Close Brothers Group

Interim results 2009

10 March 2009

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Agenda

1. Introduction – Colin Keogh, Group Chief Executive
2. Financial review – Jonathan Howell, Group Finance Director
3. Business overview – Colin Keogh, Group Chief Executive
4. Q&A

First half 2009 highlights

A sound overall Group performance in tough markets

- Strong performance in Securities
- Solid performance in Banking but increasing bad debts
- Asset Management and Corporate Finance impacted by difficult markets
- Remain soundly funded and well capitalised
- Maintained interim dividend at 13.5p per share

£ million	First half 2009 to 31 January	First half 2008 to 31 January	% change	Full year 2008 to 31 July
Adjusted operating income[1]	266.4	253.0	5%	509.2
Adjusted operating profit[2]	62.0	75.3	(18%)	137.5
Basic earnings per share	17.4p	31.4p	(45%)	61.5p
Adjusted earnings per share[3]	33.0p	35.1p	(6%)	67.3p
Ordinary dividend per share	13.5p	13.5p	-	39.0p

Notes:
(1) Operating income before exceptional items
(2) Operating profit before exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition
(3) Before exceptional items, impairment losses on goodwill, amortisation of intangible fixed assets on acquisition, and the tax effect of such adjustments

Agenda

1. Introduction – Colin Keogh, Group Chief Executive
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Financial highlights

Summary income statement

£ million	First half 2009 to 31 January	First half 2008 to 31 January	% change	Full year 2008 to 31 July
Adjusted operating income[(1)]	**266.4**	**253.0**	**5%**	**509.2**
Adjusted operating expenses[(2)]	(181.0)	(168.1)	8%	(344.2)
Impairment losses on loans and advances	(23.4)	(9.6)	144%	(27.5)
Adjusted operating profit[(3)]	**62.0**	**75.3**	**(18%)**	**137.5**
of which:				
Asset Management	*6.6*	*18.0*	*(63%)*	*32.6*
Banking	*32.0*	*37.7*	*(15%)*	*74.5*
Corporate Finance	*(2.9)*	*4.6*	*(163%)*	*10.0*
Securities	*33.2*	*23.8*	*39%*	*38.7*
Group	*(6.9)*	*(8.8)*	*(22%)*	*(18.3)*
Expense / income ratio[(4)]	*71%*	68%		69%
Compensation ratio [(5)]	*45%*	45%		45%

Notes:
(1) Operating income before exceptional items
(2) Total operating expenses excluding exceptional expenses, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition
(3) Operating profit before exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition
(4) Adjusted operating expenses on adjusted operating income; excludes associate income
(5) Total staff costs excluding exceptional items on adjusted operating income, excluding associate income

Financial highlights

Summary income statement (continued)

£ million	First half 2009 to 31 January	First half 2008 to 31 January	% change	Full year 2008 to 31 July
Adjusted operating profit[(1)]	**62.0**	**75.3**	**(18%)**	**137.5**
Exceptional items and other adjustments[(2)]	**(23.5)**	**(5.5)**		**(10.0)**
of which:				
Exceptional items[(3)]	*(4.2)*	*(5.5)*		*(10.0)*
Impairment of goodwill	*(19.0)*	-		-
Amortisation of intangibles on acquisition	*(0.3)*	-		-
Operating profit before tax	**38.5**	**69.8**	**(45%)**	**127.5**
Tax	(13.5)	(21.2)	(36%)	(34.9)
Minority interests	(0.3)	(1.9)	(84%)	(2.6)
Profit attributable to shareholders	**24.7**	**46.7**	**(47%)**	**90.0**
Basic EPS	**17.4p**	**31.4p**	**(45%)**	**61.5p**
Adjusted EPS[(4)]	**33.0p**	**35.1p**	**(6%)**	**67.3p**
Ordinary dividend per share	**13.5p**	**13.5p**	**-**	**39.0p**

Notes:
(1) Operating profit before exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition
(2) Refer to slide 30 in the Appendix for a breakdown of exceptional items by division
(3) Exceptional items in H1 2009 comprised £4.2 million of restructuring costs. Exceptional items in H1 2008 comprised £5.5 million of advisers' fees
(4) Before exceptional items, impairment losses on goodwill, amortisation of intangible fixed assets on acquisition, and the tax effect of such adjustments

