10.2)	13
<b>Adjusted operating profit</b>	<b>4.9</b>	3.0	63

### Key Mako Figures

	First half 2011 £ million	First half 2010 £ million	Change %
Adjusted operating profit <sup>1</sup>	<b>1.7</b>	4.9	(65)
Tax on adjusted operating profit <sup>1</sup>	<b>(0.5)</b>	(1.5)	(67)
<b>Profit after tax<sup>1</sup></b>	<b>1.2</b>	3.4	(65)

<sup>1</sup>Close Brothers share of result.

### Securities Key Financial Ratios

	First half 2011	First half 2010
Operating margin	<b>35%</b>	35%
Expense/income ratio	<b>65%</b>	65%
Compensation ratio	<b>44%</b>	46%
Return on opening equity	<b>45%</b>	46%

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

# Asset Management

14

- Closing Funds under Management up 20% to £8.3 billion since 31 July 2010
- 13% increase in adjusted operating income
- Investment in growth initiatives negatively impacted profitability

## Key Figures (Continuing Operations)<sup>1</sup>

	First half 2011 £ million	First half 2010 £ million	Change %
Adjusted operating income	<b>34.8</b>	30.8	13
Management fees on FuM	<b>27.0</b>	23.2	16
Income on Assets under Administration and deposits	<b>5.3</b>	5.5	(4)
Other income <sup>2</sup>	<b>2.5</b>	2.1	19
Adjusted operating expenses	<b>(38.8)</b>	(28.6)	36
<b>Adjusted operating (loss)/profit</b>	<b>(4.0)</b>	2.2	
Management fees/average FuM (bps)	<b>71</b>	70	1
Closing FuM <sup>3</sup>	<b>8,317</b>	6,832	22

<sup>1</sup>Excludes the trading result for the UK offshore business, the sale of which was announced on 10 March 2011 and which is classified as a discontinued operation under IFRS 5.

<sup>2</sup>Includes performance fees, income on investment assets and other income.

<sup>3</sup>First half 2011 excludes £457 million (first half 2010: £457 million) of UK offshore FuM and includes the Property funds business with £554 million FuM, the sale of which was announced in October 2010 and completed post the period end.

The figures presented above are on a continuing operations basis and exclude the division's UK offshore trust, fund administration, asset management and banking business, the sale of which was announced on 10 March 2011 and is expected to complete by the end of the current financial year. This business includes trust and fund administration, investment management, custody and execution and banking services and has operations in Guernsey, Jersey, Isle of Man and South Africa. The group is also evaluating alternatives with regards to its trust, fiduciary services, fund administration and banking business in the Cayman Islands, which is included in continuing operations in the six months to 31 January 2011.

The Asset Management division is in the process of implementing its wealth and asset management strategy focused on

affluent and high net worth individuals and selected institutional clients. The division has made good progress on organic growth initiatives and acquisitions, and in the period total Funds under Management ("FuM") excluding £457 million (31 July 2010: £474 million) FuM related to the UK offshore business, increased 20% to £8.3 billion (31 July 2010: £7.0 billion) including market movements. This resulted in a 13% increase in adjusted operating income from continuing operations, although the division's ongoing investment led to a small adjusted operating loss from continuing operations of £4.0 million (2010: profit of £2.2 million).

Adjusted operating income from continuing operations increased 13% to £34.8 million (2010: £30.8 million). This primarily reflects higher management

## Funds under Management

	Private Clients £ million	Institutional £ million	Total £ million
At 1 August 2010 <sup>1</sup>	3,397	3,557	6,954
New funds raised	300	203	503
Redemptions, realisations and withdrawals	(128)	(248)	(376)
Net new funds	172	(45)	127
Acquisitions	705	–	705
Market movement	271	260	531
<b>At 31 January 2011<sup>2</sup></b>	<b>4,545</b>	<b>3,772</b>	<b>8,317</b>
Change	34%	6%	20%

<sup>1</sup>Excludes £474 million of UK offshore FuM previously reported in Private Clients.

<sup>2</sup>Excludes £457 million of UK offshore FuM and includes the Property funds business with £554 million FuM, the sale of which was announced in October 2010 and completed post the period end.



## Asset Management Key Financial Ratios

	First half 2011	First half 2010
Operating margin	<b>(11)%</b>	7%
Expense/income ratio	<b>111%</b>	93%
Compensation ratio	<b>64%</b>	59%
Return on opening equity	<b>(5)%</b>	3%
Net new funds/opening FuM	<b>2%</b>	0%

Note: All KFRs exclude associate income, exceptional items, impairment losses on goodwill and amortisation of intangible assets on acquisition and are in respect of continuing operations.

fees on FuM which increased by 16% to £27.0 million (2010: £23.2 million) as a result of a 15% increase in average FuM to £7.6 billion (2010: £6.6 billion) combined with broadly stable management fees/average FuM of 71 bps.

Income on Assets under Administration and deposits, which following the sale of the UK offshore business principally relates to the group's operations in the Cayman Islands, decreased by 4% to £5.3 million (2010: £5.5 million). Other income was £2.5 million (2010: £2.1 million) as the division realised modest gains from its residual private equity investments.

Adjusted operating expenses from continuing operations increased £10.2 million to £38.8 million (2010: £28.6 million). This reflects costs to support the transformation of the business including a higher level of staff, enhanced infrastructure, acquisitions and approximately £5 million of non-recurring investment relating to the development of the division's wealth and asset management proposition. Following £6 million in the 2010 financial year, the division is broadly on track to invest £10 million during the 2011 financial year as planned, and

£18 million to £20 million in total over the project, as previously announced.

FuM increased 20% over the six months to 31 January 2011 to £8,317 million (31 July 2010: £6,954 million) reflecting £127 million of net new funds (2% of opening FuM), £531 million of positive market movements (8% of opening FuM) and the addition of £705 million of client assets through the acquisition of Chartwell, an IFA business based in Bristol.

In Private Clients, FuM increased 34% to £4,545 million (31 July 2010: £3,397 million) and contributed 55% of the division's total FuM at 31 January 2011. In addition to the acquisition, the business benefited from a £271 million market movement (8% of opening FuM) and net new funds of £172 million (5% of opening FuM) driven by good new business levels from high net worth clients.

Institutional experienced modest net outflows of £45 million (1% of opening FuM) although this was more than offset by a £260 million positive market movement (7% of opening FuM) resulting in a 6% increase in FuM to £3,772 million (31 July 2010: £3,557 million).

Since the period end, the division has acquired Allenbridge Group plc, a London-based execution only retail broker with around £440 million of client assets, for a consideration of £5.6 million. The division also completed the previously announced sale of its property fund management business, with £554 million of FuM at the time of disposal, to a specialist property fund manager.

The aim of the division's investment management process is to deliver consistent long-term growth and risk adjusted returns, whilst managing downside volatility. In the last six months of rising markets, the division's portfolios underperformed a 100% equity mandate, given its multi-asset class approach. Market movements increased FuM in Private Clients by 8% in line with the increase of 8% in the APCIMS Balanced Portfolio Index but below the 12% gain in the FTSE 100. Performance for the Institutional business was also positive, rising 7% driven by strong returns from the multi-manager, hedge fund advisory and specialist UK small cap businesses.

# Principal Risks and Uncertainties

16

Effective management and monitoring of risk is central to the group's core strategic objectives. To further enhance the group's risk management process and to ensure sufficient time for the board's oversight of risk, the group established a board Risk Committee in December 2010.

The principal risks and uncertainties faced by the group are consistent with those set out on pages 22 to 26 of the Annual Report 2010. The Annual Report 2010 also sets out the group's approach to the management and mitigation of those

risks and uncertainties. The Annual Report 2010 can be accessed via the link on the home page of the group's website at [www.closebrothers.co.uk](http://www.closebrothers.co.uk).

A summary of the key risks and uncertainties which may affect the group in the second half of the financial year is shown below. This should not be regarded as a comprehensive statement of all potential risks and uncertainties that the group may face.

