Close Brothers Group

Preliminary Results Presentation – 29 September 2009

PREBEN PREBENSEN

Good morning. I would like to welcome everyone to today's presentation of our preliminary results.

Jonathan Howell and I will be taking you through the results and after that there will be an opportunity for Q&A. And before I start I would just also like to introduce three members of our management team who are sitting in the front row. Martin Andrew, who is the chief executive of Asset Management, Julian Palfreyman, who is the chief executive of Winterflood Securities and Stephen Hodges, who is the managing director of the group and the chief executive of the Bank,

This is my first set of results at Close Brothers, and I am very pleased to be presenting such a solid result in what clearly we all recognise were very difficult circumstances over the past year.

As you will see from the rest of the presentation, we have produced a very resilient performance in Banking. In Asset Management we faced more market headwinds, but we have produced an excellent performance in Securities and in Winterflood in particular.

Overall the group is in a very strong financial position, is soundly funded and has strong capital ratios.

Now I will hand over to Jonathan who will take you through this year's results in more detail and I will then share some of my perspectives on the group and our priorities going forward.

JONATHAN HOWELL

Thank you Preben. I am pleased to say that the group has put in a solid performance despite very difficult market conditions.

Adjusted operating income increased to 11% to £502 million. This reflects good top line growth in both the Securities and Banking divisions, which more than offset a weaker performance in Asset Management.

Adjusted operating expenses increased 10% to £329 million. This was the result of higher variable costs in Securities, as a result of increased income and activity, and acquisitions and ongoing investment in the Banking division, which were partly offset by lower costs in Asset Management.

Bad debts increased to £60 million from £28 million, reflecting the impact of the recession on our borrowers. And this resulted in an 11% reduction in adjusted operating profit to £114 million.

The Banking division was resilient and delivered good income growth, although higher bad debts resulted in a 28% reduction in adjusted operating profit to £54 million.

In Asset Management, adjusted operating profit reduced 63% to £12 million, reflecting difficult markets and lower Funds under Management.

Securities delivered a very good performance and adjusted operating profit increased 68% to £65 million. This division accounted for half of total adjusted operating profit, before group expenses. And finally Group net expenses were £17 million.

We report adjusted operating profit after a number of standard adjustments, to give a more accurate picture of the underlying earnings. In 2009, these adjustments included £6 million of exceptional restructuring costs, and a £19 million goodwill impairment in Asset Management, taken at the half year. After these items, operating profit before tax was £88 million, compared to £118 million in 2008.

Tax on continuing operations was £26 million at an effective tax rate of 30%.

The tax rate was affected by two broadly offsetting factors:

- the goodwill impairment of £19 million, which is not tax deductible, increased the effective tax rate by 6%, and

- the associate income from Mako, which is reported on an after tax basis, reduced the effective tax rate by 5%

Excluding these items, the underlying effective tax rate was 29%.

Basic EPS for the period from continuing operations was 43.6p, down 25%. And adjusted EPS, also on continuing operations, was 60.5p, down only 5%.

The board is recommending a final maintained dividend of 25.5 pence per share, resulting in a total dividend for the year of 39 pence. This reflects our solid performance in the 2009 financial year and our strong capital position.

In July we completed the disposal of our Corporate Finance Division, which has been treated as a discontinued operation in the financial statements. We achieved a net consideration of £67 million and a gain on disposal of £12 million. Total profit from discontinued operations was £10 million. This includes the gain on disposal, and an after tax trading loss of £2 million up to the date of disposal. This compares to a trading profit of £6 million in the prior year.

Basic EPS from continuing and discontinued operations was 50.5p, down 18% on last year.

Close Brothers has maintained a strong balance sheet. At the year end we had around £6 billion of total assets. The loan book increased 6% to £2.4 billion. This includes the £80 million acquisition of a premium finance business loan book during the year. Our treasury assets comprise some £200 million of cash and loans and advances to banks, and £2.3 billion of non-trading debt securities. These debt securities include certificates of deposit; gilts and government guaranteed debt; and Floating Rate Notes.

Assets relating to our market making activities include settlement balances, long trading positions and loans to money brokers. These increased £72 million to £729 million reflecting higher activity levels at Winterflood. These were offset by £591 million of corresponding liabilities, resulting in a net position of £138 million, up from £100 million one year ago.