Financial highlights

Summary pro forma balance sheet

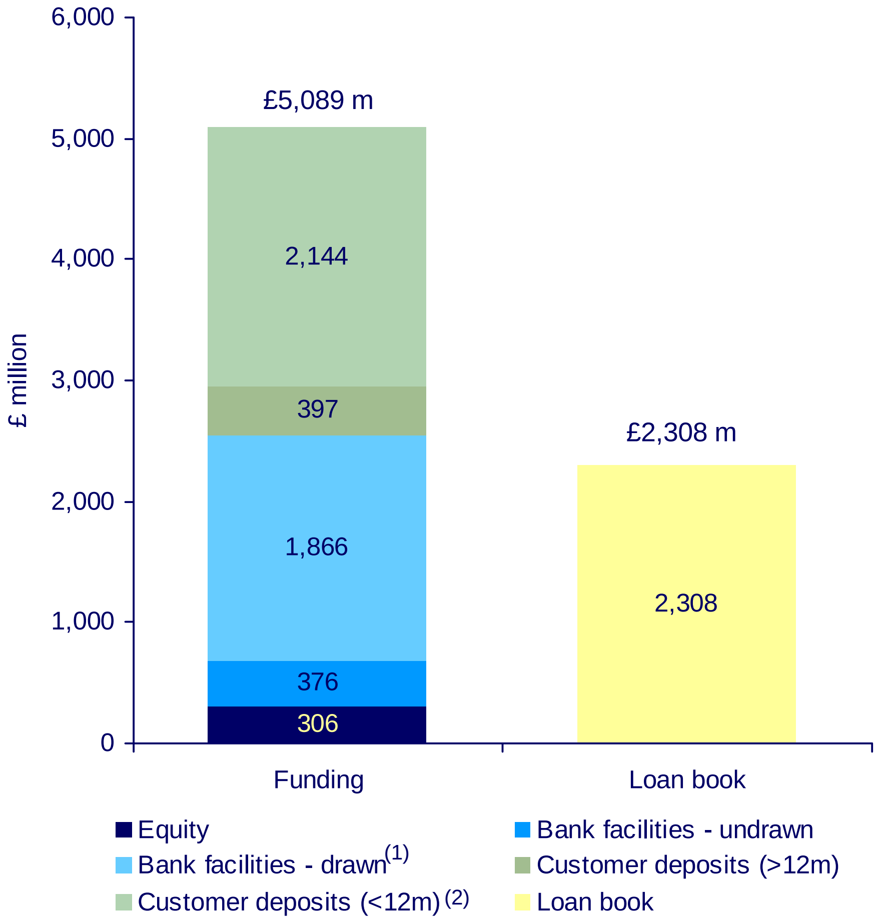
£ million	31 January 2009	31 July 2008	Change
Assets			
CDs, loans and advances to banks	1,687.8	1,633.5	54.3
FRNs classified as available for sale	773.2	751.3	21.9
Loans and advances to customers	2,307.8	2,232.2	75.6
Settlement accounts, long trading positions and stock borrowing	661.0	656.8	4.2
Intangible assets	146.2	134.4	11.8
Other assets	427.3	344.5	82.8
Total assets	**6,003.3**	**5,752.7**	**250.6**
Liabilities			
Deposits by customers	2,542.7	2,641.7	(99.0)
Deposits by banks	34.4	298.2	(263.8)
Borrowings	1,877.6	1,241.5	636.1
Settlement accounts, short trading positions and stock lending	568.7	556.9	11.8
Other liabilities	301.9	294.0	7.9
Total liabilities	**5,325.3**	**5,032.3**	**293.0**
Equity	678.0	720.4	(42.4)
Total liabilities and equity	**6,003.3**	**5,752.7**	**250.6**

Notes:
CDs: Certificates of Deposit
FRNs: Floating Rate Notes

Funding and liquidity

Soundly funded from a diverse range of sources

Funding position as at 31 January 2009



Notes:
(1) Bank facilities exclude £12m of loans and overdrafts included in total borrowings in the Interim Report
(2) Customer deposits (<12m) exclude £2m of deposits held within the Securities division

- £2.3 billion loan book more than twice covered, giving good **headroom** and **flexibility**
- **Wholesale funding** of £2.2 billion with average maturity of 23 months, compared to 12 months for the loan book
- **Deposits** of £2.5 billion including £0.4 billion with maturity of 12 months or more
- H1 2009 developments:
  - €390 million 2-year syndicated loan facility (September 2008)
  - £400 million 1-year repo facility (November 2008)
  - Term funds raised in retail deposit market
  - Eligible to issue government guaranteed debt under Credit Guarantee Scheme

Capital

Strong capital position

£ million	31 January 2009	31 July 2008
Risk Weighted Assets (notional)[1]	3,989.0	3,804.0
Core tier 1 capital	531.3	547.2
Total regulatory capital	598.5	613.6
Core tier 1 capital ratio	**13.3%**	**14.4%**
Total capital ratio	**15.0%**	**16.1%**

Note:
(1) Notional risk weighted assets include a notional adjustment for operational and market risk requirements

