Press release

Close Brothers Group plc

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CLOSE BROTHERS GROUP plc

ANNOUNCEMENT OF PRELIMINARY RESULTS

FOR THE YEAR ENDED 31 JULY 2009

Financial Highlights
for the year ended 31 July

	2009	2008
Adjusted operating profit[1] (continuing operations)	**£113.7m**	£127.5m
Adjusted earnings per share[2] (continuing operations)	**60.5p**	63.7p
Operating profit before tax (continuing operations)	**£88.3m**	£118.4m
Basic earnings per share (continuing operations)	**43.6p**	58.3p
Basic earnings per share (continuing and discontinued operations)	**50.5p**	61.5p
Ordinary dividend per share	**39.0p**	39.0p
Total equity	**£697.7m**	£720.4m
Core tier 1 capital ratio	**14.8%**	14.4%

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

Preben Prebensen, Chief Executive, commenting on the results said:
“Close Brothers Group has delivered a solid overall performance despite some of the most challenging financial and economic conditions in our history. All three divisions have remained profitable and the board is proposing a maintained dividend for the year. We are soundly funded and well capitalised, and our businesses are well positioned to take advantage of future growth opportunities.”

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A presentation to analysts and investors will be held at 9.30 am BST at our offices at 10 Crown Place, London EC2A 4FT. A listen-only dial-in facility will be available by dialling +44 (0) 1452 56 80 60, freephone 0800 073 8912, conference ID 27467370. A recording of this call will be available for replay for two weeks by dialling +44 (0) 1452 55 00 00, access code 27467370.

OVERVIEW

Chairman's and Chief Executive's Statement

Close Brothers Group has achieved a solid overall performance for the year. This is despite some of the most challenging financial and economic market conditions in its history, and is thanks to the strength of its businesses, the experience of its people and the resilience of its business model. It remains soundly funded and well capitalised, and has successfully avoided the worst effects of the financial crisis.

Close Brothers has also made considerable internal progress in the past year. There has been significant change in the senior management team, including the appointment of Preben Prebensen as group chief executive. The group has been strengthening the capabilities at its centre, including making a number of new senior hires. Following the sale of the Corporate Finance division, the group is concentrating on developing those areas where it has the strongest capabilities and potential for growth.

Results and Dividend

Adjusted operating profit from continuing operations, which excludes the trading result and gain on disposal of the Corporate Finance division, was £113.7 million (2008: £127.5 million), an 11% reduction year on year. Adjusted earnings per share from continuing operations reduced 5% to 60.5p (2008: 63.7p) and basic earnings per share from continuing operations reduced 25% to 43.6p (2008: 58.3p).

Basic earnings per share from continuing and discontinued operations, which includes the trading result and gain on disposal of the Corporate Finance division, was 50.5p (2008: 61.5p).

Basic earnings per share from continuing operations includes the impact of exceptional expenses of £6.0 million (2008: £9.1 million) relating to restructuring costs, primarily in the Asset Management division. In aggregate, restructuring measures across the group undertaken in 2008 and 2009 have resulted in cost savings of around £11 million in 2009, out of a total run-rate of around £13 million expected to be achieved by the end of 2010. In 2008 exceptional expenses included £4.1 million of restructuring costs and £5.0 million related to advisers' fees in respect of an offer for the group.

At the half year, the group also recorded a £19.0 million (2008: £nil) goodwill impairment charge related to a number of past acquisitions in the Asset Management division.

The group retains a sound funding position and a strong capital base. During the year the group has diversified its sources of funding in order to increase the resilience and flexibility of its funding model, and has raised over £1 billion of term retail deposits via its Premium Gold offerings. At the year end the group had a core tier 1 ratio of 14.8% (31 July 2008: 14.4%) and total capital ratio of 16.6% (31 July 2008: 16.1%). These ratios are a source of strength in the current environment and give the group good flexibility.

The board is recommending a maintained final dividend of 25.5p (2008: 25.5p) per share in cash, resulting in a total dividend for the year of 39.0p (2008: 39.0p) per share. This reflects the group's solid performance in the 2009 financial year and strong capital position. The final dividend will be paid on 19 November 2009 to shareholders on the register as at 9 October 2009.

Divisional Performance

The **Banking** division has had a resilient performance and overall adjusted operating profit was £54.0 million (2008: £74.5 million). The loan book increased 6% to £2.4 billion, including the acquisition of an £80 million premium finance loan book in August 2008. The division is seeing continued good demand, notably in asset, motor and property finance, and maintained a strong net interest margin of 9.4% (2008: 8.6%). As a result, adjusted operating income increased 14% to £235.5 million (2008: £207.1 million) although the division's profit was impacted by an increase in the bad debt ratio to 2.6% (2008: 1.3%) reflecting the impact of the recession on our borrowers.

The Banking division continues to apply prudent and consistent criteria to its lending decisions, and to focus on managing credit quality through the cycle. Going forward, the division will be operating under a new structure in order to more effectively evaluate new growth opportunities and has been reorganised into four business units: Retail, which includes the premium finance and motor finance businesses; Commercial, which incorporates the asset finance operations as well as invoice finance; Property; and Treasury. Within each of these units the division will be exploring potential opportunities for growth, within and outside existing business lines whilst retaining its niche, high margin, expertise based lending model.

In the **Asset Management** division, adjusted operating profit reduced 63% to £12.0 million (2008: £32.6 million), reflecting difficult financial market conditions. Closing Funds under Management ("FuM") reduced 17% to £6.8 billion (31 July 2008: £8.2 billion) as a result of the deconsolidation of the group's three private equity businesses and negative market movements, while net new funds were broadly neutral. The Private Clients business has been resilient and achieved positive net new funds of £161 million and stable FuM overall.

The Asset Management division continues to focus on the three core areas of Private Clients, Funds and Banking and Administration, and is continuing the process of strategy development and investment to identify and realise growth opportunities. The Private Clients business is looking to leverage its existing offering to the mid-high net worth market, and is exploring the expansion of its discretionary offering through Independent Financial Advisers as well as direct distribution. In Funds, the division is focusing on positioning its specialist businesses to take advantage of any upturn in the cycle. It will also continue to develop the offshore Banking and Administration business, which provides resilience and diversification.

The **Securities** division has had an excellent year and the division's adjusted operating profit increased 68% to £64.9 million (2008: £38.7 million). In a turbulent market environment, Winterflood has strengthened its position as the leading market-maker to the retail stockbroking industry in the UK. Winterflood has benefited from volatility in the markets and increased bargains per day to over 42,000 (2008: 27,000). This resulted in a doubling of adjusted operating profit to £47.3 million (2008: £23.5 million).

Winterflood's trading performance has been consistently profitable throughout the period, with only seven (2008: 14) loss days out of a total 253 (2008: 254) trading days despite the financial market turbulence.

Winterflood has continued to increase the trading functionality offered to its clients and now offers smart order routing capability across the major pan European exchanges and the Multilateral Trading Facilities such as Chi-X, Turquoise and BATS Europe, in addition to its own pool of internal liquidity. Going forward, Winterflood will continue to build on its existing franchise and leverage its in-house technology whilst retaining a strong focus on its core retail market.

Our associate Mako also made a significant contribution, due to a very good performance in the first half, although Close Brothers Seydler's ("CBS") performance has been muted reflecting difficult conditions in the German market.

OVERVIEW

Chairman's and Chief Executive's Statement continued

In early July 2009 Close Brothers completed the disposal of its Corporate Finance division to Daiwa Securities SMBC Europe for a net consideration of £67 million**.**

Going forward, the group will continue to focus its activities around its three core divisions of Banking, Asset Management and Securities which are well positioned and have strong prospects. The group will be actively evaluating the scope for growth opportunities in each of these areas and has been strengthening the functional capabilities at the centre in order to work more closely with each business on strategy development and implementation.

The group has recently made a number of senior hires including Tazim Essani, group head of corporate development, Elizabeth Lee, general counsel, and Rebekah Etherington, group head of human resources, all of whom will be joining the Executive Committee.

Board Changes

Preben Prebensen was appointed chief executive of Close Brothers Group with effect from 1 April 2009. Preben was previously group chief investment officer and a member of the group executive committee at Catlin Group plc. Prior to that he was chief executive of Wellington Underwriting plc and held a number of senior management positions at JP Morgan.

Colin Keogh stepped down as chief executive in April 2009 after 23 years with the group and six as chief executive. The board recognises Colin's significant contribution throughout his time with the group.

Ray Greenshields was appointed to the board as an independent non-executive director with effect from 13 November 2008. Ray has been appointed to the Audit, Nomination and Governance and Remuneration Committees.

Peter Buckley, a member of the board for twelve years who retired on 31 December 2007 but remained an alternate director, sadly passed away in December 2008.

Outlook

We continue to plan for a challenging economic and financial market environment in the current financial year.

In the Banking division, we continue to see good demand for our specialist lending services, but we expect bad debts to continue to run at a high level given the current economic environment.

In Asset Management, the outlook for fund flows remains uncertain but we continue to invest in new business initiatives and structuring the business for long term growth.

In Securities, Winterflood has had a strong start to the financial year with good volumes in August and September, 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 continue to deliver a resilient performance.