Key risk and uncertainty	Description
<b>Economy and competitive environment</b>	Demand for the group's products and services are sensitive to global economic conditions and those within the UK in particular. Underlying economic conditions also impact the levels of competition the group's businesses face and their ability to trade profitably.
<b>Funding</b>	The group requires access to funding in order to support its client lending in particular within the Banking division but also trading and growth initiatives within the Securities and Asset Management divisions.
<b>Liquidity</b>	The group requires sufficient liquid resources to ensure it is able to meet liabilities as they fall due.
<b>Counterparty risk</b>	The failure or default of one or more financial institutions could materially impact the financial position of the group.
<b>Credit risk</b>	The risk of default or untimely payment of amounts due by customers leading to the write off or write down of assets.
<b>Regulation, tax and legislation</b>	The group operates in a highly regulated environment. Changes in regulation or the basis of taxation, particularly in the UK, could materially impact the group's performance.
<b>Operational risk</b>	The risk of loss or other material adverse impact resulting from inadequate or failed internal processes, people or systems, or from external events.
<b>Market risk</b>	The group's activities are exposed to losses arising from equity or fixed income price movements and changes to foreign exchange and interest rates.

# 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 2011 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 2011 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

**P.S.S. Macpherson**  
Chairman

**P. Prebensen**  
Chief Executive

15 March 2011

# Independent Review Report

18

## 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 2011 for the six months ended 31 January 2011 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 19. We have read the other information contained in the Interim Report 2011 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 "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 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 2011 is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Report 2011 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 financial statements included in this Interim Report 2011 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 financial statements in the Interim Report 2011 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 2011 for the six months ended 31 January 2011 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 Auditors  
London, United Kingdom

15 March 2011

# Consolidated Income Statement

## for the six months ended 31 January 2011

	Note	Six months ended 31 January		Year ended 31 July
		2011 Unaudited £ million	2010 Unaudited £ million	2010 Audited £ million
<b>Continuing operations</b>				
Interest income		<b>175.0</b>	153.0	307.9
Interest expense		<b>(62.8)</b>	(59.1)	(117.1)
Net interest income		<b>112.2</b>	93.9	190.8
Fee and commission income		<b>90.9</b>	73.1	159.7
Fee and commission expense		<b>(8.6)</b>	(10.4)	(17.4)
Gains less losses arising from dealing in securities		<b>74.3</b>	80.4	141.9
Share of profit of associates		<b>1.2</b>	3.4	5.7
Other income		<b>10.1</b>	8.7	25.2
Non-interest income		<b>167.9</b>	155.2	315.1
Operating income		<b>280.1</b>	249.1	505.9
Administrative expenses		<b>(177.5)</b>	(156.5)	(321.9)
Impairment losses on loans and advances	7	<b>(37.2)</b>	(30.6)	(63.4)
Total operating expenses before exceptional items, goodwill impairment and amortisation of intangible assets on acquisition		<b>(214.7)</b>	(187.1)	(385.3)
<b>Operating profit before exceptional items, goodwill impairment and amortisation of intangible assets on acquisition and tax</b>		<b>65.4</b>	62.0	120.6
Exceptional items	3	<b>(4.5)</b>	–	(15.0)
Impairment losses on goodwill	10	<b>(4.5)</b>	–	(0.3)
Amortisation of intangible assets on acquisition		<b>(0.6)</b>	(0.2)	(0.5)
<b>Operating profit before tax</b>		<b>55.8</b>	61.8	104.8
Tax	4	<b>(15.8)</b>	(15.9)	(32.8)
Profit after tax from continuing operations		<b>40.0</b>	45.9	72.0
(Loss)/profit for the period from discontinued operations, net of tax	11	<b>(24.9)</b>	0.4	(5.5)
Profit for the period		<b>15.1</b>	46.3	66.5
Profit attributable to non-controlling interests from continuing operations		<b>0.5</b>	0.2	0.6
Profit attributable to the shareholders of the company		<b>14.6</b>	46.1	65.9
From continuing operations				
<b>Basic earnings per share</b>	5	<b>27.4p</b>	31.9p	49.8p
Diluted earnings per share	5	<b>26.7p</b>	31.5p	49.0p
From continuing and discontinued operations				
<b>Basic earnings per share</b>	5	<b>10.1p</b>	32.2p	46.0p
Diluted earnings per share	5	<b>9.9p</b>	31.7p	45.2p
<b>Ordinary dividend per share</b>	6	<b>13.5p</b>	13.5p	39.0p

# Consolidated Statement of Comprehensive Income

for the six months ended 31 January 2011

20

	Six months ended 31 January		Year ended 31 July 2010
	<b>2011 Unaudited £ million</b>	Unaudited £ million	Audited £ million
Profit for the period	<b>15.1</b>	46.3	66.5
Other comprehensive income:			
Currency translation (losses)/gains	<b>(1.9)</b>	3.6	5.1
Gains on cash flow hedges	<b>2.9</b>	4.6	6.1
Other gains/(losses)	<b>0.5</b>	–	(4.4)
(Losses)/gains on financial instruments classified as available for sale:			
Gilts and government guaranteed debt	<b>(1.4)</b>	0.1	(0.2)
Floating rate notes	<b>(3.0)</b>	17.9	19.0
Equity shares	<b>1.2</b>	(0.7)	(2.8)
Transfer to income statement on impairment of available for sale equity shares	<b>–</b>	–	15.0
	<b>(1.7)</b>	25.5	37.8
<b>Total comprehensive income</b>	<b>13.4</b>	71.8	104.3
Attributable to:			
Non-controlling interests	<b>0.5</b>	0.2	0.6
Shareholders	<b>12.9</b>	71.6	103.7

# Consolidated Balance Sheet

## at 31 January 2011

	Note	31 January		31 July
		2011 Unaudited £ million	2010 Unaudited £ million	2010 Audited £ million
<b>Assets</b>				
Cash and balances at central banks		672.0	198.6	452.7
Settlement balances		713.5	596.2	541.7
Loans and advances to banks		194.0	247.2	158.5
Loans and advances to customers	7	3,169.6	2,577.7	2,912.6
Debt securities	8	954.1	1,722.2	1,636.2
Equity shares	9	68.8	72.2	59.9
Loans to money brokers against stock advanced		110.4	84.5	86.0
Derivative financial instruments		10.6	24.7	23.0
Interests in associates		72.2	77.8	73.7
Intangible assets	10	111.1	112.2	107.5
Property, plant and equipment		47.6	42.4	46.2
Deferred tax assets		31.5	25.8	32.8
Prepayments, accrued income and other assets		142.4	126.6	128.8
Assets classified as held for sale	11	190.3	–	–
<b>Total assets</b>		<b>6,488.1</b>	5,908.1	6,259.6
<b>Liabilities</b>				
Settlement balances and short positions	12	682.5	584.6	565.1
Deposits by banks	13	24.3	39.7	48.1
Deposits by customers	13	2,657.4	2,892.4	3,115.5
Loans and overdrafts from banks	13	827.0	1,193.5	1,178.4
Debt securities in issue	13	219.4	21.7	218.6
Loans from money brokers against stock advanced		131.8	87.0	32.7
Derivative financial instruments		9.2	13.5	20.5
Non-recourse borrowings	13	350.0	–	–
Accruals, deferred income and other liabilities		210.1	265.3	251.3
Subordinated loan capital		75.0	75.0	75.0
Liabilities classified as held for sale	11	562.4	–	–
<b>Total liabilities</b>		<b>5,749.1</b>	5,172.7	5,505.2
<b>Equity</b>				
Called up share capital		37.4	37.4	37.4
Share premium account		276.1	275.7	275.9
Profit and loss account		435.8	457.5	457.3
Other reserves		(13.1)	(37.5)	(18.7)
<b>Total shareholders' equity</b>		<b>736.2</b>	733.1	751.9
<b>Non-controlling interests in equity</b>		<b>2.8</b>	2.3	2.5
<b>Total equity</b>		<b>739.0</b>	735.4	754.4
<b>Total liabilities and equity</b>		<b>6,488.1</b>	5,908.1	6,259.6