Asset Management

Key figures

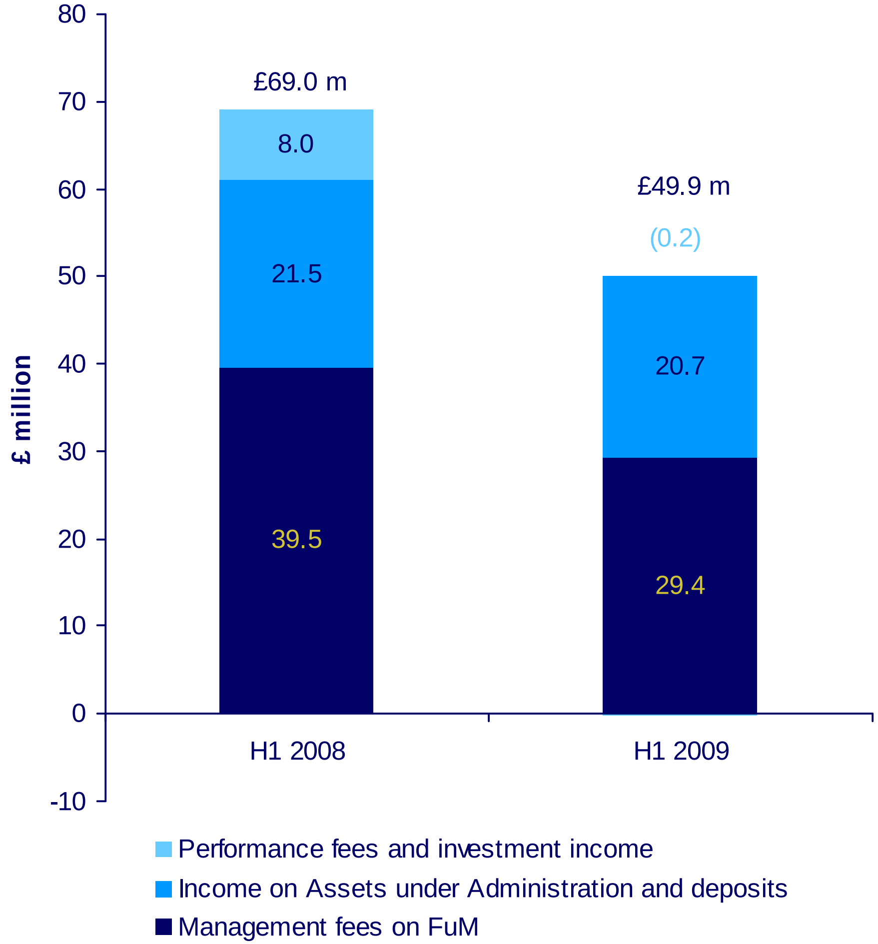
£ million	First half 2009	First half 2008	% change	Full year 2008
Adjusted operating income[1]	**49.9**	**69.0**	**(28%)**	**133.5**
Adjusted operating expenses[2]	(43.3)	(51.0)	(15%)	(100.9)
Adjusted operating profit[3]	**6.6**	**18.0**	**(63%)**	**32.6**
Closing FuM	**6,870**	**8,869**	**(23%)**	**8,195**
Average FuM	**7,533**	**9,009**	**(16%)**	**8,672**
Management fees / average FuM (bps)	78	88	(11%)	92
Operating margin[4]	13%	26%		24%
Expense / income ratio[4]	87%	74%		76%
Compensation ratio[4]	58%	49%		48%

Notes:
(1) Operating income before exceptional items
(2) Total operating expenses excluding exceptional expenses, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition
(3) Operating profit before exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition
(4) Excludes associate income, exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition

Asset Management

Income analysis

Adjusted operating income by type



- **Management fees** reduced 26% to £29 million
  - **Average FuM** 16% lower at £7.5 billion (2008: £9.0 billion)
  - **Management fees** / average FuM 78 bps (2008: 88 bps) reflecting:
    - **Lower activity** levels
    - **Changes in mix** of funds towards lower fee products
- **Performance fees and investment income** a small negative as a result of lower income and a mark to market valuation adjustment on corporate private equity investment portfolio
- **Income on AuA and deposits** reduced 4%, affected by lower interest rate environment
- Majority of our **private client portfolios** outperformed relevant APCIMS indices