FINANCIAL REVIEW

Overview

Summary Income Statement

	2009 £ million	2008 £ million	Change %
Continuing operations[1]			
Adjusted operating income	**502.1**	452.7	11
Adjusted operating expenses	**(328.5)**	(297.7)	10
Impairment losses on loans and advances	**(59.9)**	(27.5)	118
Adjusted operating profit	**113.7**	127.5	(11)
Exceptional expenses	**(6.0)**	(9.1)	
Impairment losses on goodwill	**(19.0)**	-	
Amortisation of intangible fixed assets on acquisition	**(0.4)**	-	
Operating profit before tax	**88.3**	118.4	(25)
Tax	**(26.1)**	(32.1)	(19)
Minority interests	**(0.3)**	(1.0)	(70)
Profit attributable to shareholders: continuing operations	**61.9**	85.3	(27)
Profit from discontinued operations	**10.4**	6.3	65
Minority interests: discontinued operations	**(0.6)**	(1.6)	(63)
Profit attributable to shareholders: continuing and discontinued operations	**71.7**	90.0	(20)
Adjusted earnings per share: continuing operations[2]	**60.5p**	63.7p	(5)
Basic earnings per share: continuing operations	**43.6p**	58.3p	(25)
Basic earnings per share: continuing and discontinued operations	**50.5p**	61.5p	(18)
Ordinary dividend per share	**39.0p**	39.0p	-

[1] Results from continuing operations for 2009 and 2008 exclude both the trading result and gain on disposal related to the Corporate Finance division, the sale of which was completed on 1 July 2009.
[2] Adjusted earnings per share: continuing operations excludes discontinued operations, exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition.

Close Brothers has achieved a solid overall result in the 2009 financial year notwithstanding difficult economic and market conditions. The Securities division in particular delivered a strong performance, although the group's overall profitability was impacted by higher bad debts in the Banking division and lower profit in the Asset Management division.

Adjusted operating income from continuing operations was £502.1 million (2008: £452.7 million), an 11% increase principally reflecting good trading volumes at Winterflood and a strong net interest margin on a larger loan book, partly offset by lower management fees in the Asset Management division.

Adjusted operating expenses from continuing operations increased 10% to £328.5 million (2008: £297.7 million). Higher variable costs in the Securities division, as a result of increased income and activity, and ongoing investment costs in the Banking division have been partially offset by cost savings, particularly in the Asset Management division.

FINANCIAL REVIEW

Overview continued

Overall, the group's cost savings programme has resulted in savings of approximately £11 million across the group in 2009, out of a total run-rate of around £13 million of cost savings expected by the end of the 2010 financial year.

Impairment losses on loans and advances ("bad debts") increased to £59.9 million (2008: £27.5 million) reflecting the impact of the deteriorating economic environment on borrowers and falling asset values across the lending businesses. This corresponds to an increase in the bad debt ratio to 2.6% (2008: 1.3%).

As a result, adjusted operating profit from continuing operations was £113.7 million (2008: £127.5 million), down 11%. This corresponds to an operating margin of 20% (2008: 27%).

The group reports adjusted operating profit after a number of standard adjustments in order to more accurately represent the underlying performance of the business. These adjustments include exceptional items, impairment losses on goodwill, and the amortisation of intangible fixed assets on acquisition.

Exceptional expenses in the period were £6.0 million of restructuring costs, the majority of which related to cost saving initiatives in the Asset Management division. In 2008, exceptional expenses were £9.1 million. No exceptional income was recorded in 2008 or 2009.

The group incurred a £19.0 million (2008: £nil) goodwill impairment charge, which was taken at 31 January 2009, and related to a number of past acquisitions in the Asset Management division. The annual goodwill impairment review carried out at the year end resulted in no additional goodwill impairment. The group also incurred a £0.4 million (2008: £nil) charge for amortisation of intangible assets on acquisition, related to acquisitions in the Banking division.

After these items, operating profit before tax from continuing operations was £88.3 million (2008: £118.4 million), down 25%.

The tax charge for the year on continuing operations was £26.1 million (2008: £32.1 million), corresponding to an effective tax rate of 30% (2008: 27%). The tax rate was affected by two broadly offsetting factors. The non tax deductible goodwill impairment of £19.0 million increased the effective tax rate by 6%, while the £16.1 million of associate income from Mako, which is included in operating profit before tax on a post-tax basis, reduced the effective tax rate by 5%. Excluding these factors, the underlying effective tax rate was 29% (2008: 29%).

Adjusted earnings per share from continuing operations reduced 5% to 60.5p (2008: 63.7p) and basic earnings per share from continuing operations reduced 25% to 43.6p (2008: 58.3p).

On 1 July 2009 the group completed the sale of its Corporate Finance division to Daiwa Securities SMBC Europe for a net consideration of £67 million. This business has been classified as a discontinued operation. The post-tax profit from discontinued operations was £10.4 million (2008: £6.3 million), which includes a gain on disposal of £12.4 million (2008: £nil) and a trading loss up to the date of disposal of £2.0 million (2008: profit of £6.3 million).

Basic earnings per share from continuing and discontinued operations was 50.5p (2008: 61.5p), down 18%.

The board is recommending a maintained final dividend of 25.5p (2008: 25.5p) per share, resulting in a total dividend for the year of 39.0p (2008: 39.0p) per share. This reflects the group's solid performance in the 2009 financial year and strong capital position.

FINANCIAL REVIEW

Overview continued

Divisional Performance

The Banking division accounted for 41% (2008: 51%) of adjusted operating profit from continuing operations before group net expenses. Performance has been resilient in a tough environment, with a 14% increase in operating income. However this was more than offset by higher bad debts, resulting in a 28% reduction in adjusted operating profit to £54.0 million (2008: £74.5 million).

The Asset Management division accounted for 9% (2008: 22%) of adjusted operating profit from continuing operations before group net expenses. The 63% reduction in adjusted operating profit to £12.0 million (2008: £32.6 million) reflects the difficult market conditions faced by the division and the impact of negative market movements on Funds under Management.

The contribution of the Securities division to adjusted operating profit from continuing operations before group net expenses increased to 50% (2008: 27%) as a result of a 68% increase in adjusted operating profit to £64.9 million (2008: £38.7 million). This reflects a very strong performance at Winterflood and a good contribution from Mako in the first half of the year.

Group adjusted operating expenses were £21.0 million (2008: £20.4 million), partially offset by adjusted operating income of £3.8 million (2008: £2.1 million), resulting in adjusted group net expenses of £17.2 million (2008: £18.3 million).

Divisional Adjusted Operating Profit (Continuing Operations)

	2009		2008		Change
	£ million	**%**	£ million	%	%
Banking	**54.0**	**41**	74.5	51	(28)
Asset Management	**12.0**	**9**	32.6	22	(63)
Securities	**64.9**	**50**	38.7	27	68
Total divisions	**130.9**	**100**	145.8	100	(10)
Group	**(17.2)**		(18.3)		(6)
Adjusted operating profit	**113.7**		127.5		(11)

FINANCIAL REVIEW

Overview continued

Balance Sheet

Close Brothers has maintained a strong balance sheet and remains soundly funded. Assets principally comprise the customer loan book, debt securities, and assets related to the group's market-making activities. Sources of funds principally comprise customer deposits, borrowings under bank facilities and equity.

Summary Balance Sheet

	31 July 2009 £ million	31 July 2008 £ million
Assets		
Cash and loans and advances to banks	**198.2**	309.3
Settlement balances, long trading positions and loans to money brokers	**728.9**	656.8
Loans and advances to customers	**2,364.9**	2,232.2
Non trading debt securities*	**2,261.3**	2,098.9
Intangible assets	**107.6**	134.4
Other assets	**358.4**	321.1
Total assets	**6,019.3**	5,752.7
Liabilities		
Settlement balances, short trading positions and loans from money brokers	**590.7**	556.9
Deposits by banks	**48.0**	298.2
Deposits by customers	**2,919.6**	2,641.7
Borrowings	**1,436.9**	1,241.5
Other liabilities	**326.4**	294.0
Total liabilities	**5,321.6**	5,032.3
Equity	**697.7**	720.4
Total liabilities and equity	**6,019.3**	5,752.7

* Excludes long trading positions in debt securities.

As at 31 July 2009, Close Brothers had total assets of £6,019.3 million (31 July 2008: £5,752.7 million).

Loans and advances to customers ("the loan book") increased by 6% to £2,364.9 million (31 July 2008: £2,232.2 million). This includes the £80 million acquisition of a premium finance loan book in August 2008. The loan book comprises loans to SMEs and consumers with an average maturity of twelve months, and the vast majority of loans are secured.

The company's treasury assets principally comprise cash and loans and advances to banks of £198.2 million (31 July 2008: £309.3 million) and non trading debt securities of £2,261.3 million (31 July 2008: £2,098.9 million). Non-trading debt securities include certificates of deposit, gilts and government guaranteed debt, and floating rate notes ("FRNs") issued by a range of financial institutions.

Non trading debt securities include £754.7 million (31 July 2008: £751.3 million) of FRNs classified as available for sale. The decline in the market prices of these instruments has resulted in a mark to market charge to equity reserves during the year of £15.2 million (2008: £15.7 million), net of tax, although the overall book value has increased as a result of foreign exchange movements. As at 31 July 2009, the aggregate negative mark to market adjustment was £31.6 million net of tax, an improvement relative to £46.5 million as at 31 January 2009.

FINANCIAL REVIEW

Overview continued

Assets related to market-making activities comprise settlement balances, long trading positions and loans to money brokers against stock advanced. These short-term balances increased to £728.9 million (31 July 2008: £656.8 million) reflecting higher activity levels in the Securities division. These were offset by £590.7 million (31 July 2008: £556.9 million) of liabilities related to settlement balances, short trading positions and loans from money brokers against stock advanced, resulting in a net balance of £138.2 million (31 July 2008: £99.9 million).