# Consolidated Statement of Changes in Equity

## for the six months ended 31 January 2011

22

	Called up share capital £ million	Share premium account £ million	Profit and loss account £ 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 2009	37.4	274.5	445.7	(35.7)	(37.4)	18.6	(9.7)	693.4	4.3	697.7
Profit for the period	–	–	46.1	–	–	–	–	46.1	0.2	46.3
Other recognised income for the period	–	–	–	17.3	–	3.6	4.6	25.5	–	25.5
Total recognised income for the period	–	–	46.1	17.3	–	3.6	4.6	71.6	0.2	71.8
Exercise of options	–	1.2	–	–	–	–	–	1.2	–	1.2
Dividends paid	–	–	(36.3)	–	–	–	–	(36.3)	–	(36.3)
Shares purchased	–	–	–	–	–	–	–	–	–	–
Shares released	–	–	–	–	6.8	–	–	6.8	–	6.8
Other movements	–	–	2.0	–	(5.6)	–	–	(3.6)	(2.2)	(5.8)
At 31 January 2010 (unaudited)	37.4	275.7	457.5	(18.4)	(36.2)	22.2	(5.1)	733.1	2.3	735.4
Profit for the period	–	–	19.8	–	–	–	–	19.8	0.4	20.2
Other recognised (expense)/income for the period	–	–	(4.4)	13.7	–	1.5	1.5	12.3	–	12.3
Total recognised income for the period	–	–	15.4	13.7	–	1.5	1.5	32.1	0.4	32.5
Exercise of options	–	0.2	–	–	–	–	–	0.2	–	0.2
Dividends paid	–	–	(19.2)	–	–	–	–	(19.2)	–	(19.2)
Shares purchased	–	–	–	–	(2.3)	–	–	(2.3)	–	(2.3)
Shares released	–	–	–	–	2.7	–	–	2.7	–	2.7
Other movements	–	–	3.6	–	1.7	–	–	5.3	(0.2)	5.1
At 31 July 2010 (audited)	37.4	275.9	457.3	(4.7)	(34.1)	23.7	(3.6)	751.9	2.5	754.4
Profit for the period	–	–	14.6	–	–	–	–	14.6	0.5	15.1
Other recognised income/(expense) for the period	–	–	0.5	(3.2)	–	(1.9)	2.9	(1.7)	–	(1.7)
Total recognised income/(expense) for the period	–	–	15.1	(3.2)	–	(1.9)	2.9	12.9	0.5	13.4
Exercise of options	–	0.2	–	–	–	–	–	0.2	–	0.2
Dividends paid	–	–	(36.4)	–	–	–	–	(36.4)	–	(36.4)
Shares purchased	–	–	–	–	(0.3)	–	–	(0.3)	–	(0.3)
Shares released	–	–	–	–	5.0	–	–	5.0	–	5.0
Other movements	–	–	(0.2)	–	3.1	–	–	2.9	(0.2)	2.7
<b>At 31 January 2011 (unaudited)</b>	<b>37.4</b>	<b>276.1</b>	<b>435.8</b>	<b>(7.9)</b>	<b>(26.3)</b>	<b>21.8</b>	<b>(0.7)</b>	<b>736.2</b>	<b>2.8</b>	<b>739.0</b>



# Consolidated Cash Flow Statement

for the six months ended 31 January 2011

23

	Note	Six months ended 31 January		Year ended 31 July
		2011 Unaudited £ million	2010 Unaudited £ million	2010 Audited £ million
Net cash outflow from operating activities	19(a)	<b>(60.1)</b>	(222.1)	(135.1)
Net cash outflow from investing activities:				
Dividends received from associates		–	–	8.2
Purchase of:				
Assets let under operating leases		<b>(7.6)</b>	(4.5)	(12.6)
Property, plant and equipment		<b>(3.8)</b>	(3.1)	(8.5)
Intangible assets		<b>(3.8)</b>	(1.0)	(4.7)
Equity shares held for investment		<b>(0.5)</b>	(0.2)	(0.2)
Own shares for employee share award schemes		<b>(0.3)</b>	–	(2.3)
Non-controlling interests		–	(2.0)	(4.0)
Loan book		–	(97.8)	(97.8)
Subsidiaries and associates	19(b)	<b>(16.0)</b>	(0.5)	(0.4)
Sale of:				
Property, plant and equipment		<b>0.1</b>	–	2.2
Equity shares held for investment		<b>9.0</b>	0.2	3.3
		<b>(22.9)</b>	(108.9)	(116.8)
Net cash outflow before financing		<b>(83.0)</b>	(331.0)	(251.9)
Financing activities:				
Issue of ordinary share capital	19(c)	<b>0.2</b>	1.2	1.4
Equity dividends paid		<b>(36.4)</b>	(36.3)	(55.5)
Dividends paid to non-controlling interests		<b>(0.1)</b>	(0.3)	(0.7)
Interest paid on subordinated loan capital		<b>(2.8)</b>	(2.8)	(5.6)
Debt securities issued		–	–	197.2
Net decrease in cash		<b>(122.1)</b>	(369.2)	(115.1)
Cash and cash equivalents at beginning of period		<b>1,283.2</b>	1,398.3	1,398.3
Cash and cash equivalents at end of period	19(d)	<b>1,161.1</b>	1,029.1	1,283.2

# The Notes

24

## 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 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 56 to 61 of the Annual Report 2010. The following standards and amendments were also effective for the current period, but the adoption of these did not have a material impact on these condensed consolidated interim financial statements.

- IFRS 2 “Share-based Payments” – Amendments relating to group cash-settled share-based payment transactions and vesting conditions;
- IAS 32 “Financial Instruments: Presentation” – Amendments relating to classification of rights issues;
- IFRS Interpretations Committee (“IFRIC”) 19 “Extinguishing Financial Liabilities with Equity Instruments”; and
- IFRS Annual Improvements 2009.

The following standards, amendments and interpretations have been issued by the IASB and IFRIC, with an effective date, subject to EU endorsement in some cases, that do not impact on these financial statements:

- IFRS 9 “Financial Instruments” – Effective for annual periods beginning on or after 1 January 2013;
- IFRS 7 “Disclosures – Transfers of Financial Assets” – Effective for annual periods beginning on or after 1 July 2011;
- IAS 24 “Related Party Disclosures” – Effective for annual periods beginning on or after 1 January 2011;
- IFRIC 14 “Prepayments of a Minimum Funding Requirement” – Effective for annual periods beginning on or after 1 January 2011; and
- IFRS Annual Improvements 2010 – Most of the amendments are effective for annual periods beginning on or after 1 January 2011.

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 twelve months from the date of this report. For this reason, they continue to adopt the going concern basis in preparing the condensed 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 auditors, Deloitte LLP, and their report appears on page 18.

The financial information for the year ended 31 July 2010 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 auditors 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 namely 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 having regard to commercial demands. Substantially all of the group's activities and revenue are located within the British Isles.

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Continuing operations £ million	Discontinued operations £ million	Total £ million
<b>Summary Income Statement for the six months ended 31 January 2011</b>							
Net interest income/(expense)	112.2	(0.4)	0.3	0.1	112.2	3.0	115.2
Other income/(expense)	46.5	87.1	34.5	(0.2)	167.9	11.1	179.0
Operating income/(expense) before exceptional items	158.7	86.7	34.8	(0.1)	280.1	14.1	294.2
Administrative expenses	(67.0)	(54.6)	(38.6)	(9.8)	(170.0)	(13.6)	(183.6)
Depreciation and amortisation	(5.9)	(1.0)	(0.2)	(0.4)	(7.5)	(0.6)	(8.1)
Impairment losses on loans and advances	(37.2)	-	-	-	(37.2)	-	(37.2)
Total operating expenses before exceptionals	(110.1)	(55.6)	(38.8)	(10.2)	(214.7)	(14.2)	(228.9)
<b>Adjusted operating profit/(loss)<sup>1</sup></b>	<b>48.6</b>	<b>31.1</b>	<b>(4.0)</b>	<b>(10.3)</b>	<b>65.4</b>	<b>(0.1)</b>	<b>65.3</b>
Exceptional items	-	-	(4.5)	-	(4.5)	-	(4.5)
Impairment losses on goodwill	-	-	(4.5)	-	(4.5)	(11.2)	(15.7)
Amortisation of intangible assets on acquisition	(0.2)	-	(0.4)	-	(0.6)	-	(0.6)
Loss on remeasurement to fair value less costs to sell	-	-	-	-	-	(13.5)	(13.5)
<b>Operating profit/(loss) before tax</b>	<b>48.4</b>	<b>31.1</b>	<b>(13.4)</b>	<b>(10.3)</b>	<b>55.8</b>	<b>(24.8)</b>	<b>31.0</b>
Tax	(13.1)	(8.6)	2.0	3.9	(15.8)	(0.1)	(15.9)
Non-controlling interests	(0.2)	-	(0.3)	-	(0.5)	-	(0.5)
Profit/(loss) after tax and non-controlling interests	35.1	22.5	(11.7)	(6.4)	39.5	(24.9)	14.6

<sup>1</sup>Adjusted operating profit/(loss) is stated before exceptional items, goodwill impairment, amortisation of intangible assets on acquisition, loss on remeasurement to fair value less costs to sell and tax.