Asset Management

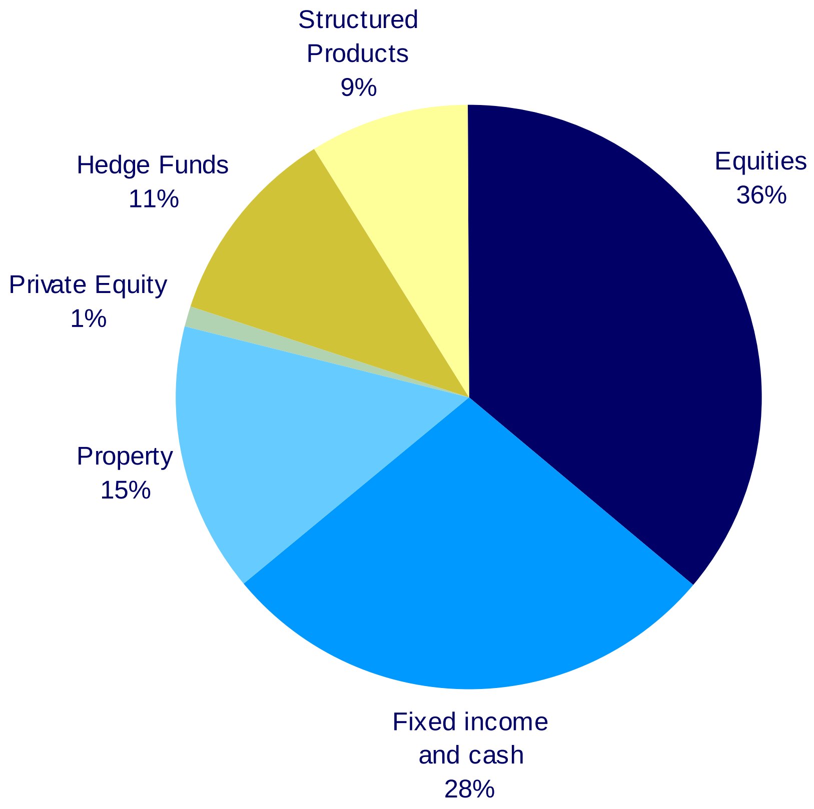
Funds under Management

Movement in FuM

£ million	Private Clients	Funds	Total
1 August 2008	**3,316**	**4,879**	**8,195**
New funds raised	*269*	*345*	***614***
Redemptions, realisations and withdrawals	*(201)*	*(406)*	***(607)***
Net new funds	68	(61)	**7**
Market movement	(254)	(470)	**(724)**
Deconsolidation(1)	-	(608)	**(608)**
31 January 2009	**3,130**	**3,740**	**6,870**
% change	(6%)	(23%)	**(16%)**
Net new funds % of FuM	*2%*	*(1%)*	***-***
Market movement % of FuM	*(8%)*	*(10%)*	***(9%)***
Deconsolidation % of FuM	*-*	*(12%)*	***(7%)***

Breakdown of FuM by asset class

As at 31 January 2009



Note:
(1) Deconsolidation of Close Brothers Private Equity and Close Ventures Limited

Banking

Key figures

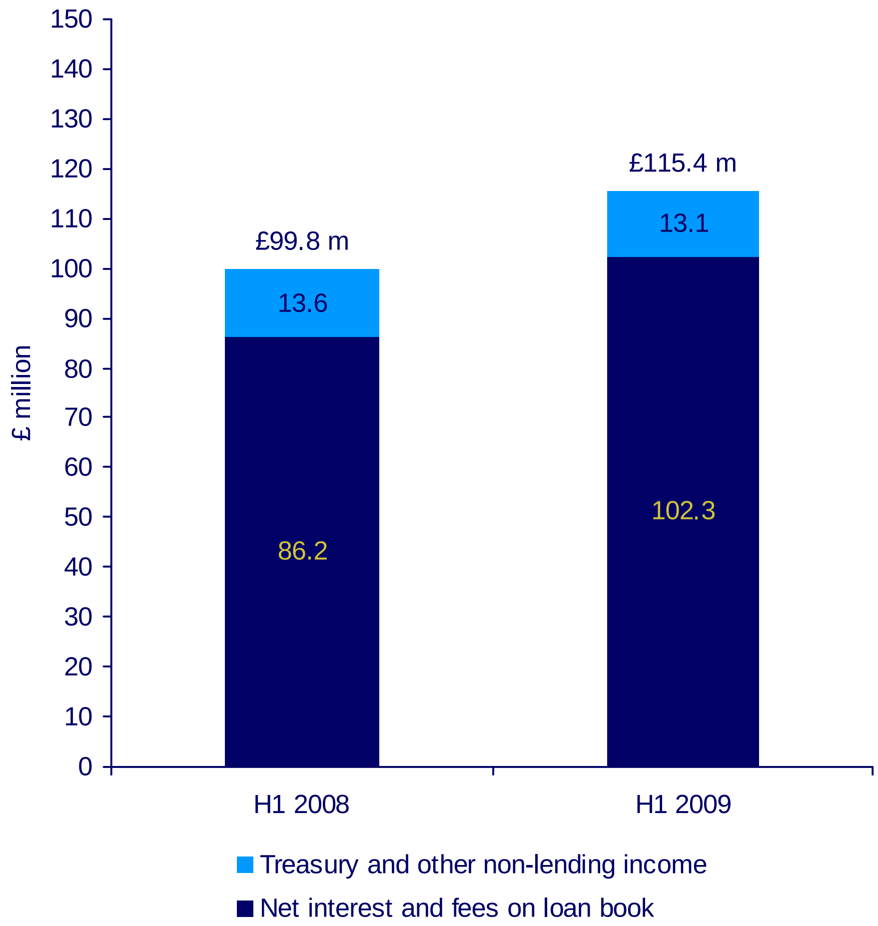
£ million	Half year 2009	Half year 2008	% change	Full year 2008
Adjusted operating income[(1)]	**115.4**	**99.8**	**16%**	**207.1**
Adjusted operating expenses[(2)]	(60.0)	(52.5)	14%	(105.1)
Impairment losses on loans and advances	(23.4)	(9.6)	144%	(27.5)
Adjusted operating profit[(3)]	**32.0**	**37.7**	**(15%)**	**74.5**
Closing loan book	**2,308**	**2,006**	**15%**	**2,232**
Average loan book	**2,270**	**1,984**	**14%**	**2,097**
Net interest margin[(4)]	9.0%	8.7%		8.6%
Bad debt ratio[(5)]	2.1%	1.0%		1.3%
Return on net loan book[(6)]	2.8%	3.8%		3.6%
Return on opening capital[(7)]	15%	18%		18%
Operating margin[(8)]	28%	38%		36%
Expense / income ratio[(8)]	52%	53%		51%
Compensation ratio[(8)]	30%	31%		30%