Intangible assets principally comprise goodwill and reduced to £107.6 million (31 July 2008: £134.4 million). This reflects a £19.0 million impairment of goodwill related to the Asset Management division and the sale of the Corporate Finance division, which had £11.5 million of intangible assets at 31 July 2008.

Customer deposits increased to £2,919.6 million (31 July 2008: £2,641.7 million) reflecting additional term retail deposits raised during the year. Deposits by banks were £48.0 million (31 July 2008: £298.2 million).

As at 31 July 2009, total borrowings were £1,436.9 million (31 July 2008: £1,241.5 million) and comprised loans and overdrafts from banks, debt securities in issue, non-recourse borrowings and subordinated loan capital. The movement in borrowings reflects new debt facilities drawn in the period.

Total equity as at 31 July 2009 was £697.7 million (31 July 2008: £720.4 million). Share capital and the share premium account remained broadly flat in the year at £37.4 million (31 July 2008: £37.3 million) and £274.5 million (31 July 2008: £274.1 million) respectively. The profit and loss account increased £13.7 million to £445.7 million (31 July 2008: £432.0 million), principally due to a profit for the year of £71.7 million partially offset by £55.2 million of dividend payments. Other reserves and minority interests decreased £36.9 million to £(59.9) million (31 July 2008: £(23.0) million) primarily due to the purchase of shares into treasury and the mark to market reserve movement on FRNs.

As at 31 July 2009, 5.5 million (31 July 2008: 2.0 million) of the company's shares were held in treasury. The net increase of 3.5 million (2008: 2.0 million) reflects purchases by the company for the purposes of satisfying option grants and share awards made under employee share plans, net of shares released due to the exercise of options or vesting of share awards, for a net consideration of £17.8 million (2008: £16.0 million).

Funding and Liquidity

The group remains soundly funded through a combination of drawn and undrawn bank facilities, long and short-term customer deposits and equity, and has strengthened its funding position against a backdrop of reduced market liquidity.

The group has traditionally used principally equity and wholesale debt facilities to fund its £2.4 billion loan book, with a policy of borrowing long and lending short, with the short-term deposit base invested in high quality money market instruments. Over the past year, the group has diversified its sources of funding by raising longer term retail deposits, to further increase the resilience of the funding model and reduce its reliance on the wholesale markets in a difficult credit environment. This has allowed the group to further strengthen its funding position and retain good headroom and flexibility.

FINANCIAL REVIEW

Overview continued

Funding Overview

	31 July 2009 £ million	31 July 2008 £ million	Change £ million
Drawn facilities[1]	**1,409.7**	1,227.3	182.4
Undrawn facilities	**392.6**	588.0	(195.4)
Deposits by customers > twelve months	**888.8**	36.6	852.2
Deposits by customers < twelve months[2]	**2,029.7**	2,605.1	(575.4)
Equity	**697.7**	720.4	(22.7)
Total available funding	**5,418.5**	5,177.4	241.1

[1] Drawn facilities exclude £27.2 million (2008: £14.2 million) of non-facility overdrafts included in borrowings.
[2] Deposits by customers < twelve months exclude £1.1 million (2008: £nil) of deposits held within Securities division.

During the year, the group has for the first time raised funds in the form of term retail deposits. To date the group has raised over £1 billion of retail deposits, resulting in £0.9 billion (31 July 2008: £0.0 billion) of deposits with a maturity of twelve months or more as at 31 July 2009. Whilst overall short-term deposits have reduced, the core corporate deposit base has proven its resilience in the financial turmoil experienced over the past year.

Notwithstanding the general reduction in the availability of wholesale funding in the market, the group has also replaced its expiring facilities during the year, and total drawn and undrawn facilities remained at £1.8 billion (31 July 2008: £1.8 billion). As at 31 July 2009, the group's wholesale funding had an average maturity of 24 months (31 July 2008: 30 months), and £1.4 billion (31 July 2008: £1.1 billion) had a maturity of twelve months or more.

Funding Maturity Profile as at 31 July 2009

	Less than one year £ million	One to two years £ million	Greater than two years £ million
Drawn facilities[1]	199.7	1,003.6	206.4
Undrawn facilities	177.6	-	215.0
Deposits by customers[2]	2,029.7	814.9	73.9
Total available funding at 31 July 2009	**2,407.0**	**1,818.5**	**495.3**
Total available funding at 31 July 2008	3,363.3	407.4	686.3

[1] Drawn facilities exclude £27.2 million (2008: £14.2 million) of non-facility overdrafts included in borrowings.
[2] Deposits by customers < twelve months exclude £1.1 million (2008: £nil) of deposits held within Securities division.

In January 2009, Close Brothers was granted eligibility to access the Government's Credit Guarantee Scheme, which gives the group access to a further potential source of medium-term funding. To date, the group has not issued debt under the scheme.

The Bank's long-term and short-term credit ratings were recently reaffirmed at A2/P1 by Moody's and A/F1 by Fitch, with the outlook ratings downgraded to negative in light of the deterioration in the UK economy.

Capital

The group has maintained a strong capital base with a core tier 1 capital ratio of 14.8% (31 July 2008: 14.4%) and total capital ratio of 16.6% (31 July 2008: 16.1%).

FINANCIAL REVIEW

Overview continued

Capital Position

	31 July 2009 Basel II £ million	31 July 2008 Basel II £ million
Core tier 1 capital	581.9	547.2
Total regulatory capital	651.6	613.6
Risk weighted assets (notional)*	3,936.8	3,804.0
Core tier 1 capital ratio	14.8%	14.4%
Total capital ratio	16.6%	16.1%

* Notional risk weighted assets calculated under Basel II include a notional adjustment for Pillar 1 operational and market risk requirements.

Total regulatory capital increased by £38.0 million during the year to £651.6 million (31 July 2008: £613.6 million). This reflects profit for the year of £71.7 million, dividend payments of £55.2 million and a £26.8 million reduction in the deduction for intangible assets. The net effect of other movements, including a £16.3 million increase in the exchange movements reserve and a £17.8 million net investment in own shares to hedge share-based award schemes, was broadly neutral.

Notional risk weighted assets increased by £132.8 million to £3,936.8 million (31 July 2008: £3,804.0 million). This primarily reflects an increase in credit and counterparty risk due to higher loan book exposures, partly offset by a reduction in operational risk as a result of the sale of the Corporate Finance division.

Key Financial Ratios

The group uses a number of key financial ratios ("KFRs") to monitor performance of the group as a whole and its divisions.

Group Key Financial Ratios

	2009	2008
Operating margin[1]	**20%**	27%
Expense/income ratio[2]	**68%**	67%
Compensation ratio[3]	**42%**	43%
Return on opening capital[4]	**10%**	12%

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

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

Given the diverse nature of the group's businesses, there are significant variations in these KFRs between divisions and the blended ratios reported for the group as a whole will reflect the mix of business in any given period.

The operating margin reduced to 20% (2008: 27%). This reflects a reduction of the operating margin in the Banking division as a result of higher bad debts and lower profit in the Asset Management division. The expense/income ratio remained broadly stable at 68% (2008: 67%), as did the compensation ratio at 42% (2008: 43%).

Return on opening capital reduced to 10% (2008: 12%) as higher profit in Securities was more than offset by lower returns in Asset Management and Banking.

FINANCIAL REVIEW

Banking

- 6% growth in loans and advances to customers to £2.4 billion
- 14% growth in adjusted operating income to £236 million
- Adjusted operating profit down 28% to £54 million
- Bad debt ratio increased to 2.6%

Key Divisional Metrics

	2009 £ million	2008 £ million	Change %
Adjusted operating income	**235.5**	207.1	14
Net interest and fees on loan book	**216.2**	180.3	20
Treasury and other non-lending income	**19.3**	26.8	(28)
Adjusted operating expenses	**(121.6)**	(105.1)	16
Impairment losses on loans and advances	**(59.9)**	(27.5)	118
Adjusted operating profit	**54.0**	74.5	(28)
Net interest margin[1]	**9.4%**	8.6%	
Bad debt ratio[2]	**2.6%**	1.3%	
Closing loan book	**2,364.9**	2,232.2	6

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

The performance of the Banking division has been resilient through the difficult financial markets and challenging economic conditions. Whilst the overall result has been impacted by higher bad debts, the division continues to see good demand for its lending services and closing loans and advances to customers ("the loan book") increased 6% to £2.36 billion as at 31 July 2009 (31 July 2008: £2.23 billion).

Adjusted operating income increased 14% to £235.5 million (2008: £207.1 million). Net interest and fees on the loan book increased 20%, driven by 10% growth in the average loan book whilst maintaining a strong net interest margin of 9.4% (2008: 8.6%) notwithstanding an ongoing increase in funding costs. Treasury and other non-lending income reduced by 28% to £19.3 million (2008: £26.8 million) and was impacted by lower interest income on deposits and higher cost of funding in the second half of the year.

Adjusted operating expenses increased 16% to £121.6 million (2008: £105.1 million), driven by an £11 million impact of acquisitions made in 2008 and 2009, as well as ongoing investment in the businesses.

