Close Brothers Group plc

Close Brothers
Interim Report 2010

Close Brothers is a diversified group of specialist financial services businesses with a long and successful track record.

Contents

Group Results
for the six months ended 31 January 2010

Financial Highlights

£62.5m
Adjusted operating profit[1] from continuing operations
(2009: £64.9m)

32.4p
Adjusted earnings per share[2] from continuing operations
(2009: 34.9p)

13.5p
Ordinary dividend per share
(2009: 13.5p)

£62.3m
Operating profit before tax from continuing operations
(2009: £41.5m)

32.2p
Basic earnings per share from continuing operations
(2009: 19.2p)

£735.4m
Total equity
(2009: £678.0m)

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

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

Chairman's and Chief Executive's Statement

Strone Macpherson
Chairman

Preben Prebensen
Chief Executive

Close Brothers Group has delivered a good first half performance, benefiting from a strong result in the Banking division and continued good performance in Securities, particularly from Winterflood. The group has maintained its strong capital position and remains soundly funded, positioning it to benefit from potential future growth opportunities.

The group continues to focus its activities around the three divisions of Banking, Asset Management and Securities, working closely with each to identify and develop growth opportunities whilst retaining a strong focus on operating performance, risk management and financial flexibility.

Results and Dividend

Adjusted operating profit for the period was £62.5 million (2009: £64.9 million), a 4% reduction year on year but significantly ahead of the result in the second half of the 2009 financial year of £48.8 million. Adjusted earnings per share reduced 7% to 32.4p (2009: 34.9p from continuing operations) although basic earnings per share increased 68% to 32.2p (2009: 19.2p from continuing operations), reflecting goodwill impairment and exceptional restructuring expenses in the prior period.

The group's good profitability has allowed it to maintain its strong capital base, with a core tier 1 ratio of 14.5% (31 July 2009: 14.8%) and a total capital ratio of 16.2% (31 July 2009: 16.6%). The group remains well positioned to take advantage of growth opportunities.

The group has taken a conservative approach to funding which has resulted in a sound and diversified funding position. The group funds its operations from a variety of sources including equity, public and private debt markets and corporate and retail deposits, and at 31 January 2010 it had £5.4 billion of total funding. The wide range of funding sources available to the group provides significant resilience and the group will continue to manage its funding with a view to both cost efficiency and long-term flexibility.

The board has declared an interim dividend of 13.5p (2009: 13.5p) per share in cash, which reflects the group's continued good performance during the period and the underlying resilience of its businesses. The dividend will be paid on 22 April 2010 to shareholders on the register at 26 March 2010.

Divisional Performance

The Banking division has successfully taken advantage of favourable business conditions and delivered a strong performance in the first half. The division has seen increased demand for its largely secured specialist lending services in the prevailing tight credit environment, which has resulted in 9% loan book growth to £2.6 billion (31 July 2009: £2.4 billion) as well as a strong net interest margin of 9.7% (2009: 9.0%). Performance has been particularly strong in Retail, which includes the group's premium and motor finance operations, and in Commercial's asset finance business. This growth has more than offset an increase in the bad debt ratio to 2.5% (2009: 2.1%), resulting in a 14% increase in adjusted operating profit to £36.5 million (2009: £32.0 million).

The more stable economic environment has resulted in an improved bad debt ratio relative to the 3.1% in the second half of the 2009 financial year, driven by the shorter-term Retail businesses. However, the outlook for bad debts in all the lending businesses remains sensitive to the economic environment.

Following the reorganisation of the division into four business units – Retail, Commercial, Property and Treasury – it continues to seek out new growth opportunities within existing and related business areas, whilst retaining its strong margin and niche lending model. In January 2010 the group completed the acquisition of a £94 million invoice financing loan book from GMAC Commercial Finance Limited (UK) ("GMAC"), which has been integrated into the group's existing invoice finance operations within the Commercial business unit. The group continues to evaluate potential acquisitions as part of its growth strategy for the division but will continue to apply strict financial and strategic criteria in doing so.

In **Asset Management**, Funds under Management ("FuM") increased 7% to £7.3 billion (31 July 2009: £6.8 billion) as a result of positive market movements. The Private Clients business remained resilient with net new funds of £91 million (3% of opening FuM), although this was offset by a net outflow in the Funds business of £101 million (3% of opening FuM). However, the overall result was affected by lower income on Assets under Administration ("AuA") and deposits as well as an increase in investment spend in support of the division's growth initiatives in the Private Clients business. As a result, adjusted operating profit reduced to £2.7 million (2009: £6.6 million).