Notes:
(1) Operating income before exceptional items
(2) Total operating expenses excluding exceptional expenses, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition
(3) Operating profit before exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition
(4) Net interest and fees on average net loans and advances to customers
(5) Impairment losses on average net loans and advances to customers
(6) Banking division adjusted operating profit before tax on the average net loan book
(7) Adjusted operating profit after tax and minority interests on opening total equity
(8) Excludes associate income, exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition

Banking

Income analysis

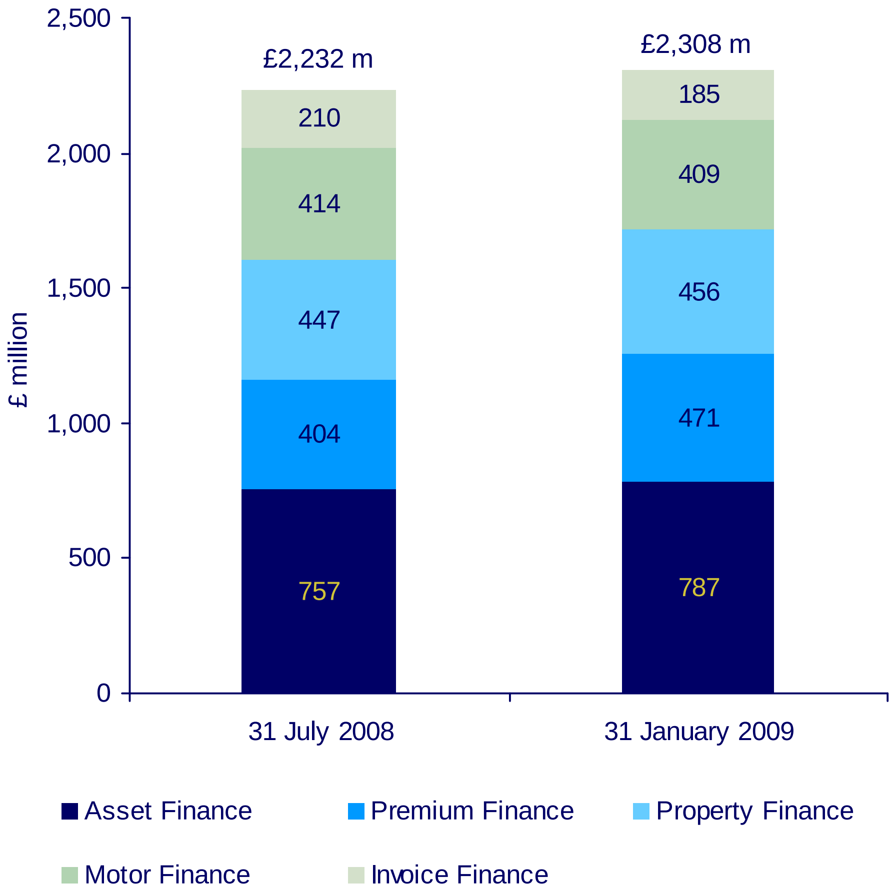
Adjusted operating income by type



- **Net interest and fees on loan book** increased 19% to £102 million
  - **Average loan book** increased 14% to £2,270 million (2008: £1,984 million)
  - **Net interest margin** increased to 9.0% (2008: 8.7%) despite increase in funding costs
- **Treasury and other non-lending income** reduced by 4% to £13 million

Banking

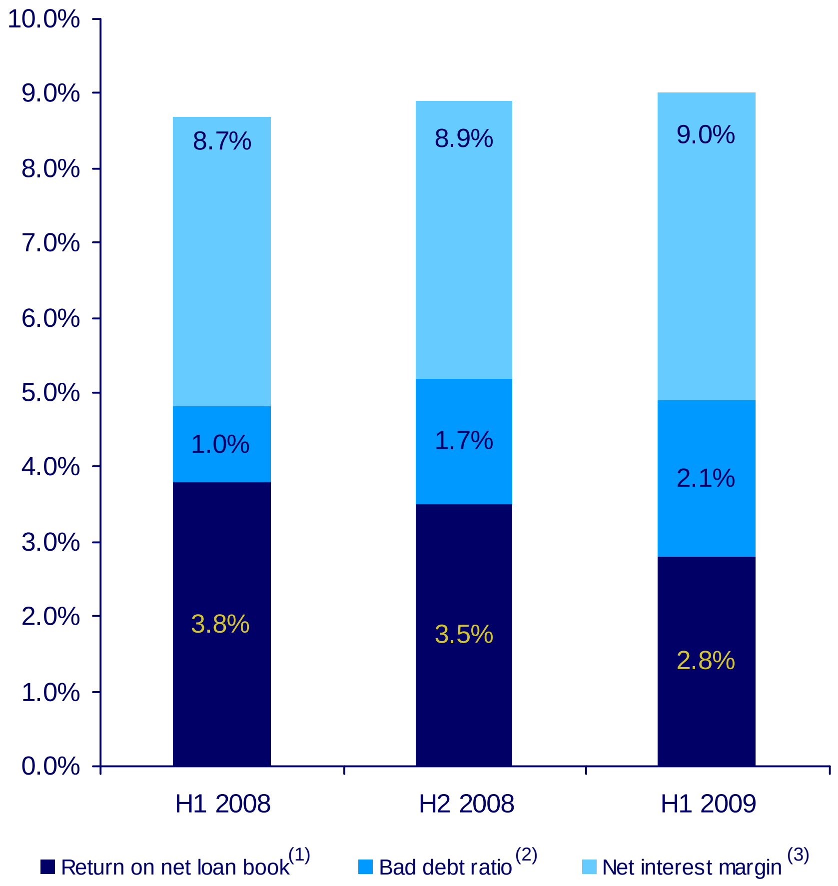
Loan book analysis



- £80 million **premium finance loan book** acquired from Kaupthing Singer & Friedlander in August 2008
- **Flat organic growth** reflects cautious approach to new lending in difficult economic environment