Impairment losses on loans and advances ("bad debts") increased 118% to £59.9 million (2008: £27.5 million), which reflects the deteriorating economic environment and its impact on borrowers. Business failures and falling asset values have led to a bad debt ratio for the division as a whole of 2.6% (2008: 1.3%). Bad debts have increased across all areas of the loan book although property remains a significant contributor.

Adjusted operating profit declined 28% to £54.0 million (2008: £74.5 million). This corresponds to an operating margin of 23% (2008: 36%).

FINANCIAL REVIEW

Banking continued

Loan Book Analysis

	31 July 2009 £ million	31 July 2008 £ million	Change %
Asset finance	**808.4**	757.3	7
Premium finance	**455.5**	403.8	13
Property finance	**487.2**	446.4	9
Motor finance	**443.5**	414.3	7
Invoice finance	**170.3**	210.4	(19)
Closing loan book	**2,364.9**	2,232.2	6

During the year, the loan book increased 6% to £2,364.9 million as at 31 July 2009 (31 July 2008: £2,232.2 million) including an £80 million premium finance loan book acquired from Kaupthing Singer & Friedlander in August 2008. Excluding the impact of this acquisition, organic loan book growth was 2%. This reflects good demand for new business, particularly in asset, motor and property finance, although the loan book in invoice finance reduced as a result of lower new lending and increased business failures. Throughout the year, the division has consistently maintained a cautious approach to new lending with conservative loan to value ratios.

Banking Key Financial Ratios

	2009	2008
Operating margin	**23%**	36%
Expense/income ratio	**52%**	51%
Compensation ratio	**28%**	30%
Return on opening capital	**12%**	18%
Return on net loan book*	**2.3%**	3.6%

*Banking division adjusted operating profit before tax on the average net loan book.

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

The division’s operating margin reduced to 23% (2008: 36%) as a result of higher bad debts. The expense/income ratio, which excludes bad debts, increased slightly to 52% (2008: 51%) while the compensation ratio reduced slightly to 28% (2008: 30%).

The division achieved a return on opening capital of 12% (2008: 18%) and a return on the average net loan book of 2.3% (2008: 3.6%), notwithstanding the impact of higher bad debts on profitability.

FINANCIAL REVIEW

Asset Management

- Closing Funds under Management down 17% to £6.8 billion reflecting deconsolidations and market movements
- Adjusted operating profit down 63% to £12 million
- Private Clients net new funds £161 million

Key Divisional Metrics

	2009 £ million	2008 £ million	Change %
Adjusted operating income	**95.0**	133.5	(29)
Management fees on FuM	**54.3**	79.5	(32)
Income on Assets under Administration and deposits	**37.6**	41.8	(10)
Performance fees and investment income	**3.1**	12.2	(75)
Adjusted operating expenses	**(83.0)**	(100.9)	(18)
Adjusted operating profit	**12.0**	32.6	(63)
Management fees/average FuM (bps)	**72**	92	(22)
Closing FuM	**6,839**	8,195	(17)

The Asset Management division has continued to be affected by difficult financial markets, although the private client business has remained resilient. Closing Funds under Management ("FuM") reduced 17% to £6.8 billion (2008: £8.2 billion) primarily reflecting the deconsolidation of the group's private equity businesses (£0.7 billion) and negative market movements (£0.6 billion) although net new funds were broadly neutral.

Adjusted operating income for the year declined 29% to £95.0 million (2008: £133.5 million).

Lower Management fees on FuM was the most significant contributor to the reduction in income, declining by 32% to £54.3 million (2008: £79.5 million). This reflects a 13% reduction in average FuM to £7.5 billion, as well as a 20 bps reduction in management fees/average FuM ("the revenue margin") to 72 bps (2008: 92 bps). The lower revenue margin primarily reflects changes in the mix of FuM, including the impact of the deconsolidation of the group's private equity businesses during the course of the year which accounted for approximately half of the reduction.

Income on Assets under Administration and deposits reduced by 10% to £37.6 million (2008: £41.8 million). This primarily reflects the impact of the lower interest rate environment on margins earned on customer deposits and corporate balances.

Performance fees and investment income was £3.1 million (2008: £12.2 million), reflecting the changing business mix and a smaller contribution from the group's private equity activities.

Adjusted operating expenses reduced 18% to £83.0 million (2008: £100.9 million). This primarily reflects the benefit of cost saving measures and the deconsolidation of the private equity businesses. In aggregate, cost reduction measures undertaken in 2008 and 2009 resulted in cost savings of around £7 million in 2009. A full run-rate of cost savings of around £9 million is expected to be achieved by the end of the 2010 financial year. These measures resulted in exceptional restructuring costs of £4.4 million in 2009 (2008: £2.1 million).

Adjusted operating profit was £12.0 million (2008: £32.6 million). This corresponds to an operating margin of 13% (2008: 24%).

FINANCIAL REVIEW

Asset Management continued

Funds under Management

	Private Clients £ million	Funds £ million	Total £ million
As at 1 August 2008	3,316	4,879	**8,195**
New funds raised	533	625	**1,158**
Redemptions, realisations and withdrawals	(372)	(806)	**(1,178)**
Net new funds	161	(181)	**(20)**
Market movement	(128)	(500)	**(628)**
Deconsolidations*	-	(708)	**(708)**
As at 31 July 2009	**3,349**	**3,490**	**6,839**
Change	**1%**	**(28)%**	**(17)%**

* Deconsolidations relate to Close Brothers Private Equity, Close Ventures Limited, and Close Growth Capital.

As at 31 July 2009, total closing FuM were £6.8 billion (31 July 2008: £8.2 billion), a 17% decline. This reflects the £0.7 billion impact of the deconsolidation of the private equity businesses, £0.6 billion of negative market movements, and broadly neutral net new funds. In Private Clients, FuM were maintained at £3.3 billion (31 July 2008: £3.3 billion) as a negative market movement of £128 million (4% of opening FuM) was more than offset by £161 million (5% of opening FuM) of net new funds. However, Funds was impacted by net outflows of £181 million (4% of opening FuM) and a negative market movement of £500 million (10% of opening FuM), which partly reflects its higher exposure to the property sector. Including the impact of the deconsolidation of the private equity businesses, this resulted in a 28% reduction in FuM in Funds to £3.5 billion (31 July 2008: £4.9 billion).

The mix of assets and investment performance have provided some insulation against falling markets and overall negative market movements of 8% of opening FuM compare to a decline in the FTSE 100 of 15% over the same period.

Funds under Management by Asset Class

	31 July 2009	31 July 2008
Equities	**42%**	37%
Fixed income and cash	**28%**	23%
Property	**13%**	15%
Private equity	**-**	9%
Hedge funds	**8%**	8%
Structured funds	**9%**	8%

The last twelve months have seen a shift in the mix of asset classes towards equities, fixed income and cash which now account for 70% (2008: 60%) of total FuM in aggregate. This reflects the deconsolidation of the private equity businesses as well as the lower FuM in Funds, which has a higher exposure to property, hedge funds and structured funds.

Despite challenging market conditions, investment performance in the Private Client business was strong, outperforming the APCIMS indices during the year. Performance for the products in the Funds business was mixed, reflecting difficult market conditions.

FINANCIAL REVIEW

Asset Management continued

Asset Management Key Financial Ratios

	2009	2008
Operating margin	**13%**	24%
Expense/income ratio	**87%**	76%
Compensation ratio	**57%**	48%
Return on opening capital	**6%**	17%
Net new funds/opening FuM	**0%**	(4)%

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

The division's profitability has been impacted by the significant reduction in income in the year. Despite a £17.9 million reduction in costs, the expense/income ratio increased to 87% (2008: 76%) and the compensation ratio increased to 57% (2008: 48%). This corresponds to a reduction in operating margin to 13% (2008: 24%) and in return on opening capital to 6% (2008: 17%).

Net new funds/opening FuM stabilised at 0% (2008: (4)%) reflecting net new funds of £161 million (2008: net outflow of £45 million) in Private Clients and a lower net outflow of £181 million (2008: net outflow of £322 million) in Funds.

FINANCIAL REVIEW

Securities

- Adjusted operating profit up 68% to £65 million
- Winterflood bargains per day increased 54% to 42,000
- Good contribution from Mako of £16 million
- A muted performance for Close Brothers Seydler

Key Divisional Metrics

	2009 £ million	2008 £ million	Change %
Adjusted operating income	**167.8**	110.0	53
Adjusted operating expenses	**(102.9)**	(71.3)	44
Adjusted operating profit	**64.9**	38.7	68

Note: 2009 adjusted operating income and adjusted operating profit include £16.1 million of post tax associate income (2008: £7.2 million) from Mako.

The Securities division has had a strong performance, benefiting from good volumes at Winterflood and a good contribution of associate income from Mako. This has resulted in a 53% increase in adjusted operating income to £167.8 million (2008: £110.0 million) and a 68% increase in adjusted operating profit to £64.9 million (2008: £38.7 million).

Adjusted operating profit excludes £0.9 million (2008: £1.3 million) of exceptional expenses related to restructuring costs.

Key Winterflood Metrics

	2009 £ million	2008 £ million	Change %
Adjusted operating income	**128.4**	81.0	59
Adjusted operating expenses	**(81.1)**	(57.5)	41
Adjusted operating profit	**47.3**	23.5	101
Number of bargains (million)	**10.7**	7.0	53
Average bargains per trading day	**42,364**	27,437	54
Income per bargain	**£11.98**	£11.58	3

Winterflood adjusted operating income increased 59% to £128.4 million (2008: £81.0 million). This was the result of a significant increase in trading volumes, as Winterflood benefited from its strong market position in a period of higher market volumes, supported by retail activity and the rally in equity markets in the second half of the financial year. Average bargains per trading day increased 54% to 42,364 (2008: 27,437), corresponding to 10.7 million (2008: 7.0 million) total bargains. Income per bargain was broadly stable at £11.98 (2008: £11.58).