On the liability side, customer deposits increased by 11% to some £2.9 billion, reflecting new term retail deposits. However, short term deposits by banks reduced from £298 million to £48 million as banks reduced their credit exposures. And total borrowings increased by £200 million to £1.4 billion, reflecting new debt facilities drawn in the period. Total equity reduced by £23 million to £698 million.

A £72 million profit for the year was offset by dividend payments of £55 million; a net £18 million purchase of own shares to hedge employee share schemes; and a £15 million mark-to-market reserve movement on FRNs.

We remain soundly funded through a combination of drawn and undrawn bank facilities, long and short term customer deposits and equity. And we have diversified and strengthened our funding position during the year. We have traditionally used equity and wholesale debt facilities to fund our £2.4 billion loan book, with a policy of borrowing long and lending short.

However during the year we have raised longer term retail deposits for the first time, to increase the resilience and flexibility of the model. As a result, we had £900 million of deposits with a maturity over twelve months at the year end.

We also had £2 billion of shorter term deposits. Whilst short term deposits have reduced overall, the core corporate deposit base has proved its resilience over the past year.

Finally, we have total drawn and undrawn wholesale funding of £1.8 billion, unchanged from last year. This wholesale funding has an average maturity of 24 months, and £1.4 billion had a maturity of 12 months or more. This means we had £2.3 billion of debt facilities and deposits with a maturity over 12 months. This compares to only £900 million of loans with a maturity of over 12 months.

We retain a strong capital position and our capital ratios have further improved during the year. This has been achieved despite the difficult market conditions and without having raised new equity.

At the year end the total capital ratio was 16.6% and our core tier 1 capital ratio was 14.8%. These are very sound capital ratios which give us good flexibility.

Turning now to the Banking division. The division's performance has been resilient although the overall result has been impacted by higher bad debts. Adjusted operating income increased 14% to £236 million. Adjusted operating expenses increased 16%, or £17 million, to £122 million. This included an £11 million impact of acquisitions, and ongoing investment in the businesses. Bad debts more than doubled to £60 million, with a bad debt ratio of 2.6%, which reflects the impact of the recession on our borrowers.

Overall, this resulted in a 28% reduction in adjusted operating profit to £54 million, but still a resilient operating margin of 23%.

Now looking in more detail at income in the Banking division. Net interest and fees on the loan book increased 20% to £216 million. This was the result of 10% growth in the average loan book, and a strong net interest margin of 9.4%, reflecting continued good demand for our lending services. This has allowed us to absorb the increasing cost of funds so far.

However income from Treasury and other non-lending activities reduced 28% to £19 million. This was impacted by lower interest margins and higher funding costs primarily in the second half of the year.

The loan book increased by 6% to £2.4 billion. This includes the acquisition of a premium finance loan book of £80 million. Organic growth was around 2%.

We have maintained a cautious approach to new lending in this difficult economic environment, but continued to see good demand. This has led to loan book growth in asset finance, property finance, and motor finance.

Now looking in more detail at bad debts. The bad debt ratio was 2.6% in 2009, compared to 1.3% in 2008. This reflects the impact of business failures and falling asset values. This has led to higher bad debts across the whole loan book, although as expected property remains a significant contributor.

Whilst bad debts are materially up on last year, our secured lending model, high quality collateral and prudent lending criteria have provided protection from the worst effects of the recession. And even at the current level of bad debts, our lending is highly profitable with a return on the net loan book of 2.3% for the year.

Turning now to look at the Asset Management division in more detail. Funds under Management reduced 17% to £6.8 billion. However, excluding the deconsolidation of the division's three private equity businesses, the reduction was only 8%. Adjusted operating income declined 29% to £95 million. And adjusted operating expenses were reduced 18%, to £83 million reflecting some £7 million of cost savings, and the deconsolidation of the private equity businesses. As a result, adjusted operating profit declined to £12 million from £33 million, an operating margin of 13%.

We have continued to invest in new business initiatives and our priority remains to improve scaleability and position ourselves for long term growth.