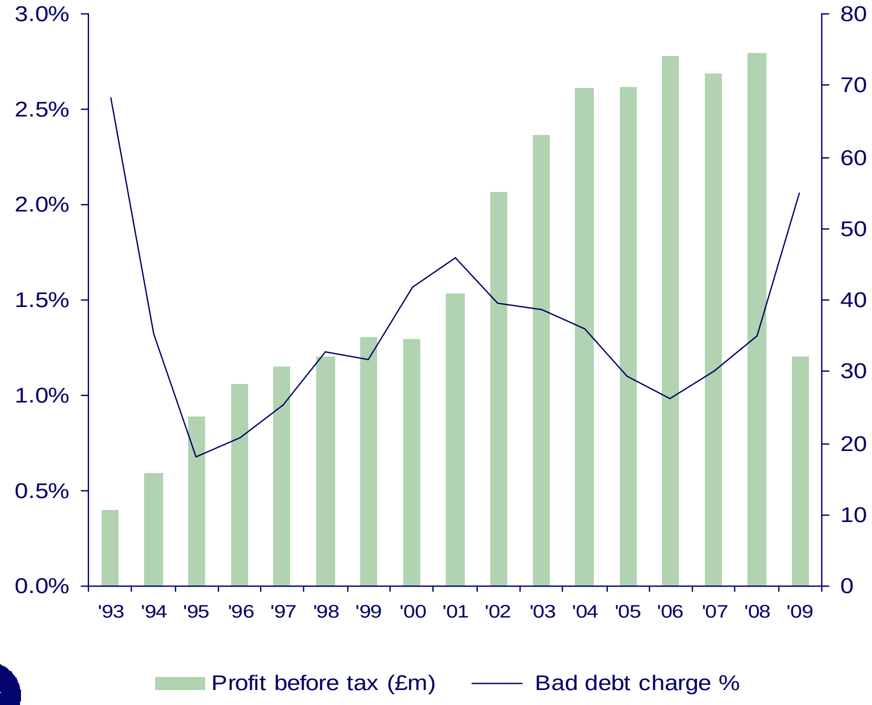
Banking

Bad debt analysis



Notes:
(1) Banking division adjusted operating profit before tax on the average net loan book
(2) Impairment losses on average net loans and advances to customers
(3) Net interest and fees on loan book on the average net loan book

- Bad debt ratio **2.1%** compared to **1.0%** in H1 2008
- Higher bad debts **across the portfolio** as recession affects borrowers
- Planning for period of **higher bad debt**



Corporate Finance

Key figures

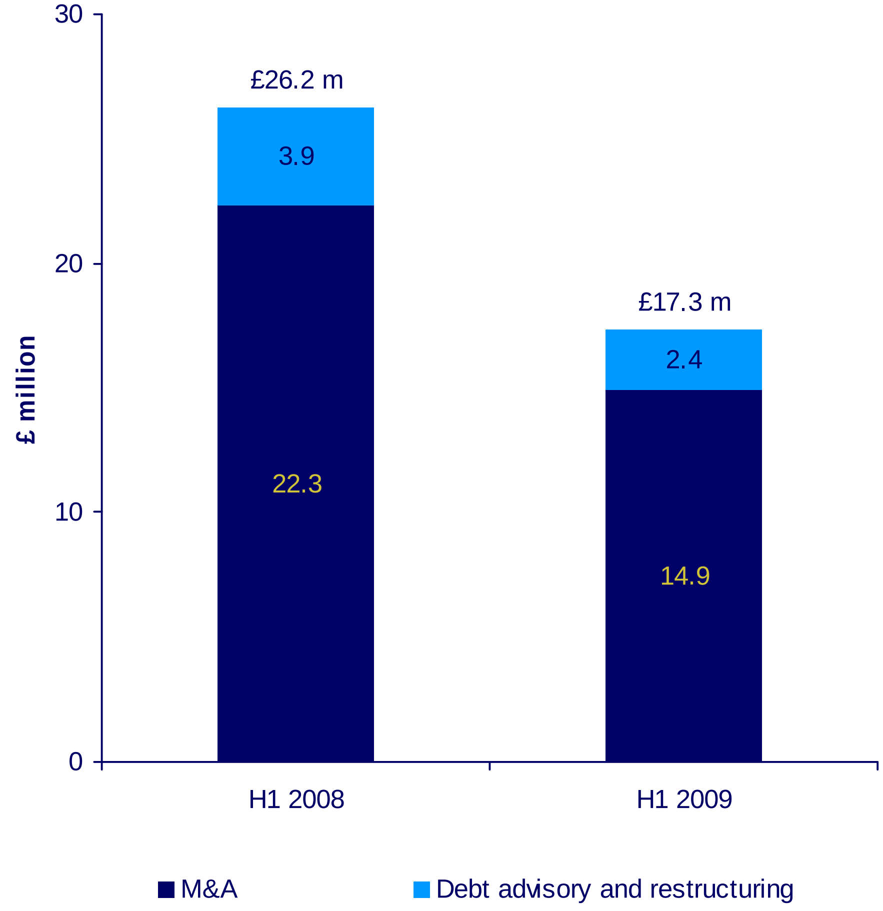
£ million	Half year 2009	Half year 2008	% change	Full year 2008
Adjusted operating income[(1)]	**17.3**	**26.2**	**(34%)**	**56.5**
Adjusted operating expenses[(2)]	(20.2)	(21.6)	(6%)	(46.5)
Adjusted operating profit[(3)]	**(2.9)**	**4.6**	**(163%)**	**10.0**
Number of transactions	33	50	(34%)	89
Operating margin[(4)]	(20%)	16%		17%
Expense / income ratio[(4)]	120%	84%		83%
Compensation ratio[(4)]	74%	60%		60%