For the six months ended 31 January 2011, the operating income before exceptional items and the operating profit before tax of the Securities division included £1.2 million relating to its share of profit of associates.

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

	Six months ended 31 January		Year ended 31 July 2010
	2011 £ million	2010 £ million	£ million
<b>Banking</b>			
Net interest and fees on loan book:			
Retail	63.2	50.4	104.9
Commercial	67.1	51.9	114.2
Property	21.1	17.1	36.5
Treasury and other non-lending income	7.3	8.9	16.4
<b>Securities</b>			
Market-making and related activities	86.7	89.6	162.2
<b>Asset Management</b>			
Management fees on FuM	27.0	23.2	47.8
Income on Assets under Administration and deposits	5.3	5.5	11.3
Other income	2.5	2.1	12.1
<b>Group</b>	<b>(0.1)</b>	0.4	0.5
<b>Operating income before exceptional items (continuing operations)</b>	<b>280.1</b>	249.1	505.9
Discontinued operations	14.1	12.7	25.8
<b>Operating income before exceptional items</b>	<b>294.2</b>	261.8	531.7

## The Notes

26

2. Segmental analysis *continued*

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
<b>Summary Balance Sheet at 31 January 2011</b>					
<b>Assets</b>					
Cash and loans and advances to banks	773.7	26.8	65.3	0.2	866.0
Settlement balances, long trading positions and loans to money brokers <sup>1</sup>	–	915.6	–	–	915.6
Loans and advances to customers	3,169.6	–	–	–	3,169.6
Non trading debt securities	901.7	2.1	–	–	903.8
Interest in associates	–	71.9	0.3	–	72.2
Intangible assets	29.6	29.1	52.3	0.1	111.1
Other assets	180.3	17.6	38.8	22.8	259.5
Intercompany balances	(473.7)	(27.7)	490.5	10.9	–
Assets classified as held for sale	–	–	190.3	–	190.3
<b>Total assets</b>	<b>4,581.2</b>	<b>1,035.4</b>	<b>837.5</b>	<b>34.0</b>	<b>6,488.1</b>
<b>Liabilities</b>					
Settlement balances, short trading positions and loans from money brokers	–	814.3	–	–	814.3
Deposits by banks	18.2	–	6.1	–	24.3
Deposits by customers	2,543.4	1.3	112.7	–	2,657.4
Borrowings	1,093.7	4.7	–	373.0	1,471.4
Other liabilities	120.9	48.9	36.9	12.6	219.3
Intercompany balances	415.4	72.1	32.0	(519.5)	–
Liabilities classified as held for sale	–	–	562.4	–	562.4
<b>Total liabilities</b>	<b>4,191.6</b>	<b>941.3</b>	<b>750.1</b>	<b>(133.9)</b>	<b>5,749.1</b>
<b>Equity</b>	<b>389.6</b>	<b>94.1</b>	<b>87.4</b>	<b>167.9</b>	<b>739.0</b>
<b>Total liabilities and equity</b>	<b>4,581.2</b>	<b>1,035.4</b>	<b>837.5</b>	<b>34.0</b>	<b>6,488.1</b>

<sup>1</sup>£50.3 million of long trading positions in debt securities have been included with other trading balances in "Settlement balances, long trading positions and loans to money brokers" for the purpose of this summary balance sheet. These balances are included within "Debt securities" on the consolidated balance sheet.

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Continuing operations £ million	Discontinued operations £ million	Total £ million
Summary Income Statement for the six months ended 31 January 2010							
Net interest income/(expense)	92.7	(0.2)	1.3	0.1	93.9	2.2	96.1
Other income	35.6	89.8	29.5	0.3	155.2	10.5	165.7
Operating income before exceptional items	128.3	89.6	30.8	0.4	249.1	12.7	261.8
Administrative expenses	(56.1)	(54.6)	(28.2)	(10.8)	(149.7)	(11.7)	(161.4)
Depreciation and amortisation	(5.1)	(1.0)	(0.4)	(0.3)	(6.8)	(0.5)	(7.3)
Impairment losses on loans and advances	(30.6)	–	–	–	(30.6)	–	(30.6)
Total operating expenses before exceptionals	(91.8)	(55.6)	(28.6)	(11.1)	(187.1)	(12.2)	(199.3)
<b>Adjusted operating profit/(loss)<sup>1</sup></b>	36.5	34.0	2.2	(10.7)	62.0	0.5	62.5
Exceptional items	–	–	–	–	–	–	–
Impairment losses on goodwill	–	–	–	–	–	–	–
Amortisation of intangible assets on acquisition	(0.2)	–	–	–	(0.2)	–	(0.2)
Loss on remeasurement to fair value less costs to sell	–	–	–	–	–	–	–
<b>Operating profit/(loss) before tax</b>	36.3	34.0	2.2	(10.7)	61.8	0.5	62.3
Tax	(10.2)	(8.2)	(0.4)	2.9	(15.9)	(0.1)	(16.0)
Non-controlling interests	–	–	(0.2)	–	(0.2)	–	(0.2)
Profit/(loss) after tax and non-controlling interests	26.1	25.8	1.6	(7.8)	45.7	0.4	46.1

<sup>1</sup>Adjusted operating profit/(loss) is stated before exceptional items, goodwill impairment, amortisation of intangible assets on acquisition, loss on remeasurement to fair value less costs to sell and tax.

For the six months ended 31 January 2010, the operating income before exceptional items and the operating profit before tax of the Securities division included £3.4 million relating to its share of profit of associates.

## The Notes

28

2. Segmental analysis *continued*

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Summary Balance Sheet at 31 January 2010					
<b>Assets</b>					
Cash and loans and advances to banks	230.0	17.6	197.5	0.7	445.8
Settlement balances, long trading positions and loans to money brokers <sup>1</sup>	–	782.0	–	–	782.0
Loans and advances to customers	2,562.9	–	14.8	–	2,577.7
Non trading debt securities	1,507.6	4.4	143.3	–	1,655.3
Interests in associates <sup>2</sup>	–	77.5	0.3	–	77.8
Intangible assets	28.3	29.1	54.7	0.1	112.2
Other assets	151.0	17.8	56.4	32.1	257.3
Intercompany balances	(395.8)	(27.7)	424.3	(0.8)	–
Assets classified as held for sale	–	–	–	–	–
<b>Total assets</b>	<b>4,084.0</b>	<b>900.7</b>	<b>891.3</b>	<b>32.1</b>	<b>5,908.1</b>
<b>Liabilities</b>					
Settlement balances, short trading positions and loans from money brokers	–	671.6	–	–	671.6
Deposits by banks	25.5	–	14.2	–	39.7
Deposits by customers	2,221.5	1.0	669.9	–	2,892.4
Borrowings	1,279.9	4.4	5.9	–	1,290.2
Other liabilities	169.8	50.2	44.3	14.5	278.8
Intercompany balances	59.1	77.8	18.2	(155.1)	–
Liabilities classified as held for sale	–	–	–	–	–
<b>Total liabilities</b>	<b>3,755.8</b>	<b>805.0</b>	<b>752.5</b>	<b>(140.6)</b>	<b>5,172.7</b>
<b>Equity</b>	<b>328.2</b>	<b>95.7</b>	<b>138.8</b>	<b>172.7</b>	<b>735.4</b>
<b>Total liabilities and equity</b>	<b>4,084.0</b>	<b>900.7</b>	<b>891.3</b>	<b>32.1</b>	<b>5,908.1</b>

<sup>1</sup>£66.9 million of long trading positions in debt securities have been included with other trading balances in "Settlement balances, long trading positions and loans to money brokers" for the purpose of this summary balance sheet. These balances are included within "Debt securities" on the consolidated balance sheet.

<sup>2</sup>Previously the interest in the group associate Mako had been presented in "Group" for the purposes of the segmental balance sheet. This has been reclassified to "Securities" in line with changes in internal management reporting.