Overall adjusted operating income in Asset Management was £95 million, a 29% reduction year on year. This reduction was primarily the result of a 32% decline in management fees to £54 million. This reflects both lower Funds under Management, and a 20 bps reduction in the revenue margin to 72 bps. The lower revenue margin reflects changes in the mix of FuM. The deconsolidation of the private equity businesses accounted for approximately half that reduction.

Income on Assets under Administration reduced by 10% to £38 million. This reflects the impact of the lower interest rate environment on interest margins.

Performance fees and investment income reduced from £12 million to £3 million, which reflects the changing business mix and a smaller contribution from the group's private equity activities.

Overall Funds under Management reduced 17% to £6.8 billion.

Net new funds were broadly stable, and the reduction principally reflects a £700 million impact of the deconsolidation of the three private equity businesses, and around £600 million, or an 8% impact of negative market movements. This reflects significant declines in most asset classes over the period, including a 15% decline in the FTSE100.

Private Clients FuM were stable at £3.3 billion, as positive net new funds of £161 million more than offset £128 million of negative market movements. However Funds FuM reduced 28% to £3.5 billion. Half of this movement reflects the deconsolidations.

Turning now to the Securities division, which has had a very good year. Adjusted operating income increased 53% to £168 million, benefiting from very high volumes at Winterflood and a significant contribution from Mako. Adjusted operating expenses increased 44% to £103 million, principally reflecting higher variable costs at Winterflood. And overall, adjusted operating profit increased 68% to £65 million.

Winterflood had an excellent trading performance and adjusted operating profit doubled to £47 million.

Seydler's performance was more muted, reflecting more difficult conditions in the German market, and operating profit reduced to £2 million. The £8 million adjusted operating profit in 2008 included the one-off benefit of a £4 million provision reversal.

Mako also had a very strong performance and generated £16 million of associate income.

Looking at the trading performance of each of these businesses in more detail now:

Winterflood had an excellent performance and income increased 59% to £128 million. Winterflood has benefited from its strong market position in a period of higher volumes, supported by retail activity and the rally in equity markets in the second half. This resulted in a significant increase in trading volumes, and bargains per day were 42,000, up some 54% from 27,000 in 2008. Average income per bargain was broadly stable at £12. Importantly, trading performance has been consistent, with only 7 loss days in 2009 out of 253 trading days, despite the significant market volatility in the period.

At Seydler, income was up 7% to £23 million. This benefited from foreign exchange translation and income reduced 7% on a constant currency basis. This reflects low retail volumes in the German market and a difficult environment for small and mid cap stocks. Income was also affected by a write down of investment assets. However Seydler has maintained a strong market position and has continued to invest and strengthen its team during the year.

And Mako generated £16 million of post tax associate income, as a result of a very good performance in the first half, benefiting from high volatility and market activity related to interest rate movements.

Now turning to the outlook:

In the Banking division, we see good demand for our lending services but expect bad debts to remain at a high level.

In Asset Management, the outlook for fund flows remains uncertain, but we are continuing to invest in new business initiatives.

And finally in Securities, Winterflood has had a strong start to the year, but the division's performance will remain sensitive to market conditions.

Overall, market conditions remain uncertain but we are confident that our strong businesses will allow us to deliver a resilient performance.

Thank you.

PREBEN PREBENSEN

Thank you Jonathan. Let me just say that since my arrival in April I have been very impressed by the inherent strength of the businesses at Close Brothers. You have heard from Jonathan just how well they have performed over the past year in the very difficult market that we had. And I think it is worth just reiterating that we were profitable in all three divisions. We have maintained our dividend and we have emerged with a strong capital position. And over the past months it has become more and more clear to me that we are well positioned in these businesses and that they have significant further potential.

So the key question for me since my arrival has been what can we do to leverage this strength and indeed to realise this potential?

The first thing is that we want to focus on our three core business areas of Banking, Asset Management and Securities. And the sale of corporate finance which was announced in July has allowed us to really spend more of our time on these three core businesses. Corporate Finance was a small contributor overall, and in fact, even in the 2007/2008 year, which was a better year for the business, it only accounted for 5% of after tax profits. So it was clear that this was never going to be a significant part of the group and its absence has allowed us to look at the three remaining areas more closely.