Notes:
(1) Operating income before exceptional items
(2) Total operating expenses excluding exceptional expenses, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition
(3) Operating profit before exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition
(4) Excludes associate income, exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition

Corporate Finance

Income analysis

Adjusted operating income by type



- Number of **transactions** reduced 34% to 33 (2008: 50), with stable income per transaction
- Lower activity in both **M&A** (86% of adjusted operating income) and **Debt advisory and restructuring** (14%)
- **UK** accounted for 26% (2008: 48%) of adjusted operating income

Securities

Key figures

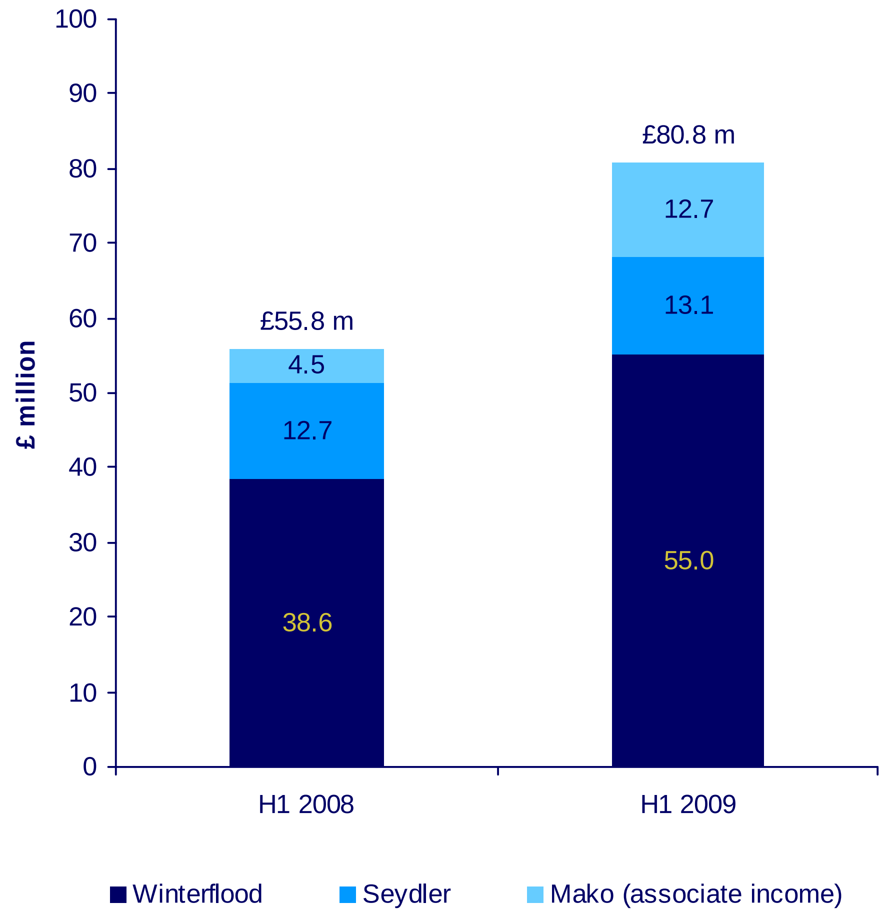
£ million	First half 2009	First half 2008	% change	Full year 2008
Adjusted operating income[(1)]	**80.8**	**55.8**	**45%**	**110.0**
Adjusted operating expenses[(2)]	(47.6)	(32.0)	49%	(71.3)
Adjusted operating profit[(3)]	**33.2**	**23.8**	**39%**	**38.7**
of which:				
Winterflood	*18.7*	*11.8*	*58%*	*23.5*
Seydler[(4)]	*1.8*	*7.5*	*(76%)*	*8.0*
Mako[(5)]	*12.7*	*4.5*	*182%*	*7.2*
Winterflood average bargains per trading day	37,861	28,197	34%	27,437
Winterflood income per bargain	£11.46	£10.72	7%	£11.58
Operating margin[(6)]	30%	38%		31%
Expense / income ratio[(6)]	70%	62%		69%
Compensation ratio[(6)]	44%	44%		45%