Trading performance was consistent with a total of only seven (2008: 14) loss days out of a total 253 (2008: 254) trading days.

Adjusted operating expenses increased 41% to £81.1 million (2008: £57.5 million) reflecting higher variable costs as a result of a strong trading performance.

Adjusted operating profit increased 101% to £47.3 million (2008: £23.5 million). This corresponds to an operating margin of 37% (2008: 29%).

FINANCIAL REVIEW

Securities continued

Key Close Brothers Seydler Metrics

	2009 £ million	2008 £ million	Change %
Adjusted operating income	**23.3**	21.8	7
Adjusted operating expenses	**(21.8)**	(13.8)	58
Adjusted operating profit	**1.5**	8.0	(81)

Performance at Close Brothers Seydler ("CBS") has been muted. Adjusted operating income increased 7% to £23.3 million (2008: £21.8 million) but reduced 7% on a constant currency basis. This reflects low retail volumes in the German market and a particularly difficult environment for small and mid cap stocks, and income was also affected by a write-down of investment assets. However, CBS has maintained a strong market position with 2,158 specialist floor mandates (2008: 2,151) and 164 (2008: 160) designated sponsoring clients and had continued to invest and strengthen its team during the year.

Adjusted operating expenses were £21.8 million (2008: £13.8 million). The £8.0 million increase is principally due to a £4.1 million provision reversal in 2008 and a £2.8 million impact of foreign exchange translation. Adjusted operating profit was £1.5 million (2008: £8.0 million, including the impact of the provision reversal).

Key Mako Metrics

	2009 £ million	2008[2] £ million	Change %
Adjusted operating profit[1]	**22.3**	10.5	112
Tax on adjusted operating profit[1]	**(6.2)**	(3.3)	88
Profit after tax[1]	**16.1**	7.2	124

[1]Close Brothers share of result.
[2]Ten months to 31 July 2008; 49.9% acquired October 2007.

The 49.9% investment in Mako generated £16.1 million (2008: £7.2 million) of post tax associate income. This was the result of a very good performance in the first half, when Mako benefited from high volatility and market activity related to interest rate movements. The result also benefited from foreign exchange translation.

Securities Key Financial Ratios

	2009	2008
Operating margin	**32%**	31%
Expense/income ratio	**68%**	69%
Compensation ratio	**46%**	45%
Return on opening capital	**35%**	25%

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

The operating margin in the division increased slightly to 32% (2008: 31%) as higher profitability in Winterflood was partly offset by the 2008 provision reversal at CBS. This corresponds to a slight reduction in the expense/income ratio to 68% (2008: 69%). The compensation ratio increased slightly to 46% (2008: 45%).

The return on opening capital increased to 35% (2008: 25%) reflecting the increased profitability of the division.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 July 2009

	Note	**2009 £ million**	2008* £ million
Continuing operations			
Interest income		**352.8**	381.3
Interest expense		**(171.0)**	(213.5)
Net interest income		**181.8**	167.8
Fee and commission income		**171.4**	201.6
Fee and commission expense		**(19.7)**	(28.4)
Gains less losses arising from dealing in securities		**140.2**	89.8
Share of profit of associates		**16.1**	7.4
Other income		**12.3**	14.5
Non-interest income		**320.3**	284.9
Operating income		**502.1**	452.7
Administrative expenses		**334.5**	306.8
Impairment losses on loans and advances	10	**59.9**	27.5
Impairment losses on goodwill		**19.0**	-
Amortisation of intangible fixed assets on acquisition		**0.4**	-
Total operating expenses before exceptional items, goodwill impairment and amortisation of intangible fixed assets on acquisition		**388.4**	325.2
Exceptional items	4	**6.0**	9.1
Impairment losses on goodwill		**19.0**	-
Amortisation of intangible fixed assets on acquisition		**0.4**	-
Total operating expenses		**413.8**	334.3
Operating profit before exceptional items, goodwill impairment and amortisation of intangible fixed assets on acquisition and tax		**113.7**	127.5
Exceptional items	4	**(6.0)**	(9.1)
Impairment losses on goodwill		**(19.0)**	-
Amortisation of intangible fixed assets on acquisition		**(0.4)**	-
Operating profit before tax		**88.3**	118.4
Tax	6	**26.1**	32.1
Profit after tax from continuing operations		**62.2**	86.3
Profit for the period from discontinued operations	7	**10.4**	6.3
Profit attributable to minority interests from continuing operations		**0.3**	1.0
Profit attributable to minority interests from discontinued operations		**0.6**	1.6
Profit attributable to the shareholders of the company		**71.7**	90.0
From continuing operations			
Basic earnings per share	8	**43.6p**	58.3p
Diluted earnings per share	8	**43.2p**	57.5p
From continuing and discontinued operations			
Basic earnings per share	8	**50.5p**	61.5p
Diluted earnings per share	8	**50.0p**	60.7p
Ordinary dividend per share	9	**39.0p**	39.0p

*Re-presented (see note 2).

CONSOLIDATED BALANCE SHEET
at 31 July 2009

	Note	**2009 £ million**	2008* £ million
Assets			
Cash and balances at central banks		**1.7**	1.5
Settlement balances		**508.7**	450.0
Loans and advances to banks		**196.5**	307.8
Loans and advances to customers	10	**2,364.9**	2,232.2
Debt securities	11	**2,299.2**	2,160.3
Equity shares	12	**62.0**	87.8
Loans to money brokers against stock advanced		**158.3**	106.8
Derivative financial instruments		**32.5**	10.9
Interests in associates		**71.9**	73.2
Intangible assets	13	**107.6**	134.4
Property, plant and equipment		**41.6**	32.6
Deferred tax assets		**32.6**	29.0
Prepayments, accrued income and other assets	14	**141.8**	126.2
Total assets		**6,019.3**	5,752.7
Liabilities			
Settlement balances and short positions	15	**590.7**	489.9
Deposits by banks	16	**48.0**	298.2
Deposits by customers	16	**2,919.6**	2,641.7
Loans and overdrafts from banks	16	**1,340.5**	981.8
Debt securities in issue	16	**21.4**	19.7
Loans from money brokers against stock advanced		**-**	67.0
Derivative financial instruments		**21.9**	1.9
Accruals, deferred income and other liabilities	14	**304.5**	292.1
Non-recourse borrowings		**-**	165.0
Subordinated loan capital		**75.0**	75.0
Total liabilities		**5,321.6**	5,032.3
Equity			
Called up share capital	17	**37.4**	37.3
Share premium account	17	**274.5**	274.1
Profit and loss account	17	**445.7**	432.0
Other reserves and minority interests	17	**(59.9)**	(23.0)
Total equity		**697.7**	720.4
Total liabilities and equity		**6,019.3**	5,752.7

*Re-presented (see note 2).

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the year ended 31 July 2009

	2009 £ million	2008 £ million
Profit after tax	**72.6**	92.6
Currency translation gains	**18.8**	2.1
Losses on cash flow hedges	**(11.1)**	(0.1)
Other losses	**(2.8)**	(1.1)
Gains/(losses) on financial instruments classified as available for sale:		
Gilts and government guaranteed debt	**0.6**	-
Floating rate notes	**(15.2)**	(15.7)
Equity shares	**(8.8)**	(8.7)
	(18.5)	(23.5)
	54.1	69.1
Of which, attributable to:		
Minority interests	**0.9**	2.6
Shareholders	**53.2**	66.5
	54.1	69.1

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 July 2009

	Note	**2009 £ million**	2008 £ million
Net cash (outflow)/inflow from operating activities	19(a)	**(168.8)**	480.9
Net cash outflow from investing activities:			
Dividends received from associates		**19.6**	1.1
Purchase of:			
Assets let under operating leases		**(12.4)**	(3.8)
Property, plant and equipment		**(8.8)**	(8.5)
Intangible assets		**(1.8)**	(2.6)
Equity shares held for investment		**(3.4)**	(22.2)
Own shares for employee share award schemes		**(22.1)**	(19.2)
Minority interests		**(0.6)**	(9.6)
Purchase of loan book		**(9.1)**	-
Subsidiaries and associates	19(b)	**(19.7)**	(111.2)
Sale of:			
Property, plant and equipment		**1.9**	6.4
Equity shares held for investment		**1.0**	8.3
Subsidiaries	19(c)	**51.1**	-
		(4.3)	(161.3)
Net cash (outflow)/inflow before financing		**(173.1)**	319.6
Financing activities:			
Issue of ordinary share capital	19(d)	**0.5**	10.0
Equity dividends paid		**(55.2)**	(92.7)
Dividends paid to minority interests		**(1.6)**	(1.4)
Interest paid on subordinated loan capital		**(5.6)**	(5.6)
Reclassification of floating rate notes classified as available for sale		**(751.3)**	-
Net (decrease)/increase in cash		**(986.3)**	229.9
Cash and cash equivalents at 1 August 2008		**2,384.6**	2,154.7
Cash and cash equivalents at 31 July 2009	19(e)	**1,398.3**	2,384.6

THE NOTES

1. Basis of preparation and accounting policies

The financial information contained in this announcement does not constitute the statutory accounts for the years ended 31 July 2009 or 31 July 2008 within the meaning of section 435 of the Companies Act 2006, but is derived from those accounts. The accounting policies used are consistent with those set out in the Annual Report 2008. The financial statements are prepared on a going concern basis.