Second, in order to evaluate opportunities more effectively, we have had to make ourselves more capable at the centre. We already have some very good people and capabilities in the businesses, but we needed to strengthen the centre in order to make the most of them.

You have already seen the progress that Jonathan and his team have made in improving the group's transparency and reporting, and he has built a strong framework in the finance area for the future development of the group.

We have also recently made some important new additions to the group in terms of our capabilities in general. I would like to highlight three significant hires.

Tazim Essani joined us in July as group head of corporate development, from RBS and before that GE. Tazim has already made a difference in terms of our discipline and ability to look at opportunities in our three core business areas.

Elizabeth Lee has joined as General Counsel. Elizabeth was previously at Lehman Brothers in London where she was European general counsel, and before that she was general counsel at GE Money globally.

And Rebekah Etherington will be joining in a few days as group head of human resources, from RBS in New York. This is an important new role for us, which will allow us to make the most of the talent that we have across the group.

Third, you have heard today how strong our businesses have been in their current form, but the issue is how we can develop each of them going forward. The capabilities we now have at the centre are enabling us to really work with the businesses on strategy development and on exploring potential opportunities.

My time will largely be spent with each of these businesses, evaluating how we can expand and build on their current strategies. The focus is on organic growth and extending the current businesses, but we will also look and continue to look at potential acquisitions. However I think it is important to say that we will be very selective and very disciplined in our approach and we have implemented a rigorous process for analysing acquisition opportunities.

Let me now turn to each of the three businesses:

In the Banking division, we have a very strong and a actually a very distinctive model. We engage in specialist, expertise based lending which is the basis for our good lending margins. It is also important to understand that our lending is almost entirely secured, whether that is to SMEs or to those parts of the retail market that we are active in. Indeed, it is also important to understand that our lending is also relatively short term, with over half of the loan book turning over in any twelve month period. In addition, our lenders have very long and specialised experience, which gives us the perspective we need to navigate difficult markets such as these.

And as Jonathan has pointed out, this business has done very well in an extremely difficult period. It has a very good lending margin and to date we have been able to pass on the increased cost of funding, while growing the loan book. And as I mentioned, the business has remained very profitable even in this environment.

So the important point here is that we really like this business model. And the key question for us is how we can extend it. In doing so we will consider opportunities both within and outside our current business niches, while retaining the best features of the existing model.

In order to evaluate what these opportunities are, we have changed the organisational structure, and have brought the businesses together into four business units.

Those four are first, Retail which principally includes the Motor and Premium Finance operations. Both of these are intermediated businesses, which means that we generally do not deal directly with consumers but extend finance to over 1 million consumers and some 200,000 SMEs in premium finance, via a network of insurance brokers. And on the motor finance side, we extend finance to over 100,000 consumers through a network of 5,000 motor dealers.

Second, our commercial businesses which include the lending we do to SMEs directly through our asset finance and invoice finance operations. And here we have almost 17,000 direct SME relationships.

The third unit is focused on property, which is our short dated residential development lending business.

Looking at the relative sizes of these divisions, retail and commercial are broadly equal in size, and property is around half the size of the others.

The fourth unit is our Treasury operation which provides the funding for the entire bank.

The motive behind changing this structure is not to drive cost synergies. These businesses are already very efficiently run and are focused on specialist niche lending opportunities. But by bringing these businesses together in these four units, we believe that we will be able to maintain the same customer proposition but look across what we do in each of the areas of retail, commercial and property, and that that will lead to opportunities to grow them more effectively.

Turning to Asset Management, Martin Andrew did a very good presentation in April to you all, which outlined his strategic priorities for the division and some of the changes that have already been taking place.

We are continuing to focus our strategy around the three core areas of Private Clients, Funds, and Banking and Administration. Over the past year we have made various internal changes to establish a better platform to support long term growth. This has included moving to a single UK brand and legal entity, and establishing a single, integrated UK sales organisation.

We are now continuing with the process of strategy development and investment to identify and realise growth across the division. In particular we are spending a lot of time on the Private Clients business. This is an area that we like fundamentally and where we serve both High Net Worth and Affluent clients.