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Continuing operations £ million	Discontinued operations £ million	Total £ million
Summary Income Statement for the year ended 31 July 2010							
Net interest income/(expense)	188.5	(0.4)	2.4	0.3	190.8	4.7	195.5
Other income	83.5	162.6	68.8	0.2	315.1	21.1	336.2
Operating income before exceptional items	272.0	162.2	71.2	0.5	505.9	25.8	531.7
Administrative expenses	(118.3)	(100.9)	(67.9)	(20.6)	(307.7)	(24.0)	(331.7)
Depreciation and amortisation	(10.8)	(2.0)	(0.7)	(0.7)	(14.2)	(1.1)	(15.3)
Impairment losses on loans and advances	(63.4)	–	–	–	(63.4)	–	(63.4)
Total operating expenses before exceptionals	(192.5)	(102.9)	(68.6)	(21.3)	(385.3)	(25.1)	(410.4)
<b>Adjusted operating profit/(loss)<sup>1</sup></b>	79.5	59.3	2.6	(20.8)	120.6	0.7	121.3
Exceptional items	–	–	–	(15.0)	(15.0)	–	(15.0)
Impairment losses on goodwill	–	–	(0.3)	–	(0.3)	(6.2)	(6.5)
Amortisation of intangible assets on acquisition	(0.5)	–	–	–	(0.5)	–	(0.5)
Loss on remeasurement to fair value less costs to sell	–	–	–	–	–	–	–
<b>Operating profit/(loss) before tax</b>	79.0	59.3	2.3	(35.8)	104.8	(5.5)	99.3
Tax	(22.5)	(16.0)	(0.5)	6.2	(32.8)	–	(32.8)
Non-controlling interests	(0.3)	–	(0.3)	–	(0.6)	–	(0.6)
Profit/(loss) after tax and non-controlling interests	56.2	43.3	1.5	(29.6)	71.4	(5.5)	65.9

<sup>1</sup>Adjusted operating profit/(loss) is stated before exceptional items, goodwill impairment, amortisation of intangible assets on acquisition, loss on remeasurement to fair value less costs to sell and tax.

For the year ended 31 July 2010, the operating income before exceptional items and the operating profit before tax of the Securities division included £5.7 million relating to its share of profit of associates.

## The Notes

30

2. Segmental analysis *continued*

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Summary Balance Sheet at 31 July 2010					
<b>Assets</b>					
Cash and loans and advances to banks	493.5	26.8	90.4	0.5	611.2
Settlement balances, long trading positions and loans to money brokers <sup>1</sup>	–	713.3	–	–	713.3
Loans and advances to customers	2,898.0	–	14.6	–	2,912.6
Non trading debt securities	1,448.1	2.0	132.0	–	1,582.1
Interests in associates	–	73.4	0.3	–	73.7
Intangible assets	29.6	28.7	49.0	0.2	107.5
Other assets	168.3	15.5	52.9	22.5	259.2
Intercompany balances	(475.7)	(27.5)	515.9	(12.7)	–
Assets classified as held for sale	–	–	–	–	–
<b>Total assets</b>	<b>4,561.8</b>	<b>832.2</b>	<b>855.1</b>	<b>10.5</b>	<b>6,259.6</b>
<b>Liabilities</b>					
Settlement balances, short trading positions and loans from money brokers	–	597.8	–	–	597.8
Deposits by banks	37.8	–	10.3	–	48.1
Deposits by customers	2,469.1	1.2	645.2	–	3,115.5
Borrowings	1,167.8	4.9	1.5	297.8	1,472.0
Other liabilities	148.5	59.9	47.7	15.7	271.8
Intercompany balances	377.7	73.6	17.5	(468.8)	–
Liabilities classified as held for sale	–	–	–	–	–
<b>Total liabilities</b>	<b>4,200.9</b>	<b>737.4</b>	<b>722.2</b>	<b>(155.3)</b>	<b>5,505.2</b>
<b>Equity</b>	<b>360.9</b>	<b>94.8</b>	<b>132.9</b>	<b>165.8</b>	<b>754.4</b>
<b>Total liabilities and equity</b>	<b>4,561.8</b>	<b>832.2</b>	<b>855.1</b>	<b>10.5</b>	<b>6,259.6</b>

<sup>1</sup>£54.1 million of long trading positions in debt securities have been included with other trading balances in "Settlement balances, long trading positions and loans to money brokers" for the purpose of this summary balance sheet. These balances are included within "Debt securities" in the consolidated balance sheet.

## 3. Exceptional items

	Six months ended 31 January		Year ended 31 July 2010
	2011 £ million	2010 £ million	£ million
Provision for onerous lease commitments	4.5	–	–
Impairment on investment assets	–	–	15.0
	<b>4.5</b>	<b>–</b>	<b>15.0</b>

The provision for onerous lease commitments relates to office space to be sublet in Guernsey and Jersey following the decision to dispose of the UK offshore business.



#### 4. Tax expense

	Six months ended 31 January		Year ended 31 July
	2011 £ million	2010 £ million	2010 £ million
<b>Tax recognised in the income statement</b>			
Current tax:			
UK corporation tax	<b>16.2</b>	10.2	29.9
Foreign tax	<b>1.6</b>	1.3	1.8
Adjustments in respect of previous periods	<b>–</b>	(0.3)	3.4
	<b>17.8</b>	11.2	35.1
Deferred tax:			
Deferred tax (credit)/expense for the current period	<b>(2.0)</b>	4.8	0.8
Adjustments in respect of previous periods	<b>–</b>	(0.1)	(3.1)
Tax charge	<b>15.8</b>	15.9	32.8
<b>Tax recognised in equity</b>			
Current tax relating to:			
Financial instruments classified as available for sale	<b>(1.7)</b>	7.1	7.4
Share-based transactions	<b>(0.3)</b>	–	(0.5)
Deferred tax relating to:			
Cash flow hedging	<b>1.1</b>	1.7	2.3
Financial instruments classified as available for sale	<b>0.3</b>	–	–
Share-based transactions	<b>(0.3)</b>	–	(0.2)
	<b>(0.9)</b>	8.8	9.0

The effective tax rate for the period is 28.3% (six months ended 31 January 2010: 25.7%; year ended 31 July 2010: 33.0%), 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 slightly above the UK corporation tax rate of 27.7% due to the non tax deductible impairment losses on goodwill, partly offset by the inclusion of the share of profit of associates in the consolidated income statement on an after tax basis.

# The Notes

32

## 5. Earnings per share

Earnings per share is presented on six bases. On a continuing operations basis the following are presented: basic; diluted; adjusted basic; and adjusted diluted. These measures exclude the effect of the UK offshore business which has been classified as a discontinued operation. On a continuing and discontinued operations basis the following are presented: basic and 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.

On a continuing operations basis the adjusted basic earnings per share excludes discontinued activities, exceptional items, impairment losses on goodwill, amortisation of intangible assets on acquisition and their tax effects to enable comparison of the underlying earnings of the business with prior periods. 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 2010
	2011	2010	
<b>Earnings per share</b>			
<b>Continuing operations</b>			
Basic	<b>27.4p</b>	31.9p	49.8p
Diluted	<b>26.7p</b>	31.5p	49.0p
Adjusted basic	<b>34.1p</b>	32.1p	60.8p
Adjusted diluted	<b>33.2p</b>	31.6p	59.8p
<b>Continuing and discontinued operations</b>			
Basic	<b>10.1p</b>	32.2p	46.0p
Diluted	<b>9.9p</b>	31.7p	45.2p

	£ million	£ million	£ million
<b>Profit attributable to shareholders</b>			
Loss/(profit) for the period from discontinued operations	<b>24.9</b>	(0.4)	5.5
<b>Profit attributable to shareholders on continuing operations</b>			
Adjustments:			
Exceptional expenses	<b>4.5</b>	–	15.0
Impairment losses on goodwill	<b>4.5</b>	–	0.3
Amortisation of intangible assets on acquisition	<b>0.6</b>	0.2	0.5
<b>Adjusted profit attributable to shareholders on continuing operations</b>			
	<b>49.1</b>	45.9	87.2

	million	million	million
<b>Average number of shares</b>			
<b>Basic weighted</b>	<b>144.0</b>	143.1	143.4
Effect of dilutive share options and awards	<b>3.9</b>	2.2	2.4
<b>Diluted weighted</b>			
	<b>147.9</b>	145.3	145.8

The basic earnings per share from discontinued operations is (17.3)p (six months ended 31 January 2010: 0.3p; year ended 31 July 2010: (3.8)p) and the diluted earnings per share from discontinued operations is (16.8)p (six months ended 31 January 2010: 0.3p; year ended 31 July 2010: (3.8)p).