Notes:
(1) Operating income before exceptional items
(2) Total operating expenses excluding exceptional expenses, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition
(3) Operating profit before exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition
(4) H1 and FY 2008 include the release of a £4.1 million provision to cover a potential industry wide regulatory levy originally charged in the prior two years
(5) 49.9% stake acquired October 2007, accounted for as associate income
(6) Excludes associate income, exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition

Securities

Income analysis

Adjusted operating income by business



- **Winterflood** income increased 42% to £55 million
  - **Bargains / day** increased 34% to 37,861 (2008: 28,197)
    - › Retail activity in financial stocks
    - › Increased focus on counterparty risk among market participants
  - **Income / bargain** increased 7% to £11.46 (2008: £10.72)
- **Seydler** income increased 3% to £13 million
- **Mako** benefited from high volatility
  - Including market activity related to interest rate movements

Summary of performance

- A **sound** overall group performance in tough markets

- Maintained a **strong capital position** and remain **soundly funded**

- **Maintained interim dividend** at 13.5p

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Business overview

Focus on operational improvements in a difficult environment

Asset Management

- **Ongoing restructuring** of division well underway
  - **Exit** from Private Equity and Venture Capital
  - **Goodwill** impairment
- Additional **cost savings** identified
  - Around 10% headcount reduction by 31 July 2009 as a result of measures taken in H2 2008 and H1 2009

Banking division

- Opportunities to take market share but **cautious approach** to new lending in uncertain conditions
- Managing **credit quality** throughout the cycle
- Adapting to a more **difficult funding market**
  - Entry into term deposit market

Business overview

Focus on operational improvements in a difficult environment (continued*)*

Corporate Finance

- **Managing costs** while maintaining critical mass and expertise
- **Selective hiring** to capitalise on future opportunities

Securities

- **Winterflood** demonstrating strength of franchise in challenging market
  - **1.1 million bargains** in October, highest ever month
- **Mako** has performed well in favourable market conditions

Outlook

- Continue to plan for **difficult conditions** through the remainder of the year
- Focus on **managing our businesses** through the downturn and improving the operational performance of each of our divisions
- We are confident our **strong businesses** and **robust financial position** will allow us to continue delivering a solid overall performance
- **Well placed** to take advantage of better conditions when markets recover

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Appendix

- Segmental analysis
- Funding maturity profile

Segmental analysis

Income statement

£ million	Asset Management	Banking	Corporate Finance	Securities	Group	Total
Half year ended 31 January 2009						
Adjusted operating income	49.9	115.4	17.3	80.8	3.0	266.4
Adjusted operating expenses	(43.3)	(60.0)	(20.2)	(47.6)	(9.9)	(181.0)
Impairment losses on loans and advances	-	(23.4)	-	-	-	(23.4)
Adjusted operating profit	**6.6**	**32.0**	**(2.9)**	**33.2**	**(6.9)**	**62.0**
Exceptional items(1)	(3.4)	-	(0.1)	-	(0.7)	(4.2)
Impairment of goodwill	(19.0)	-	-	-	-	(19.0)
Amortisation of intangibles on acquisition	-	(0.3)	-	-	-	(0.3)
Operating profit before tax	**(15.8)**	**31.7**	**(3.0)**	**33.2**	**(7.6)**	**38.5**
Half year ended 31 January 2008						
Adjusted operating income	69.0	99.8	26.2	55.8	2.2	253.0
Adjusted operating expenses	(51.0)	(52.5)	(21.6)	(32.0)	(11.0)	(168.1)
Impairment losses on loans and advances	-	(9.6)	-	-	-	(9.6)
Adjusted operating profit	**18.0**	**37.7**	**4.6**	**23.8**	**(8.8)**	**75.3**
Exceptional items(2)	-	-	-	-	(5.5)	(5.5)
Operating profit before tax	**18.0**	**37.7**	**4.6**	**23.8**	**(14.3)**	**69.8**

Notes:
(1) Exceptional items in H1 2009 comprised £4.2 million of restructuring costs
(2) Exceptional items in H1 2008 comprised £5.5 million of advisers' fees

Funding maturity profile

As at 31 January 2009

£ million	Total	<3 months	3-12 months	1-2 years	2-5 years	>5 years
Loans and overdrafts from banks(1)	1,641	120	465	861	195	-
Non re-course borrowings	126	-	126	-	-	-
Promissory notes	24	-	-	-	-	24
Subordinated loan capital	75	-	-	-	-	75
Drawn facilities	**1,866**	**120**	**591**	**861**	**195**	**99**
Undrawn facilities	376	54	95	117	110	-
Deposits by customers(2)	2,541	1,647	497	359	38	-
Total availability liquidity	**4,783**	**1,821**	**1,183**	**1,337**	**343**	**99**

Notes:
(1) Excludes £12 million of loans and overdrafts included in total borrowings in the Interim Report
(2) Excludes £2 million of deposits held within the Securities division