The division is continuing its process of business development and investment. In particular, the division sees opportunities to take advantage of its existing brand and offering in the Private Clients area, including expanding its direct distribution capabilities and increasing indirect distribution through intermediaries such as Independent Financial Advisers.

The division also sees opportunities to enhance its investment proposition in its Funds business which will also support the Private Clients offering. As part of this initiative, in January 2010 the group completed the purchase of the remaining management owned minority stake in Fortune, which will allow it to integrate this business fully and utilise Fortune's fund manager selection capabilities across the division.

The **Securities** division has had another good performance. Winterflood has continued to benefit from its leading market position in a favourable market environment resulting in an increase in average bargains per day to over 45,000 (2009: 38,000) and a 48% increase in adjusted operating profit to £27.6 million (2009: £18.7 million). Mako contributed £3.4 million (2009: £12.7 million) of after tax associate income, reflecting more normalised market conditions in the period, whilst Close Brothers Seydler's result improved to £3.0 million (2009: £1.8 million). Overall, the division's adjusted operating profit increased 2% to £34.0 million (2009: £33.2 million).

The group continues to work closely with each of the Securities businesses to identify future growth opportunities. Winterflood is actively exploring opportunities to extend its current offering to address a wider client base globally, whilst retaining a strong focus on its core retail market. This will include looking at ways to capture additional UK order flow from US institutions and broker dealers, exploring niche execution outsourcing opportunities resulting from the implementation of the Markets in Financial Instruments Directive and expanding its institutional business. Winterflood was recently chosen as a preferred UK market-maker in small and mid caps by a major US institution for its new retail platform for trading global equities.

Close Brothers Seydler is focused on expanding its fixed income activity and building on its existing designated sponsoring capability to benefit from any upturn in the German small and mid cap market. Mako continues to focus on its core area of exchange traded derivatives market-making whilst developing its investment management activities including further expansion of the successful Pelagus Capital Fund.

Outlook

The group has strong and well positioned businesses and is well placed to take advantage of future growth opportunities. However, it also continues to plan for an uncertain economic environment.

In Banking, the group expects a continued solid result for the second half of the year, as it sees further good demand for its specialist lending services. Whilst there has been some improvement in bad debts, the outlook remains sensitive to the economic environment.

In Asset Management, the group expects the current performance to continue into the second half of the year reflecting ongoing investment spend in Private Clients.

In Securities, performance remains sensitive to market conditions and Winterflood has had a quieter start to the second half in February and March relative to a very good first half.

Given the good performance in the first half, and subject to the continuation of the prevailing market conditions, the group remains confident of delivering a solid overall result for the 2010 financial year.

Business Review
Overview

Close Brothers has achieved a good overall result with adjusted operating profit from continuing operations of £62.5 million (2009: £64.9 million), principally reflecting strong performance in the Banking and Securities divisions. The result is also a 28% increase on the result of the second half of the 2009 financial year of £48.8 million.

Summary Income Statement

	First half 2010 £ million	First half 2009 £ million	Change %
Continuing operations[1]			
Adjusted operating income	**261.8**	249.1	5
Adjusted operating expenses	**(168.7)**	(160.8)	5
Impairment losses on loans and advances	**(30.6)**	(23.4)	31
Adjusted operating profit	**62.5**	64.9	(4)
Exceptional expenses	**–**	(4.1)	
Impairment losses on goodwill	**–**	(19.0)	
Amortisation of intangible fixed assets on acquisition	**(0.2)**	(0.3)	
Operating profit before tax	**62.3**	41.5	50
Tax	**(16.0)**	(14.1)	13
Minority interests	**(0.2)**	(0.1)	100
Profit attributable to shareholders: continuing operations	**46.1**	27.3	69
Loss from discontinued operations	**–**	(2.4)	
Minority interests: discontinued operations	**–**	(0.2)	
Profit attributable to shareholders: continuing and discontinued operations	**46.1**	24.7	87
Adjusted earnings per share: continuing operations[2]	**32.4p**	34.9p	(7)
Basic earnings per share: continuing operations	**32.2p**	19.2p	68
Basic earnings per share: continuing and discontinued operations	**32.2p**	17.4p	85
Ordinary dividend per share	**13.5p**	13.5p	–

[1] Results from continuing operations for 2009 exclude the trading loss of 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.

Adjusted operating income from continuing operations was £261.8 million (2009: £249.1 million), a 5% increase reflecting a strong performance from the group's lending activities and strong trading at Winterflood. This was partly offset by a lower contribution from Mako, which had a particularly good performance in the first half of the 2009 financial year, and lower income in the Asset Management division.