Adjusted basic earnings per share on a continuing and discontinued basis was 34.0p (six months ended 31 January 2010: 32.4p; year ended 31 July 2010: 61.3p), based on adjusted profit attributable to shareholders on continuing and discontinued operations of £48.9 million (six months ended 31 January 2010: £46.3 million; year ended 31 July 2010: £87.9 million).

## 6. Dividends

	Six months ended 31 January		Year ended 31 July
	2011 £ million	2010 £ million	2010 £ million
<b>For each ordinary share</b>			
Interim dividend for previous financial year paid in April 2010: 13.5p	–	–	19.2
Final dividend for previous financial year paid in November 2010: 25.5p (2009: 25.5p)	<b>36.4</b>	36.3	36.3
	<b>36.4</b>	36.3	55.5

An interim dividend relating to the six months ended 31 January 2011 of 13.5p, amounting to an estimated £19.3 million, is declared. This interim dividend, which is due to be paid on 20 April 2011, is not reflected in these financial statements.

## 7. Loans and advances to customers

	31 January 2011 £ million	31 January 2010 £ million	31 July 2010 £ million
<b>Repayable</b>			
On demand	<b>126.1</b>	119.9	49.6
Within three months	<b>882.6</b>	782.3	1,069.3
Between three months and one year	<b>1,121.2</b>	887.9	822.9
Between one and two years	<b>526.8</b>	425.8	490.6
Between two and five years	<b>592.7</b>	431.6	554.5
After more than five years	<b>11.4</b>	13.5	12.8
Impairment provisions	<b>(91.2)</b>	(83.3)	(87.1)
	<b>3,169.6</b>	2,577.7	2,912.6
<b>Impairment provisions on loans and advances</b>			
Opening balance	<b>87.1</b>	71.2	71.2
Charge for the period	<b>37.2</b>	30.6	63.4
Amounts written off net of recoveries	<b>(33.1)</b>	(18.5)	(47.5)
	<b>91.2</b>	83.3	87.1

At 31 January 2011, gross impaired loans were £294.5 million (31 January 2010: £320.1 million; 31 July 2010: £299.4 million) and equate to 9.0% (31 January 2010: 12.0%; 31 July 2010: 10.0%) of the gross loan book before provisions. The majority of the group's lending is secured and therefore the gross impaired loans quoted do not reflect the expected loss.

## The Notes

34

## 8. Debt securities

	Held for trading £ million	Held to maturity assets £ million	Available for sale assets £ million	Loans and receivables £ million	Total £ million
<b>At 31 January 2011</b>					
Long trading positions in debt securities	50.3	–	–	–	50.3
Certificates of deposit	–	–	–	177.0	177.0
Floating rate notes	–	2.1	444.1	–	446.2
Gilts and government guaranteed debt	–	–	280.6	–	280.6
	<b>50.3</b>	<b>2.1</b>	<b>724.7</b>	<b>177.0</b>	<b>954.1</b>

	Held for trading £ million	Held to maturity assets £ million	Available for sale assets £ million	Loans and receivables £ million	Total £ million
<b>At 31 January 2010</b>					
Long trading positions in debt securities	66.9	–	–	–	66.9
Certificates of deposit	–	–	–	587.7	587.7
Floating rate notes	–	18.4	763.4	–	781.8
Gilts and government guaranteed debt	–	–	285.8	–	285.8
	<b>66.9</b>	<b>18.4</b>	<b>1,049.2</b>	<b>587.7</b>	<b>1,722.2</b>

	Held for trading £ million	Held to maturity assets £ million	Available for sale assets £ million	Loans and receivables £ million	Total £ million
<b>At 31 July 2010</b>					
Long trading positions in debt securities	54.1	–	–	–	54.1
Certificates of deposit	–	–	–	672.1	672.1
Floating rate notes	–	9.0	615.4	–	624.4
Gilts and government guaranteed debt	–	–	285.6	–	285.6
	<b>54.1</b>	<b>9.0</b>	<b>901.0</b>	<b>672.1</b>	<b>1,636.2</b>

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

	31 January 2011		31 January 2010		31 July 2010	
	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	177.0	176.8	587.7	588.8	672.1	672.4
Floating rate notes held to maturity	2.1	2.1	18.4	17.8	9.0	8.8
	<b>179.1</b>	<b>178.9</b>	<b>606.1</b>	<b>606.6</b>	<b>681.1</b>	<b>681.2</b>

Movements on the book value of gilts and government guaranteed debt and floating rate notes held during the period comprise:

	Gilts and government guaranteed debt	Floating rate notes		Total £ million
	Available for sale £ million	Available for sale £ million	Held to maturity £ million	
At 1 August 2009	285.0	754.7	19.4	1,059.1
Additions	–	–	–	–
Disposals	–	–	–	–
Redemptions at maturity	–	(24.7)	(1.0)	(25.7)
Currency translation differences	–	8.5	–	8.5
Increase in carrying value of financial instruments classified as available for sale	0.8	24.9	–	25.7
Transfers to held for sale assets	–	–	–	–
<b>At 31 January 2010</b>	<b>285.8</b>	<b>763.4</b>	<b>18.4</b>	<b>1,067.6</b>
Additions	–	–	–	–
Disposals	–	(32.5)	–	(32.5)
Redemptions at maturity	–	(112.4)	(9.3)	(121.7)
Currency translation differences	–	(4.4)	(0.1)	(4.5)
(Decrease)/increase in carrying value of financial instruments classified as available for sale	(0.2)	1.3	–	1.1
Transfers to held for sale assets	–	–	–	–
<b>At 31 July 2010</b>	<b>285.6</b>	<b>615.4</b>	<b>9.0</b>	<b>910.0</b>
Additions	37.4	–	–	37.4
Disposals	–	(115.1)	–	(115.1)
Redemptions at maturity	–	(55.0)	–	(55.0)
Currency translation differences	–	2.9	0.1	3.0
Decrease in carrying value of financial instruments classified as available for sale	(5.0)	(4.1)	–	(9.1)
Transfers to held for sale assets	(37.4)	–	(7.0)	(44.4)
<b>At 31 January 2011</b>	<b>280.6</b>	<b>444.1</b>	<b>2.1</b>	<b>726.8</b>

In respect of the floating rate notes, both classified as available for sale and held to maturity, £147.8 million (31 January 2010: £175.4 million; 31 July 2010: £132.4 million) were due to mature within one year and £26.5 million (31 January 2010: £28.1 million; 31 July 2010: £25.0 million) have been issued by corporates with the remainder issued by banks and building societies.

# The Notes

36

## 9. Equity shares

	Six months ended 31 January		Year ended 31 July 2010
	2011 £ million	2010 £ million	£ million
Equity shares classified as held for trading	41.4	34.4	31.5
Other equity shares	27.4	37.8	28.4
	<b>68.8</b>	72.2	59.9

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 2009	25.4	12.6	38.0
Additions	–	0.2	0.2
Disposals	–	(0.6)	(0.6)
Currency translation differences	–	–	–
Increase/(decrease) in carrying value of:			
Equity shares classified as available for sale	(0.7)	–	(0.7)
Listed equity shares held at fair value	–	–	–
Unlisted equity shares held at fair value	–	0.9	0.9
Transfers to held for sale assets	–	–	–
At 31 January 2010	24.7	13.1	37.8
Additions	–	–	–
Disposals	–	(10.3)	(10.3)
Currency translation differences	(0.3)	–	(0.3)
Increase/(decrease) in carrying value of:			
Equity shares classified as available for sale	(1.7)	–	(1.7)
Listed equity shares held at fair value	–	–	–
Unlisted equity shares held at fair value	–	2.9	2.9
Transfers to held for sale assets	–	–	–
At 31 July 2010	22.7	5.7	28.4
Additions	–	0.5	0.5
Disposals	–	(1.7)	(1.7)
Currency translation differences	0.5	–	0.5
Increase/(decrease) in carrying value of:			
Equity shares classified as available for sale	0.7	–	0.7
Listed equity shares held at fair value	–	–	–
Unlisted equity shares held at fair value	–	0.7	0.7
Transfers to held for sale assets	(1.7)	–	(1.7)
<b>At 31 January 2011</b>	<b>22.2</b>	<b>5.2</b>	<b>27.4</b>