While the financial information has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS"), this announcement does not itself contain sufficient information to comply with IFRS. The company expects to publish full financial statements that comply with IFRS by 16 October 2009.

The financial information for the year ended 31 July 2009 has been derived from the audited financial statements of Close Brothers Group plc for that year. Statutory accounts for 2008 have been delivered to the Registrar of Companies and those for 2009 will be delivered following the company's Annual General Meeting. The auditors, Deloitte LLP, have reported on those accounts: their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

2. Re-presentation of income statement and balance sheet

During the period the group has undertaken a review of the presentation in its primary financial statements seeking to enhance the ease of comprehension for users of the accounts, to better align disclosed statutory information both with the way management information is presented internally and with externally disclosed KFRs, and to respond to evolving market practice. The revised presentation of the consolidated income statement and balance sheet provides a clearer base from which to analyse the results and position of the group and is more closely aligned to market practice and the way the group is managed.

In prior years, the group has presented debt and equity financial instruments on the basis of their IAS 39 "Financial Instruments: Recognition and Measurement" categorisation on the face of the consolidated balance sheet. These instruments are now presented as "Debt securities" and "Equity shares". Where line items have been combined relevant breakdowns and analyses by IAS 39 category have been provided in the notes. The prior period comparatives have therefore been re-presented for consistency.

To enable proper comparisons and in line with the treatment adopted for the 2009 income statement, the 2008 comparative information has also been re-presented for certain fee income and expense items and for interest income and expense. This has resulted in interest income and expense increasing by £16.7 million and £1.2 million respectively, with a decrease in fee and commission income of £29.2 million and a decrease in fee and commission expense of £13.7 million. The impact on 2009 has been to increase interest income and expense by £15.1 million and £2.6 million respectively and to decrease fee and commission income and expense by £27.5 million and £15.0 million respectively. There has been no impact on operating income or profit attributable to the shareholders of the company or the KFRs disclosed in the Financial Review section of this preliminary results announcement.

THE NOTES

3. 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, Asset Management and Securities. The group previously had another primary division, Corporate Finance. This division was disposed of in July 2009 and has been classified as a discontinued operation in this preliminary results announcement.

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.

Summary Income Statement for the year ended 31 July 2009

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Continuing operations £ million	Discontinued operations £ million	Total £ million
Operating income before exceptional items	**235.5**	**95.0**	**167.8**	**3.8**	**502.1**	**36.3**	**538.4**
Administrative expenses	**(121.6)**	**(83.0)**	**(102.9)**	**(21.0)**	**(328.5)**	**(38.7)**	**(367.2)**
Impairment losses on loans and advances	**(59.9)**	**-**	**-**	**-**	**(59.9)**	**-**	**(59.9)**
Total operating expenses before exceptionals	**(181.5)**	**(83.0)**	**(102.9)**	**(21.0)**	**(388.4)**	**(38.7)**	**(427.1)**
Adjusted operating profit*	**54.0**	**12.0**	**64.9**	**(17.2)**	**113.7**	**(2.4)**	**111.3**
Exceptional items:							
Restructuring costs	**-**	**(4.4)**	**(0.9)**	**(0.7)**	**(6.0)**	**-**	**(6.0)**
Impairment losses on goodwill	**-**	**(19.0)**	**-**	**-**	**(19.0)**	**-**	**(19.0)**
Amortisation of intangible fixed assets on acquisition	**(0.4)**	**-**	**-**	**-**	**(0.4)**	**-**	**(0.4)**
Gain on disposal of discontinued operations	**-**	**-**	**-**	**-**	**-**	**12.4**	**12.4**
Operating profit before tax	**53.6**	**(11.4)**	**64.0**	**(17.9)**	**88.3**	**10.0**	**98.3**
Tax	**(16.3)**	**(1.4)**	**(13.8)**	**5.4**	**(26.1)**	**0.4**	**(25.7)**
Minority interests	**(0.2)**	**(0.1)**	**-**	**-**	**(0.3)**	**(0.6)**	**(0.9)**
Profit after tax and minority interests	**37.1**	**(12.9)**	**50.2**	**(12.5)**	**61.9**	**9.8**	**71.7**

*Adjusted operating profit is stated before exceptional items, goodwill impairment, amortisation of intangible fixed assets on acquisition, gain on disposal of discontinued operations and tax.

For the year ended 31 July 2009, the operating income before exceptional items and the operating profit before tax of the Securities division included £16.1 million relating to its share of profit of associates.

THE NOTES

3. Segmental analysis continued

Summary Balance Sheet at 31 July 2009

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Assets					
Cash and loans and advances to banks	27.9	145.3	24.3	0.7	198.2
Settlement balances, long trading positions and loans to money brokers*	-	-	728.9	-	728.9
Loans and advances to customers	2,352.6	12.3	-	-	2,364.9
Non trading debt securities	1,999.5	257.4	4.4	-	2,261.3
Intangible assets	24.4	53.9	29.3	-	107.6
Other assets	189.1	56.5	17.2	95.6	358.4
Intercompany balances	(332.6)	379.7	(27.6)	(19.5)	-
Total assets	4,260.9	905.1	776.5	76.8	6,019.3
Liabilities					
Settlement balances, short trading positions and loans from money brokers	-	-	590.7	-	590.7
Deposits by banks	33.0	15.0	-	-	48.0
Deposits by customers	2,241.9	676.6	1.1	-	2,919.6
Borrowings	1,417.6	1.1	18.2	-	1,436.9
Other liabilities	186.1	50.0	69.7	20.6	326.4
Intercompany balances	91.6	21.5	0.3	(113.4)	-
Total liabilities	3,970.2	764.2	680.0	(92.8)	5,321.6
Equity	290.7	140.9	96.5	169.6	697.7
Total liabilities and equity	4,260.9	905.1	776.5	76.8	6,019.3

*£37.9 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 pro forma balance sheet. These balances are included within "Debt securities" on the Consolidated Balance Sheet.

Other segmental information for the year ended 31 July 2009

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Property, plant, equipment and intangible asset expenditure	17.2	1.8	2.2	1.1	22.3
Employees (average number)	1,316	805	259	68	2,448

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3. Segmental analysis continued

Summary Income Statement for the year ended 31 July 2008

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Continuing operations £ million	Discontinued operations £ million	Total £ million
Operating income before exceptional items	207.1	133.5	110.0	2.1	452.7	56.5	509.2
Administrative expenses	(105.1)	(100.9)	(71.3)	(20.4)	(297.7)	(46.5)	(344.2)
Impairment losses on loans and advances	(27.5)	-	-	-	(27.5)	-	(27.5)
Total operating expenses before exceptionals	(132.6)	(100.9)	(71.3)	(20.4)	(325.2)	(46.5)	(371.7)
Adjusted operating profit*	74.5	32.6	38.7	(18.3)	127.5	10.0	137.5
Exceptional items: Advisers' fees and restructuring costs	(0.3)	(2.1)	(1.3)	(5.4)	(9.1)	(0.9)	(10.0)
Operating profit before tax	74.2	30.5	37.4	(23.7)	118.4	9.1	127.5
Tax	(21.6)	(5.9)	(8.5)	3.9	(32.1)	(2.8)	(34.9)
Minority interests	(0.1)	(0.6)	-	(0.3)	(1.0)	(1.6)	(2.6)
Profit after tax and minority interests	52.5	24.0	28.9	(20.1)	85.3	4.7	90.0

*Adjusted operating profit is stated before exceptional items, goodwill impairment, amortisation of intangible fixed assets on acquisition, gain on disposal of discontinued operations and tax.

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

Summary Balance Sheet at 31 July 2008

	Banking £ million	Asset Management £ million	Corporate Finance £ million	Securities £ million	Group £ million	Total £ million
Assets						
Cash and loans and advances to banks	42.0	226.8	16.3	23.6	0.6	309.3
Settlement balances, long trading positions and loans to money brokers*	-	-	-	656.8	-	656.8
Loans and advances to customers	2,220.0	12.2	-	-	-	2,232.2
Non trading debt securities	1,752.2	338.3	-	8.4	-	2,098.9
Intangible assets	29.9	62.7	11.5	30.3	-	134.4
Other assets	120.1	60.2	23.9	19.5	97.4	321.1
Intercompany balances	(283.9)	348.4	6.7	(26.7)	(44.5)	-
Total assets	3,880.3	1,048.6	58.4	711.9	53.5	5,752.7
Liabilities						
Settlement balances, short trading positions and loans from money brokers	-	-	-	556.9	-	556.9
Deposits by banks	288.2	10.0	-	-	-	298.2
Deposits by customers	1,855.0	786.7	-	-	-	2,641.7
Borrowings	1,108.2	-	-	2.5	130.8	1,241.5
Other liabilities	104.5	78.7	28.5	52.9	29.4	294.0
Intercompany balances	218.9	21.7	16.7	1.0	(258.3)	-
Total liabilities	3,574.8	897.1	45.2	613.3	(98.1)	5,032.3
Equity	305.5	151.5	13.2	98.6	151.6	720.4
Total liabilities and equity	3,880.3	1,048.6	58.4	711.9	53.5	5,752.7

*£61.4 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 pro forma balance sheet. These balances are included within "Debt securities" on the Consolidated Balance Sheet.