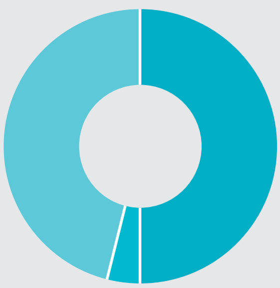
Adjusted operating expenses from continuing operations increased by 5% to £168.7 million (2009: £160.8 million) primarily due to higher variable costs in the Securities division as a result of a stronger trading performance at Winterflood.

Challenging economic conditions resulted in a 31% increase in impairment losses on loans and advances ("bad debts") to £30.6 million (2009: £23.4 million). This corresponds to an increase in the bad debt ratio to 2.5% (2009: 2.1%) but a reduction of £5.9 million from the £36.5 million of bad debts in the second half of the 2009 financial year, which corresponded to a 3.1% bad debt ratio.

The group reports adjusted operating profit after exceptional items and other adjustments. During the period the group incurred a £0.2 million (2009: £0.3 million) charge for amortisation of intangible fixed assets on acquisition. There were no exceptional items taken in the period. In the first half of the 2009 financial year there were exceptional expenses of £4.1 million, primarily related to cost saving initiatives in the Asset Management division, and a £19.0 million goodwill impairment charge related to a number of past acquisitions in Asset Management.

After these items, operating profit before tax from continuing operations was £62.3 million (2009: £41.5 million).

Divisional adjusted operating profit
First half 2010



The tax charge on continuing operations was £16.0 million (2009: £14.1 million) which corresponds to an effective tax rate of 26% (2009: 34%). The tax rate was reduced 2% by associate income from Mako, included in operating profit before tax on an after tax basis. In the first half of the 2009 financial year a higher contribution from Mako reduced the tax rate by 6%, although this was more than offset by non tax deductible goodwill impairment and other disallowables which increased the rate by 12%. Excluding these effects, the underlying effective tax rate is unchanged at 28% (2009: 28%), in line with the UK corporate tax rate.

Adjusted earnings per share from continuing operations reduced 7% to 32.4p (2009: 34.9p), and basic earnings per share from continuing operations increased 68% to 32.2p (2009: 19.2p).

There were no discontinued operations during the period. However, in the 2009 financial year the Corporate Finance division was sold to Daiwa Securities SMBC Europe in July 2009 and was treated as a discontinued operation. Basic earnings per share from continuing and discontinued operations in 2009 was 17.4p.

The board has declared an interim dividend of 13.5p (2009: 13.5p) per share. This reflects the group's continued good performance during the period and the underlying resilience of its businesses.

Divisional Adjusted Operating Profit (Continuing Operations)

	First half 2010		First half 2009		Change
	£ million	**%**	£ million	%	%
Banking	**36.5**	**50**	32.0	45	14
Asset Management	**2.7**	**4**	6.6	9	(59)
Securities	**34.0**	**46**	33.2	46	2
Total divisions	**73.2**	**100**	71.8	100	2
Group	**(10.7)**		(6.9)		55
Adjusted operating profit	**62.5**		64.9		(4)

Summary Balance Sheet

	31 January 2010 £ million	31 July 2009 £ million
Assets		
Cash and loans and advances to banks	**445.8**	198.2
Settlement balances, long trading positions and loans to money brokers*	**782.0**	728.9
Loans and advances to customers	**2,577.7**	2,364.9
Non trading debt securities	**1,655.3**	2,261.3
Intangible assets	**112.2**	107.6
Other assets	**335.1**	358.4
Total assets	**5,908.1**	6,019.3
Liabilities		
Settlement balances, short trading positions and loans from money brokers	**671.6**	590.7
Deposits by banks	**39.7**	48.0
Deposits by customers	**2,892.4**	2,919.6
Borrowings	**1,290.2**	1,436.9
Other liabilities	**278.8**	326.4
Total liabilities	**5,172.7**	5,321.6
Equity	**735.4**	697.7
Total liabilities and equity	**5,908.1**	6,019.3

* Includes long trading positions in debt securities.

Divisional Performance

The Banking division had a strong first half result reflecting good demand for its specialist lending services and represented 50% (2009: 45%) of adjusted operating profit from continuing operations before group net expenses.

As a result of continued challenging conditions and long-term growth initiatives which are in progress, Asset Management's contribution was reduced, accounting for 4% (2009: 9%) of adjusted operating profit from continuing operations before group net expenses.

Securities accounted for a stable 46% of adjusted operating profit from continuing operations before group net expenses with strong volumes at Winterflood partly offset by a reduced contribution from Mako.

Group adjusted operating expenses were £11.1 million (2009: £9.9 million), partly offset by adjusted operating income of £0.4 million (2009: £3.0 million), resulting in adjusted group net expenses of £10.7 million (2009: £6.9 million).