Here, we are looking at ways to leverage our brand and our expertise. And we are looking at the best way to position, in light of key changes that have taken place in the industry. This includes the Retail Distribution Review which will be coming into effect in the next few years. And we are also looking at broadening the distribution, both direct to the private client and also indirectly via IFAs. This is an area we have been developing our thoughts for some time, and there is significant work in progress.

On the Funds side, we have a collection of specialist investment capabilities in multi-manager, hedge funds, property and structured products. And here what we are really looking at is how we want to position and integrate them to provide stronger propositions.

As we go through this process we are looking at the potential for leveraging the capabilities we have in Funds to support the Private Client business, but also the scope for standalone intermediary distribution and for developing the institutional offerings.

Thirdly, we are also doing significant work around our Banking and Administration business. This is offshore transactional banking, trust and fund administration, which have been good contributors and produced a very consistent performance. We are also looking at our service offering here. We do see some standalone growth opportunities such as QROPS which is Qualifying Recognised Overseas Pension Schemes, this is for UK people abroad, but are also looking at the potential for combining these activities alongside our asset management capabilities longer term.

So there is a lot of work going on in this division. We don't have all the answers yet, but we are confident we are making real progress in each of these three areas with a particular focus on the Private Client side.

Turning to the Securities division, as you know we have three strong and distinct businesses here. Winterflood, which is a leading market maker to the UK retail stockbroking community. Seydler, which is a German floor specialist and also has a strong franchise as a designated sponsor in the mid cap sector. And we have a 49.9% stake in Mako, which is a market maker in exchange traded equity, fixed income and commodity derivatives.

Now clearly the very strong recent performance of this division has been partly driven by external factors, including market volumes, volatility and client activity. But it is also important to consider the underlying strength of these businesses. And I'd like to spend a little more time on Winterflood, which is by far the largest of the securities businesses and actually accounted for over one third of the group's overall profit last year.

In Jonathan's presentation he mentioned that in the last year, Winterflood only made trading losses on 7 days out of 253 days. This includes the collapse of Lehman Brothers and the volatility seen in September, October and November. I think that is an extraordinary statistic. And there are a number of things that contribute to that consistency.

First, and most important, is the strength of the client relationships. Winterflood is always committed to continuously providing liquidity and has been all the way through the financial crisis.

Second, they have a very experienced team which has worked together for a long time. The senior traders at Win's have an average of 13 years of trading experience at Winterflood. And they have a very strong team of secondary and junior traders behind them.

Another is transparency. All the traders sit on a single floor and are able to view real time data on the entire trading book at all times during the day. In addition, the business engages in market making not proprietary trading and so the positions taken are relatively small and within tightly managed risk limits.

Fourth, this is a very diverse business today. The number of trading books has increased over the years and the team now runs 26 separate trading books, which includes nearly all UK equities from AIM to FTSE 100 stocks, as well as investment trusts, international equities and fixed income.

And finally there is the independence of the business, which means trading is not driven by research or primary business, but Winterflood traders can decide where and what they want to trade.

So as you can see there are some very powerful attributes, which along with the strong culture at Winterflood, have contributed to the excellent trading performance we have seen this year.

Going forward, we are working very closely with Winterflood on how we can expand this franchise and drive structural growth, whilst retaining a strong focus on the core retail market. But unlike the Banking and Asset Management divisions, there was really no need to change the organisational structure of the division in order to do

this. The relationship that we have with the management team there is very active, and is a good example of how our stronger central team allows us to get more involved and work with the business to take the strategy forward and evaluate growth opportunities, while still allowing the team to continue focusing on its day to day business.

So, to summarise what has been a busy past few months. We have become a more focused organisation with three core business areas. And our priority going forward is to build on the strengths we have within each of them. We are now more capable at the centre, which improves our ability to engage with the businesses. And we will be working with them to identify and realise growth opportunities, in order to make the most of their franchises.

We will now open up the floor to Q&A. Jonathan and I will be happy to take your questions. And as I mentioned at the outset, we also have Stephen, Martin and Julian here who will also be happy to take questions.

Can I just ask you to clearly state your name and company before asking a question and also remind you that since this is being audiocast, please ensure that you speak clearly into the microphone.