## 10. Intangible assets

	Note	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Total £ million
<b>Cost</b>					
At 1 August 2010		171.2	26.5	7.0	204.7
Additions		–	3.8	–	3.8
Acquisition of subsidiary		11.8	–	8.0	19.8
Foreign exchange		0.2	–	–	0.2
Transfers to held for sale assets		–	(2.7)	–	(2.7)
<b>At 31 January 2011</b>		<b>183.2</b>	<b>27.6</b>	<b>15.0</b>	<b>225.8</b>
<b>Amortisation and impairment</b>					
At 1 August 2010		75.6	20.7	0.9	97.2
Amortisation charge for the period		–	1.2	0.6	1.8
Impairment included in discontinued operations	11	11.2	–	–	11.2
Impairment charge		4.5	–	–	4.5
<b>At 31 January 2011</b>		<b>91.3</b>	<b>21.9</b>	<b>1.5</b>	<b>114.7</b>
<b>Net book value at 31 January 2011</b>		<b>91.9</b>	<b>5.7</b>	<b>13.5</b>	<b>111.1</b>
Net book value at 31 January 2010		102.4	3.4	6.4	112.2
Net book value at 31 July 2010		95.6	5.8	6.1	107.5

The Asset Management division continues to review its options in respect of all its activities, given its objective to become a leading provider of UK wealth and asset management services. As a result of this review and in light of the impairment triggered by the agreed disposal of the UK offshore business, indications of potential goodwill impairment within the group's Cayman Islands business were identified. This was confirmed by detailed impairment testing and a £4.5 million impairment charge has been recognised in the consolidated income statement.

## 11. Discontinued operations and non-current assets held for sale

On 10 March 2011, the group announced the sale of its UK offshore trust, fund administration, asset management and banking business, which is part of the Asset Management division, to Kleinwort Benson Channel Islands Holdings Limited for a cash consideration of £29.1 million, subject to adjustment by reference to the net asset position of the business at the time of completion. The closing of the transaction is expected to be completed by the end of the financial year.

At the balance sheet date, the UK offshore business fulfilled the requirements of IFRS 5 to be classified as "Discontinued operations" in the consolidated income statement. Additionally, the assets that have not been sold yet are presented as "held for sale" in the 31 January 2011 consolidated balance sheet.

### (a) Results of discontinued operations

The results of discontinued operations, which comprise the UK offshore business held for sale, were as follows:

	Six months ended 31 January		Year ended 31 July 2010
	2011 £ million	2010 £ million	£ million
Operating income	14.1	12.7	25.8
Operating expense	(14.2)	(12.2)	(25.1)
Operating (loss)/profit before tax	(0.1)	0.5	0.7
Tax	(0.1)	(0.1)	–
(Loss)/profit after tax	(0.2)	0.4	0.7
Loss on remeasurement to fair value less costs to sell	(13.5)	–	–
Impairment of goodwill	(11.2)	–	(6.2)
Tax	–	–	–
<b>(Loss)/profit for the period from discontinued operations</b>	<b>(24.9)</b>	0.4	(5.5)

# The Notes

38

## 11. Discontinued operations and non-current assets held for sale *continued*

Excluding the loss after tax, the estimated loss on disposal of the business was £24.7 million. This comprised £11.2 million impairment of goodwill and £13.5 million remeasurement to fair value less costs to sell.

As disclosed in note 3, the group incurred a provision for onerous lease commitments of £4.5 million. This relates to the UK offshore properties which was recorded at the balance sheet date and is not included in the above loss on discontinued operations.

### (b) Assets and liabilities held for sale

The major classes of assets and liabilities classified as held for sale are as follows:

	31 January 2011 £ million
Loans and advances to banks	22.3
Loans and advances to customers	15.3
Debt securities	143.9
Equity shares	1.6
Prepayments, accrued income and other assets	7.2
<b>Total assets classified as held for sale</b>	<b>190.3</b>
Deposits by banks	5.3
Deposits by customers	549.3
Loans and overdrafts from banks	0.8
Derivative financial instruments	0.3
Accruals, deferred income and other liabilities	6.7
<b>Total liabilities classified as held for sale</b>	<b>562.4</b>

Intra group assets of £399.2 million on deposit with the Banking division's Treasury operation and intra group liabilities of £1.2 million with the Asset Management division are not included in the held for sale assets and liabilities above.

### (c) Cash flow from discontinued operations

	Six months ended 31 January		Year ended 31 July
	2011 £ million	2010 £ million	2010 £ million
Net cash flow from operating activities	(57.2)	15.2	20.5
Net cash flow from investing activities	(0.9)	(1.0)	(1.6)
Net cash flow from financing activities	-	-	-

## 12. Settlement balances and short positions

	31 January 2011 £ million	31 January 2010 £ million	31 July 2010 £ million
Settlement balances	587.1	526.4	498.1
Short positions held for trading:			
Debt securities	79.2	44.9	48.6
Equity shares	16.2	13.3	18.4
	<b>682.5</b>	584.6	565.1



### 13. Financial liabilities

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
<b>At 31 January 2011</b>							
Deposits by banks	14.3	9.0	1.0	–	–	–	24.3
Deposits by customers	578.7	870.2	816.1	346.3	43.3	2.8	2,657.4
Loans and overdrafts from banks	13.9	29.6	392.5	41.4	349.6	–	827.0
Debt securities in issue	–	–	–	–	21.4	198.0	219.4
	<b>606.9</b>	<b>908.8</b>	<b>1,209.6</b>	<b>387.7</b>	<b>414.3</b>	<b>200.8</b>	<b>3,728.1</b>

	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
<b>At 31 January 2010</b>							
Deposits by banks	5.4	28.5	5.8	–	–	–	39.7
Deposits by customers	814.1	774.2	593.3	628.9	81.9	–	2,892.4
Loans and overdrafts from banks	18.3	38.0	1,012.2	50.0	75.0	–	1,193.5
Debt securities in issue	–	–	–	–	–	21.7	21.7
	<b>837.8</b>	<b>840.7</b>	<b>1,611.3</b>	<b>678.9</b>	<b>156.9</b>	<b>21.7</b>	<b>4,147.3</b>

	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
<b>At 31 July 2010</b>							
Deposits by banks	23.0	25.1	–	–	–	–	48.1
Deposits by customers	782.0	787.6	1,301.3	186.4	56.0	2.2	3,115.5
Loans and overdrafts from banks	13.7	437.5	617.2	50.0	60.0	–	1,178.4
Debt securities in issue	–	–	–	–	20.8	197.8	218.6
	<b>818.7</b>	<b>1,250.2</b>	<b>1,918.5</b>	<b>236.4</b>	<b>136.8</b>	<b>200.0</b>	<b>4,560.6</b>

Of the debt securities in issue, £21.4 million mature on 20 April 2015 and £198.0 million on 10 February 2017.

Included in loans and overdrafts from banks are committed sale and repurchase facilities with residual maturities 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
<b>At 31 January 2011</b>	–	29.6	167.5	41.4	65.5	–	304.0
At 31 January 2010	–	–	405.7	–	–	–	405.7
At 31 July 2010	–	–	402.2	–	–	–	402.2

The group has entered into a repurchase agreement whereby floating rate notes to the value of £360.4 million (31 January 2010: £561.3 million; 31 July 2010: £553.6 million) have been lent in exchange for cash of £304.0 million (31 January 2010: £405.7 million; 31 July 2010: £401.4 million) which has been included within loans and overdrafts from banks. These floating rate notes remain on the group's consolidated balance sheet as the group retains the risks and rewards of ownership.

The group has securitised £495.1 million (31 January 2010: £nil; 31 July 2010: £nil) of its insurance premium receivables in return for non-recourse borrowings of £350.0 million (31 January 2010: £nil; 31 July 2010: £nil). The group has retained substantially all the risks and rewards of the receivables and therefore continues to recognise these assets on its consolidated balance sheet included within loans and advances to customers.

# The Notes

40

## 14. 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 2010 and the period to 31 January 2011. The table below summarises the composition of regulatory capital and Pillar 1 risk weighted assets as at those financial period ends.