Balance Sheet

Close Brothers continued to maintain its strong balance sheet during the period with total assets of £5,908.1 million at 31 January 2010 (31 July 2009: £6,019.3 million).

In the six months to 31 January 2010, loans and advances to customers ("the loan book") increased £212.8 million or 9% to £2,577.7 million (31 July 2009: £2,364.9 million). This included the acquisition of a £94 million invoice financing loan book in January 2010.

Non trading debt securities, which include certificates of deposit ("CDs"), gilts and government guaranteed debt and floating rate notes ("FRNs"), reduced £606.0 million to £1,655.3 million (31 July 2009: £2,261.3 million) largely as a result of maturing CDs. Cash and loans and advances to banks increased £247.6 million to £445.8 million (31 July 2009: £198.2 million) as funds were placed on deposit with the Bank of England.

Business Review continued
Overview

Assets related to market-making activities increased £53.1 million to £782.0 million (31 July 2009: £728.9 million) reflecting trading activity and market valuations at 31 January 2010. These were partly offset by £671.6 million (31 July 2009: £590.7 million) of liabilities related to settlement balances, short trading positions and loans from money brokers against stock advanced, resulting in a net balance of £110.4 million (31 July 2009: £138.2 million).

Intangible assets largely comprise goodwill and increased slightly to £112.2 million (31 July 2009: £107.6 million), principally driven by the invoice financing loan book acquisition.

Customer deposits remained broadly stable at £2,892.4 million (31 July 2009: £2,919.6 million). Deposits by banks were £39.7 million (31 July 2009: £48.0 million).

At 31 January 2010, total borrowings were £1,290.2 million (31 July 2009: £1,436.9 million) and comprised loans and overdrafts from banks, debt securities in issue and subordinated loan capital. The movement in borrowings reflects a reduction in the drawn portion of the group's facilities.

Total equity at 31 January 2010 was £735.4 million (31 July 2009: £697.7 million), an increase of £37.7 million mainly due to £46.1 million of earnings for the period, a dividend payment of £36.3 million and a positive mark to market valuation adjustment on the group's portfolio of FRNs of £17.9 million after tax.

At 31 January 2010, 5.1 million (31 July 2009: 5.5 million) of the company's shares were held in treasury. The decrease of 0.4 million (2009: 3.7 million net increase including purchases) reflects the release of shares due to the exercise of options and share awards.

Funding Overview

	31 January 2010 £ million	31 July 2009 £ million	Change £ million
Drawn facilities[1]	**1,271.9**	1,409.7	(137.8)
Undrawn facilities	**525.1**	392.6	132.5
Deposits by customers > twelve months	**710.8**	888.8	(178.0)
Deposits by customers < twelve months[2]	**2,180.6**	2,029.7	150.9
Equity	**735.4**	697.7	37.7
Total available funding	**5,423.8**	5,418.5	5.3

[1] Drawn facilities exclude £18.3 million (31 July 2009: £27.2 million) of non-facility overdrafts included in borrowings.
[2] Deposits by customers < twelve months exclude £1.0 million (31 July 2009: £1.1 million) of deposits held within the Securities division.

Funding and Liquidity

The group has retained its sound and diversified funding position with good levels of liquidity. Total funding of £5.4 billion was held by the group at 31 January 2010 which included equity, drawn and undrawn wholesale facilities and long and short-term customer deposits.

The group has expanded its traditional sources of funding, principally equity and wholesale debt facilities, to also include longer-term retail deposits and public debt. The high quality deposits have provided the group with additional flexibility to fund the loan book and have reduced reliance on wholesale markets.

The group's deposit base was broadly stable at £2.9 billion (31 July 2009: £2.9 billion). Deposits with a maturity of less than twelve months increased 7% to £2.2 billion (31 July 2009: £2.0 billion) as deposits previously with a maturity of greater than twelve months rolled forward and decreased by 20% to £0.7 billion (31 July 2009: £0.9 billion).

Given the group's existing strong funding position, no new facilities were raised during the period and total facilities were unchanged at £1.8 billion at 31 January 2010 (31 July 2009: £1.8 billion). There were no material maturities of existing facilities during the period, however, there was a reduction in the average maturity to 18 months (31 July 2009: 24 months) as wholesale facilities previously with a maturity greater than twelve months reduced to £0.4 billion (31 July 2009: £1.4 billion).

The group will focus on its liquidity and funding requirements with regard to cost efficiency and the need to ensure long-term flexibility. Accordingly, post the period end, the group further diversified its funding base by raising a £200 million bond maturing in 2017, thereby lengthening the overall maturity profile and providing the group with additional long-term flexibility.