Question & Answer Session

Question 1 : Paul Measday - Cazenove

Thank you. Good morning, it is Paul Measday from Casenove. If I could just press you a bit on the outlook for the growth in the banking division. As you have laid out you have got quite a lot of funding headroom and your tier 1 ratio is high. And arguably, you perhaps had the visibility over the bad debt cycle versus six months ago. Should we therefore expect an acceleration of loan growth against the 6% you reported?

Answer : Preben

I will let Stephen comment on that too. I think that what I would do is to reiterate that we like the model a lot. And we want to stick pretty close to it. So as we look at expansion opportunities, we do believe that there are areas that we can extend within the existing businesses that we have. And one example would be the SME direct lending franchise that we have. We do business with a lot of SME's in asset finance and invoice finance. The new operating model will allow us to look across that client base and to see what else we ought to do. There will be some infill acquisition opportunities we believe, but again I would reiterate that we would be very selective and very disciplined as we look at them. And I shall ask Stephen if he wants to expand on that.

Answer : Stephen Hodges

Yes, good morning everybody. I would just agree with that Preben has said. But I think we ought to remind ourselves that we are still living in a difficult environment. We have not seen any significant improvement in bad debts yet and therefore we will continue to be prudent, to be cautious and to operate within the parameters and criteria that have served us well over the last 12 months.

<u>Question 2 : Ian Poulter, CanaccordAdams</u>

Morning, it's Ian Poulter from CanaccordAdams. Just two quick questions. Firstly on banking business. How sustainable is that 9.4% margin, given the way the funding has been going? And the second one is how close are you to finishing the development of the central processes and any sort of cost changes that maybe occurring there?

Preben :

Stephen do you want to comment on that?

Answer: Stephen Hodges

Yes let me begin with the first point. I mean we have been pleased to see how we have been able to sustain the margins during the course of the last 12 months. Preben and Jonathan have highlighted how the cost of funds has increased and we have been able to maintain those margins. It is a short term loan book. 50% of the book turns over in 12 months and therefore it is important that we maintain those margins as the cost of funds continues to increase. But my view currently is that those margins seem reasonably sustainable and of course it is very much a function of the competitive environment. And you would add I think, in terms of the competition in 2-3 places, we actually have seen a reduction in competition over that period. The issue is how long that continues.

There was a second part to the question, could you just repeat the second part of the question?

Further question: Ian Poulter

Yes sorry, the second one was just how close you are to finishing with the development of the central processes and investment you have had there, just to get the platform up to where you want it?

Answer: Preben

And that is on the banking side?

Further question: Ian Poulter

No sorry, just for the Group at the centre where you have been bringing people in and I know readying the transparency side and everything else?

Answer: Preben

Why don't I comment on the external hires. I think, having made three important external hires we have completed the key positions that we were looking to fill. Jonathan do you want to comment on any other work in terms of transparency? I think that was a point and other central functions?

Further answer: Jonathan

I think in terms of, as you see from over the last year, ie, the last year end at the end of 2008 and this year end, we have moved to a consistent set of key drivers and KPI's that we are just going to continue to disclose at the half and full year stage. I think that that is substantially done now that transition. However, we will continue to monitor best practice elsewhere against our peers and also we are happy to take any suggestions that you as an analyst group may have. Beyond that, at Group, as Preben has said, we have the three key hires that we have made. It is now getting that central team with an overview of what the whole Group is doing and how the Group can deliver shareholder value to shareholders, working with the individual business units and the divisions. I think that is the next stage. And that is going to take some time to bring that to sort of optimum capability and a continuous two way dialogue and exchange of strategic ideas between the divisions and the centre. We don't want to lose that local entrepreneurial skill set that Close is renowned for but equally we want to make sure that that is within certain key core areas of development where we as a Group see that we can deliver maximum value to shareholders, I think that is very important.

If I could just touch on, Paul your question I think just to touch on bad debts and more visibility on bad debts. Just in terms of that, as you can see, we have come in at an average of 2.6% for the full year. But there was a considerable acceleration between 2.1% in the first half and 3.1% in the second half. And I think just read out our outlook statement very carefully. We say that bad debts are going to remain high. That doesn't mean that that rate of acceleration is going to continue, and I think that is an important differentiation that you should make.