THE NOTES

3. Segmental analysis continued

Other segmental information for the year ended 31 July 2008

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Continuing operations £ million	Discontinued operations £ million	Total £ million
Property, plant, equipment and intangible asset expenditure	6.6	2.0	2.2	1.0	11.8	3.1	14.9
Employees (average number)	1,230	874	266	68	2,438	186	2,624

4. Exceptional items

	2009 £ million	2008 £ million
Exceptional expenses		
Advisers' fees in respect of potential offers for the group	-	(5.0)
Restructuring costs	**(6.0)**	(4.1)
	(6.0)	(9.1)

Exceptional items are items of income and expense that are material by size and/or nature and are non-recurring. The separate reporting of exceptional items helps give an indication of the group's underlying performance.

5. Goodwill impairment

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

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

The annual goodwill impairment review which was carried out subsequent to this resulted in no additional goodwill impairment being recognised.

THE NOTES

6. Tax expense

	2009 £ million	2008 £ million
Tax recognised in the income statement:		
UK corporation tax	**26.2**	27.6
Foreign tax	**0.8**	3.2
Current year tax charge	**27.0**	30.8
Deferred tax (credit)/expense	**(0.8)**	1.0
Prior year tax provision	**(0.1)**	0.3
	26.1	32.1
Tax recognised in equity:		
Current tax relating to:		
Financial instruments classified as available for sale	**(5.1)**	(6.5)
Share-based transactions	**-**	(2.1)
Deferred tax relating to:		
Cash flow hedging	**(4.4)**	(0.1)
Financial instruments classified as available for sale	**0.6**	(3.5)
Share-based transactions	**0.5**	0.6
	(8.4)	(11.6)

The effective tax rate for the year is 29.6% (2008: 27.1%). The effective tax rate for the period is above the UK corporation tax rate of 28% due to goodwill impairment, other disallowable expenditure and a reduction in the deferred tax asset relating to employee benefits. These effects are offset by the inclusion of the share of profit of associates in the Consolidated Income Statement on an after tax basis in accordance with IAS 1 “Presentation of financial statements” and by the net lower tax rates applied to profits arising outside the UK.

UK corporation tax remained at 28% for the year ended 31 July 2009. The weighted average UK corporation tax rate for the year ended 31 July 2008 was 29.3%, being 30% for the eight months to 31 March 2008 and 28% for the four months to 31 July 2008.

THE NOTES

7. Discontinued operations

On 18 May 2009 a binding sale agreement was entered into for the sale of the Corporate Finance division for total net cash consideration of £67 million (including the settlement of an intra-group loan). Gross consideration was £75 million after contribution of £8 million of working capital to Corporate Finance prior to completion. The transaction was completed on 1 July 2009 on which date control passed to the acquirer. The gain on disposal has been calculated based on the cash consideration received after settlement of an intra-group loan, less the group's share of net assets of the Corporate Finance division at date of disposal and directly attributable costs of sale. In addition, in accordance with IFRS, the cumulative exchange differences related to the division have been recycled to the income statement as part of the gain on disposal.

The results of the discontinued operations which have been included in the Consolidated Income Statement were as follows:

	2009 £ million	2008 £ million
Operating income	**36.3**	56.5
Operating expenses	**(38.7)**	(47.4)
Operating (loss)/profit before tax	**(2.4)**	9.1
Tax	**0.4**	(2.8)
(Loss)/profit after tax	**(2.0)**	6.3
Gain on disposal of discontinued operations	**12.4**	-
Tax	**-**	-
Gain after tax on disposal of discontinued operations	**12.4**	-
Profit for the period from discontinued operations	**10.4**	6.3

The net assets of the Corporate Finance division at the date of disposal were as follows:

Property, plant and equipment	2.9
Loans and advances to banks	24.2
Other receivables	9.7
Other assets	4.8
Intra-group loan	(42.5)
Other liabilities	(13.4)
Attributable goodwill	33.6
	19.3

During the year the Corporate Finance division contributed £9.2 million (2008: £18.5 million) to the group's net operating cash flows and paid £16.1 million (2008: £20.5 million) in respect of investing activities.

THE NOTES

8. 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 Corporate Finance division which was disposed of in July 2009 and 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, adjusted basic earnings per share excludes discontinued activities, exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition to enable comparison of the underlying earnings of the business with prior periods and adjusted diluted earnings per share takes into account the same dilution effects as for diluted earnings per share described above.

	2009	2008
Earnings per share		
Continuing operations		
Basic	**43.6p**	58.3p
Diluted	**43.2p**	57.5p
Adjusted basic	**60.5p**	63.7p
Adjusted diluted	**59.9p**	62.8p
Continuing and discontinued operations		
Basic	**50.5p**	61.5p
Diluted	**50.0p**	60.7p
	£ million	£ million
Profit attributable to shareholders	**71.7**	90.0
Gain for the period from discontinued operations	**(10.4)**	(6.3)
Element attributable to minority interests	**0.6**	1.6
Profit attributable to shareholders on continuing operations	**61.9**	85.3
Adjustments:		
Exceptional expense	**6.0**	9.1
Tax effect of exceptional items	**(1.5)**	(1.2)
Impairment losses on goodwill	**19.0**	-
Amortisation of intangible fixed assets on acquisition	**0.4**	-
Adjusted profit attributable to shareholders on continuing operations	**85.8**	93.2
	million	million
Average number of shares		
Basic weighted	**141.9**	146.4
Effect of dilutive share options and awards	**1.4**	1.9
Diluted weighted	**143.3**	148.3

THE NOTES

8. Earnings per share continued

The gain for the year from discontinued operations, net of any minority interest effect, is £9.8 million (2008: £4.7 million). The basic earnings per share from discontinued operations is 6.9p (2008: 3.2p) and the diluted earnings per share from discontinued operations is 6.8p (2008: 3.2p).

Adjusted basic earnings per share on a continuing and discontinued basis was 67.4p (2008: 67.3p), based on adjusted profit attributable to shareholders on continuing and discontinued operations of £95.7 million (2008: £98.5 million).

9. Dividends

	2009 £ million	2008 £ million
For each ordinary share:		
Final dividend for previous financial year paid in November 2008: 25.5p (2007: 25.0p)	**36.2**	36.4
Special dividend for 2007 financial year paid in November 2007: 25.0p	**-**	36.4
Interim dividend for current financial year paid in April 2009: 13.5p (2008: 13.5p)	**19.0**	19.9
	55.2	92.7

A final dividend relating to the year ended 31 July 2009 of 25.5p, amounting to an estimated £36.0 million, is proposed. This final dividend, which is due to be paid on 19 November 2009, is not reflected in these financial statements.

10. Loans and advances to customers

	2009 £ million	2008 £ million
Loans and advances are repayable:		
On demand or at short notice	**93.4**	151.6
Within three months	**652.2**	633.9
Between three months and one year	**827.6**	738.5
Between one and two years	**425.1**	360.0
Between two and five years	**426.3**	385.5
After more than five years	**11.5**	13.0
Impairment provisions	**(71.2)**	(50.3)
	2,364.9	2,232.2
Impairment provisions on loans and advances:		
Opening balance	**50.3**	44.4
Charge for the year	**59.9**	27.5
Amounts written off net of recoveries	**(39.0)**	(21.6)
	71.2	50.3

THE NOTES

11. Debt securities

2009	Held for trading £ million	Held to maturity assets £ million	Available for sale assets £ million	Loans and receivables £ million	**Total £ million**
Long trading positions in debt securities	**37.9**	**-**	**-**	**-**	**37.9**
Certificates of deposit	**-**	**-**	**-**	**1,202.2**	**1,202.2**
Floating rate notes	**-**	**19.4**	**754.7**	**-**	**774.1**
Gilts and government guaranteed debt	**-**	**-**	**285.0**	**-**	**285.0**
	37.9	**19.4**	**1,039.7**	**1,202.2**	**2,299.2**

2008	Held for trading £ million	Held to maturity assets £ million	Available for sale assets £ million	Loans and receivables £ million	Total £ million
Long trading positions in debt securities	61.4	-	-	-	61.4
Certificates of deposit	-	-	-	1,324.2	1,324.2
Floating rate notes	-	23.4	751.3	-	774.7
Gilts and government guaranteed debt	-	-	-	-	-
	61.4	23.4	751.3	1,324.2	2,160.3

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

	2009		2008	
	Book value £ million	**Fair value £ million**	Book value £ million	Fair value £ million
Certificates of deposit classified as loans and receivables	**1,202.2**	**1,207.9**	1,324.2	1,324.0
Floating rate notes held to maturity	**19.4**	**18.8**	23.4	20.8
	1,221.6	**1,226.7**	1,347.6	1,344.8

11. Debt securities continued

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

	Gilts and government guaranteed debt	Floating rate notes		
	Available for sale £ million	**Available for sale £ million**	**Held to maturity £ million**	**Total £ million**
At 1 August 2008	-	751.3	23.4	774.7
Additions	286.0	-	-	286.0
Disposals	-	(20.0)	-	(20.0)
Redemptions at maturity	-	-	(2.0)	(2.0)
Currency translation differences	-	44.4	0.8	45.2
Impairment	-	-	(2.8)	(2.8)
Decrease in carrying value of financial instruments classified as available for sale	(1.0)	(21.0)	-	(22.0)
At 31 July 2009	**285.0**	**754.7**	**19.4**	**1,059.1**

In respect of floating rate notes, both classified as available for sale and held to maturity, £141.5 million (2008: £21.8 million) were due to mature within one year and £25.9 million (2008: £29.4 million) have been issued by corporates with the remainder issued by banks and building societies.