	31 January 2011 £ million	31 January 2010 £ million	31 July 2010 £ million
<b>Core tier 1 capital</b>			
Called up share capital	37.4	37.4	37.4
Share premium account	276.1	275.7	275.9
Retained earnings and other reserves	470.3	487.6	490.6
Non-controlling interests	2.8	2.3	2.5
<b>Deductions from core tier 1 capital</b>			
Intangible assets	(111.1)	(112.2)	(107.5)
Goodwill in associates	(49.3)	(50.7)	(51.9)
Investment in own shares	(39.0)	(44.1)	(43.7)
Unrealised losses on available for sale equity shares	–	(5.3)	–
<b>Core tier 1 capital after deductions</b>	<b>587.2</b>	590.7	603.3
<b>Tier 2 capital</b>			
Subordinated debt	75.0	75.0	75.0
Unrealised gains on available for sale equity shares	8.8	–	7.6
<b>Tier 2 capital</b>	<b>83.8</b>	75.0	82.6
<b>Deductions from total of tier 1 and tier 2 capital</b>			
Participation in a non-financial undertaking	(1.5)	(4.0)	(1.8)
Other regulatory adjustments	(0.3)	(0.2)	(0.3)
<b>Total regulatory capital</b>	<b>669.2</b>	661.5	683.8
<b>Risk weighted assets</b>			
Credit and counterparty risk	3,372.8	2,965.8	3,230.8
Operational risk	971.9	993.8	971.9
Market risk	152.4	119.8	136.0
	<b>4,497.1</b>	4,079.4	4,338.7
		%	%
Core tier 1 capital ratio	13.1	14.5	13.9
Total capital ratio	14.9	16.2	15.8

### Reconciliation between equity and core tier 1 capital after deductions

	31 January 2011 £ million	31 January 2010 £ million	31 July 2010 £ million
Equity	739.0	735.4	754.4
Regulatory deductions from equity:			
Intangible assets	(111.1)	(112.2)	(107.5)
Goodwill in associates	(49.3)	(50.7)	(51.9)
Reserves not recognised for core tier 1 capital:			
Cash flow hedging reserve	0.7	5.1	3.6
Available for sale movements reserve <sup>1</sup>	7.9	13.1	4.7
<b>Core tier 1 capital after deductions</b>	<b>587.2</b>	590.7	603.3

<sup>1</sup>Total available for sale movements reserve less unrealised losses on available for sale equity shares.

## 15. Contingent liabilities

### Financial Services Compensation Scheme

As disclosed in note 28 of the Annual Report 2010, the group is exposed 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 failed institutions, the FSCS has borrowed amounts from HM Treasury on an interest only basis. While it is anticipated that these borrowings will be repaid wholly or substantially from the realisation of the assets of the failed institutions, the FSCS will recoup any shortfalls from additional levies to FSCS participants. No further information has become available since the Annual Report 2010 and so 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 group may be required to pay in respect of failed institutions. The group has accrued 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 2012.

## 16. 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 2010 that could have a material effect on the financial position and performance of the group in the six months to 31 January 2011.

## 17. Acquisitions

On 9 September 2010 the group acquired 100% of Chartwell Group Limited, an IFA with £705 million of client assets, for consideration of £16.9 million in cash, including £2.2 million for the settlement of third party debt.

This acquisition is not regarded as material in the context of the group's financial statements and therefore the information that would be required for material acquisitions by IFRS 3 has not been disclosed.

## 18. Post balance sheet events

On 17 February 2011 the group acquired 100% of Allenbridge Group plc, a London-based execution only retail broker with approximately £440.0 million of client assets, for consideration of £5.6 million in cash.

This acquisition is not regarded as material in the context of the group's financial statements and therefore the information that would be required for material acquisitions by IFRS 3 has not been disclosed.

On 10 March 2011, the group announced the sale of its UK offshore trust, fund administration, asset management and banking business to Kleinwort Benson Channel Islands Holdings Limited for a cash consideration of £29.1 million subject to adjustment by reference to the net asset position of the business at the time of completion. In accordance with IFRS 5, the results of this business have been reported as discontinued operations in the consolidated income statement and its assets and liabilities have been classified as held for sale in the consolidated balance sheet as shown in note 11.

The group is evaluating alternatives with regards to its trust, fiduciary services, fund administration and banking business in the Cayman Islands, which is included in the Asset Management division, and has concluded since the balance sheet date that the business meets the definition of a disposal group as defined in IFRS 5. The results of the Cayman Islands business for the six months to 31 January 2011 are included within continuing operations.

## The Notes

42

## 19. Consolidated cash flow statement reconciliation

	Six months ended 31 January		Year ended 31 July
	2011 £ million	2010 £ million	2010 £ million
<b>(a) Reconciliation of operating profit before tax to net cash inflow from operating activities</b>			
Operating profit before tax	55.8	62.3	99.3
Tax paid	(19.3)	(12.2)	(29.7)
(Increase)/decrease in:			
Interest receivable and prepaid expenses	(0.3)	22.6	21.5
Net settlement balances and trading positions	(60.5)	(133.0)	(82.3)
Net money broker loans against stock advanced	74.7	160.8	105.0
(Decrease)/increase in:			
Interest payable and accrued expenses	(16.0)	(38.5)	(19.3)
Depreciation, amortisation and impairment losses on goodwill	24.4	7.5	22.3
<b>Net cash inflow from trading activities</b>	<b>58.8</b>	<b>69.5</b>	<b>116.8</b>
(Increase)/decrease in:			
Loans and advances to banks not repayable on demand	(12.0)	(0.2)	2.0
Loans and advances to customers	(273.1)	(119.0)	(453.9)
Floating rate notes held to maturity	(0.1)	1.0	10.4
Floating rate notes classified as available for sale	171.3	(8.7)	139.3
Debt securities held for liquidity	(32.4)	(0.8)	(0.6)
Other assets less other liabilities	(44.7)	18.6	17.0
(Decrease)/increase in:			
Deposits by banks	(18.5)	(8.3)	0.1
Deposits by customers	91.2	(27.2)	195.9
Loans and overdrafts from banks	(350.6)	(147.0)	(162.1)
Non-recourse borrowings	350.0	-	-
<b>Net cash outflow from operating activities</b>	<b>(60.1)</b>	<b>(222.1)</b>	<b>(135.1)</b>
<b>(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and associates</b>			
Cash consideration in respect of current year purchases	(14.7)	-	-
Loan stock redemptions and deferred consideration paid in respect of prior year purchases	(1.3)	(0.5)	(0.4)
Net movement in cash balances	-	-	-
	(16.0)	(0.5)	(0.4)
<b>(c) Analysis of changes in financing</b>			
Share capital (including premium) and subordinated loan capital:			
Opening balance	388.3	386.9	386.9
Issue of ordinary share capital	0.2	1.2	1.4
<b>Closing balance</b>	<b>388.5</b>	<b>388.1</b>	<b>388.3</b>
<b>(d) Analysis of cash and cash equivalents</b>			
Cash and balances at central banks	668.9	196.5	452.7
Loans and advances to banks repayable on demand	208.4	244.9	158.4
Certificates of deposit	283.8	587.7	672.1
	<b>1,161.1</b>	<b>1,029.1</b>	<b>1,283.2</b>

# Cautionary Statement

Certain statements included or incorporated by reference within this announcement may constitute “forward-looking statements” in respect of the group’s operations, performance, prospects and/or financial condition. 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 announcement should be construed as a profit forecast. This announcement does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase any shares or other securities 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 and other securities of the company. Past performance cannot be relied upon as a guide to future performance and persons needing advice should consult an independent financial adviser. Statements in this announcement reflect the knowledge and information available at the time of its preparation. Liability arising from anything in this announcement shall be governed by English Law. Nothing in this announcement shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.

**Auditors**

Deloitte LLP

**Solicitors**

Slaughter and May

**Corporate Brokers**

J.P. Morgan Cazenove  
UBS Investment Banking

**Registrars**

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

Shareholder helpline: 0871 664 0300

Calls cost 10p per minute plus network extras,  
lines are open 8.30 am to 5.30 pm Monday to Friday

Fax: 01484 606484

Website: [www.capitaregistrars.com](http://www.capitaregistrars.com)

**Registered Office**

Close Brothers Group plc  
10 Crown Place  
London EC2A 4FT

Telephone: +44 (0)20 7655 3100

Fax: +44 (0)20 7655 8967

E-mail: [enquiries@cbgplc.com](mailto:enquiries@cbgplc.com)

Company No. 520241

Website: [www.closebrothers.co.uk](http://www.closebrothers.co.uk)



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

[www.closebrothers.co.uk](http://www.closebrothers.co.uk)