Question 3 : Philip Middleton, Merrill Lynch

Thanks. It's Philip Middleton from Merrill Lynch. Obviously Winterflood has done very well and continues to do very well. And whilst I understand the point you are making about its structural market position, I wonder if you could talk to us a little bit more about the cyclical influences that are benefiting at the moment and what you think the prospects for those are to the extent that then you can comment on that sensibly? Why are you doing quite so well?

Answer : Preben

I think that to some extent, I sought to answer that in terms of some of those factors. Consistency of the performance is extraordinary. And that comes from experience, diversification and so on. Just before handing over to Julian, I think it is very important that we recognise that that business is partly a function of the strength of the franchise. But also a function of what is going on in the market in terms of volumes and volatility and participation and where retail is participating. It is a very different matter if they are participating in the FTSE 100 from if they are participating in mid Caps stocks.

Julian do you want to add something to that?

Answer : Julian Palfreyman

I think there are several factors that have helped to contribute to the high retail volumes from retail investors, particularly interest rates being low and also the slight cautionary view on property has encouraged investors to look at the stock market for a better return. And we have sort of seen throughout the last year that this has gone in several cycles in terms of the interest of particular sectors that the investor has been trading in. And that sort of scale, the various parameters, including FTSE 100 trading and also small cap trading. At the moment that trend seems to be continuing. But for how long, it is difficult to say.

Further question – Philip Middleton
What are your retail clients dealing in at the moment?

Answer : Julian Palfreyman
I am not sure whether you saw an FT article, a couple of Saturdays ago, from some of the retail execution only stockbrokers, saying that they were experiencing very high retail activity. And quite frankly it seems to be across the spectrum of sectors. They are just looking for nil returns and a greater return than they can achieve with money on deposit I am afraid.

Philip Middleton
Thank you very much

Further answer :
Philip, proportionately you would see on the Winterflood's trading statistics, you would probably see proportionately more being done in AIM now than in the FTSE 100 stocks. Where if you went back to the first half of the year, that was the inverse of that. Probably there was a lot of interest in the FTSE 100 stocks with the extreme volatility particularly in the financial services stocks.

<u>Question 4 : Carolyn Dorrett, UBS</u>
Good morning, Carolyn Dorrett from UBS. A quick question on the asset management business. I think Jonathan mentioned that you are going to be focusing on increase in your scalability within that division. Can you just elaborate a little bit more on that please?

Answer : Jonathan
Yes, we said that we would look at that division in its three parts, private clients, funds and offshore trusts, administration and banking. And we have indicated as Martin has in his presentation back in April, that we like the private client business. We like its fundamentals and we are looking to really capitalise more on the brand and actually the offering and improve the offering. And look to deliver that both directly and through the IFA channel. An awful lot is going to go on in that channel, given the RDR and other things like that. And we think that there are going to be opportunities for us to grow that business. So private clients is definitely a focus.

On the fund side, it is more actually looking at what we have and looking at how we might integrate those various pieces, because there really are a number of pieces in that part of the division. And come up with a more coherent institutional offering, which might also then support the private client business.

Martin do you want to elaborate?

Answer: Martin Andrew
Yes, good morning. I am happy to. I think part of the scalability is about setting a basic operating platform through which we can get more economies of scale. Preben alluded to things like legal entity integration which we have done quite a lot of in the last financial year, moving to a single brand, things like that has set the foundation if you like for an operating system on which we can get more economies of scale. I think the real benefits in terms of scalability are really trying to focus on getting much more efficient distribution of what we already have before we necessarily start adding new capabilities and more complexity to the division. So the whole development and thinking behind what we are calling managed investment solutions is, by and large, taking a set of investment capabilities that we have already got but offering them to distribution channels that have never been introduced to in the past, particularly the IFA opportunity in the UK, which again Preben has mentioned. And potentially more institutional and international distribution as well. All of which is using up existing IT capability and infrastructure, existing investment capability. Admittedly we would probably have to add more variable distribution costs to get at those new growth opportunities, but it is not adding complexity and additional costs to the overall business model.

PREBEN PREBENSEN

Any other questions? That looks like it. Thank you very much indeed.

End of Presentation