12. Equity shares

	2009 £ million	2008 £ million
Equity shares classified as held for trading	**24.0**	38.6
Other equity shares	**38.0**	49.2
	62.0	87.8

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

	Available for sale £ million	Valued at fair value £ million	Total £ million
At 1 August 2008	33.0	16.2	49.2
Additions	0.1	3.3	3.4
Disposals	-	(1.0)	(1.0)
Currency translation differences	(0.7)	-	(0.7)
Disposals of subsidiary undertakings	(0.6)	(0.4)	(1.0)
Increase/(decrease) in carrying value of:			
Equity shares classified as available for sale	(6.4)	-	(6.4)
Listed equity shares held at fair value	-	-	-
Unlisted equity shares held at fair value	-	(5.5)	(5.5)
At 31 July 2009	**25.4**	**12.6**	**38.0**

THE NOTES

13. Intangible assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Total £ million
Cost				
At 31 July 2008	176.9	21.1	3.2	201.2
Additions	-	1.8	-	1.8
Acquisition of subsidiary	24.1	-	1.7	25.8
Foreign exchange	3.0	-	-	3.0
Disposals	(34.9)	(1.1)	-	(36.0)
At 31 July 2009	**169.1**	**21.8**	**4.9**	**195.8**
Amortisation and accumulated impairment				
At 31 July 2008	50.1	16.7	-	66.8
Amortisation charge for the year	-	2.7	0.4	3.1
Impairment charge	19.0	-	-	19.0
Disposals	-	(0.7)	-	(0.7)
At 31 July 2009	**69.1**	**18.7**	**0.4**	**88.2**
Net book value at 31 July 2009	**100.0**	**3.1**	**4.5**	**107.6**
Net book value at 31 July 2008	126.8	4.4	3.2	134.4

14. Other assets and other liabilities

	2009 £ million	2008 £ million
Prepayments, accrued income and other assets		
Prepayments and accrued income	**110.1**	89.9
Trade debtors	**14.2**	14.7
Other	**17.5**	21.6
	141.8	126.2

	2009 £ million	2008 £ million
Accruals, deferred income and other liabilities		
Accruals and deferred income	**141.3**	134.4
Creditors	**81.9**	108.4
Provisions	**26.1**	24.6
Other	**55.2**	24.7
	304.5	292.1

THE NOTES

15. Settlement balances and short positions

	2009 £ million	2008 £ million
Settlement balances	**505.2**	451.4
Short positions held for trading:		
Debt securities	**71.4**	24.1
Equity shares	**14.1**	14.4
	590.7	489.9

16. Financial liabilities

	On demand or at short notice £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	**Total £ million**
At 31 July 2009							
Deposits by banks	**17.2**	**19.6**	**10.6**	**0.6**	**-**	**-**	**48.0**
Deposits by customers	**768.7**	**916.6**	**345.5**	**814.9**	**73.9**	**-**	**2,919.6**
Loans and overdrafts from banks	**26.6**	**0.6**	**199.7**	**1,003.6**	**110.0**	**-**	**1,340.5**
Debt securities in issue	**-**	**-**	**-**	**-**	**-**	**21.4**	**21.4**
	812.5	**936.8**	**555.8**	**1,819.1**	**183.9**	**21.4**	**4,329.5**

Included in loans and overdrafts from banks is £405.1 million of committed sale and repurchase facilities with a residual maturity of between one and two years (2008: £104.9 million with a residual maturity of between three months and one year). The debt securities in issue mature on 20 April 2015.

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

THE NOTES

17. Share premium and equity reserves

Share premium and profit and loss account

	Share premium account £ million	Profit and loss account £ million
At 1 August 2008	274.1	432.0
Profit attributable to shareholders	-	71.7
Dividends paid	-	(55.2)
Exercise of options	0.4	-
Other movements	-	(2.8)
At 31 July 2009	**274.5**	**445.7**

Other reserves and minority interests

	Available for sale movements reserve £ million	Share-based reserves £ million	Exchange movements reserve £ million	Cash flow hedging reserve £ million	Minority interests £ million	Total £ million
At 1 August 2008	(12.3)	(19.4)	2.3	1.4	5.0	**(23.0)**
Charge to the income statement	-	(0.2)	-	-	0.9	**0.7**
Shares purchased	-	(22.1)	-	-	-	**(22.1)**
Shares released	-	4.3	-	-	-	**4.3**
Gains/(losses) on financial instruments classified as available for sale:						
Gilts and government guaranteed debt	0.6	-	-	-	-	**0.6**
Floating rate notes	(15.2)	-	-	-	-	**(15.2)**
Equity shares	(8.8)	-	-	-	-	**(8.8)**
Disposal of subsidiary undertakings	-	-	(2.5)	-	(0.2)	**(2.7)**
Other movements	-	-	18.8	(11.1)	(1.4)	**6.3**
At 31 July 2009	**(35.7)**	**(37.4)**	**18.6**	**(9.7)**	**4.3**	**(59.9)**

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18. 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 years ended 31 July 2009 and 2008. The table below summarises the composition of regulatory capital and Pillar 1 risk weighted assets as at those financial year ends.

	2009 Basel II £ million	2008 Basel II £ million
Core tier 1 capital		
Called up share capital	**37.4**	37.3
Share premium account	**274.5**	274.1
Retained earnings and other reserves	**477.8**	448.0
Minority interests	**4.3**	5.0
Deductions from core tier 1 capital		
Intangible assets	**(107.6)**	(134.4)
Goodwill in associates	**(49.0)**	(49.7)
Investment in own shares	**(50.9)**	(33.1)
Unrealised losses on available for sale equity shares	**(4.6)**	-
Core tier 1 capital after deductions	**581.9**	547.2
Tier 2 capital		
Subordinated debt	**75.0**	75.0
Unrealised gains on available for sale equity shares	**-**	4.2
Collective impairment allowances	**-**	2.2
Tier 2 capital	**75.0**	81.4
Deductions from total tier 1 and tier 2 capital		
Participation in a non-financial undertaking	**(4.8)**	(6.5)
Other regulatory adjustments	**(0.5)**	(8.5)
Total regulatory capital	**651.6**	613.6
Risk weighted assets (notional)		
Credit and counterparty risk	**2,840.2**	2,542.8
Operational risk*	**993.8**	1,099.9
Market risk*	**102.8**	161.3
	3,936.8	3,804.0
	%	%
Core tier 1 capital ratio	**14.8**	14.4
Total capital ratio	**16.6**	16.1

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

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19. Consolidated cash flow statement reconciliation

	2009 £ million	2008 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit on ordinary activities before tax	**98.3**	127.5
Tax paid	**(21.0)**	(59.0)
(Increase)/decrease in:		
Interest receivable and prepaid expenses	**(20.8)**	(5.2)
Net settlement balances and trading positions	**80.2**	130.0
Net money broker loans against stock advanced	**(118.5)**	(110.5)
Increase/(decrease) in:		
Interest payable and accrued expenses	**8.3**	(13.2)
Depreciation, amortisation and goodwill impairment losses	**35.1**	16.6
Net cash inflow from trading activities	**61.6**	86.2
(Increase)/decrease in:		
Loans and advances to banks not repayable on demand	**(1.9)**	4.8
Loans and advances to customers	**(38.9)**	(120.2)
Floating rate notes held to maturity	**4.0**	(5.6)
Floating rate notes classified as available for sale	**(3.4)**	-
Debt securities held for liquidity	**(285.0)**	-
Other assets less other liabilities	**5.0**	(94.5)
Increase/(decrease) in:		
Deposits by banks	**(250.2)**	137.6
Deposits by customers	**277.9**	339.0
Loans and overdrafts from banks	**227.1**	468.6
Non-recourse borrowings	**(165.0)**	15.0
Debt securities in issue	**-**	(350.0)
Net cash (outflow)/inflow from operating activities	**(168.8)**	480.9
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and associates		
Cash consideration in respect of current year purchases	**(17.9)**	(100.1)
Loan stock redemptions and deferred consideration paid in respect of prior year purchases	**(2.1)**	(12.4)
Net movement in cash balances	**0.3**	1.3
	(19.7)	(111.2)
(c) Analysis of net cash inflow in respect of the sale of subsidiaries		
Cash consideration received	**75.3**	-
Cash and cash equivalents disposed of	**(24.2)**	-
	51.1	-
(d) Analysis of changes in financing		
Share capital (including premium) and subordinated loan capital:		
Opening balance	**386.4**	376.4
Shares issued for cash	**0.5**	10.0
Closing balance	**386.9**	386.4
(e) Analysis of cash and cash equivalents		
Cash and balances at central banks	**1.7**	1.5
Loans and advances to banks repayable on demand	**194.4**	307.6
Floating rate notes classified as available for sale	**-**	751.3
Certificates of deposit	**1,202.2**	1,324.2
	1,398.3	2,384.6

19. Consolidated cash flow statement reconciliation continued

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

Cautionary statement

Certain statements included or incorporated by reference within this preliminary results 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 preliminary results announcement should be construed as a profit forecast. This preliminary results 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 preliminary results announcement reflect the knowledge and information available at the time of its preparation. Liability arising from anything in this preliminary results announcement shall be governed by English Law. Nothing in this preliminary results announcement shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.