Maturity Profile of Facilities and Deposits

	Less than one year £ million	One to two years £ million	Greater than two years £ million	Total £ million
Drawn facilities[1]	1,050.2	50.0	171.7	1,271.9
Undrawn facilities	325.1	195.0	5.0	525.1
Deposits by customers[2]	2,180.6	628.9	81.9	2,891.4
Total available funding at 31 January 2010	**3,555.9**	**873.9**	**258.6**	**4,688.4**
Total available funding at 31 July 2009	2,407.0	1,818.5	495.3	4,720.8

[1] Drawn facilities exclude £18.3 million (31 July 2009: £27.2 million) of non-facility overdrafts included in borrowings.
[2] Deposits by customers less than one year exclude £1.0 million (31 July 2009: £1.1 million) of deposits held within the Securities division.

Capital Position

	31 January 2010 £ million	31 July 2009 £ million
Core tier 1 capital	**590.7**	581.9
Total regulatory capital	**661.5**	651.6
Risk weighted assets (notional)*	**4,079.4**	3,936.8
Core tier 1 capital ratio	**14.5%**	14.8 %
Total capital ratio	**16.2%**	16.6%

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

During the period Fitch Ratings and Moody's Investors Services issued inaugural ratings on Close Brothers Group plc of A/F1 and A3/P2 respectively, both with a negative outlook. These supplement the existing credit ratings of Close Brothers Limited, the group's banking subsidiary, of A/F1 and A2/P1, both with a negative outlook.

Capital

The group has maintained a strong capital position with a core tier 1 capital ratio of 14.5% (31 July 2009: 14.8%) and total capital ratio of 16.2% (31 July 2009: 16.6%).

Notional risk weighted assets increased by £142.6 million or 4% to £4,079.4 million (31 July 2009: £3,936.8 million). This primarily reflects an increase in credit and counterparty risk due to the organic growth in the loan book and the invoice financing loan book acquisition.

The £9.9 million or 2% increase in total regulatory capital to £661.5 million (31 July 2009: £651.6 million) reflects profit for the period of £46.1 million, partly offset by dividend payments of £36.3 million. The net effect of other smaller movements was broadly neutral.

The group's strong capital position ensures it can continue to support its current businesses and pursue future growth opportunities.

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. During the period all the group's KFRs improved relative to the first half of the 2009 financial year. This was largely driven by the robust performance of the Banking and Securities divisions. However, the modest result in Asset Management partly offset this improvement.

Group Key Financial Ratios

	First half 2010	First half 2009
Operating margin[1]	**23%**	22%
Expense/income ratio[2]	**65%**	68%
Compensation ratio[3]	**42%**	43%
Return on opening equity[4]	**12%**	10%

[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.

Business Review continued

Banking

- 9% loan book growth to £2.6 billion since 31 July 2009
- 11% increase in adjusted operating income to £128.3 million
- Bad debt ratio of 2.5%
- Adjusted operating profit up 14% to £36.5 million

Key Divisional Metrics

	First half 2010 £ million	First half 2009 £ million	Change %
Adjusted operating income	**128.3**	115.4	11
Net interest and fees on loan book	**119.4**	102.3	17
Treasury and other non-lending income	**8.9**	13.1	(32)
Adjusted operating expenses	**(61.2)**	(60.0)	2
Impairment losses on loans and advances	**(30.6)**	(23.4)	31
Adjusted operating profit	**36.5**	32.0	14
Net interest margin[1]	**9.7%**	9.0%	
Bad debt ratio[2]	**2.5%**	2.1%	
Closing loan book	**2,577.7**	2,307.8	12

[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 strong due to continued good demand for its specialist lending services leading to good loan book growth and an increase in the net interest margin. As a result, adjusted operating profit increased 14% to £36.5 million (2009: £32.0 million) notwithstanding higher bad debts.

Adjusted operating income increased 11% to £128.3 million (2009: £115.4 million) reflecting a strong performance from the division's lending activities. Net interest and fees on the loan book increased 17% to £119.4 million (2009: £102.3 million) driven by 9% growth in the average loan book to £2,471.3 million (2009: £2,270.0 million) and an increase in the net interest margin to 9.7% (2009: 9.0%). The increase in the net interest margin reflects continued good demand, particularly in the Retail businesses. However, Treasury and other non-lending income reduced by 32% to £8.9 million (2009: £13.1 million) principally due to lower returns on money market assets.

Adjusted operating expenses increased by a modest 2% to £61.2 million (2009: £60.0 million), despite loan book growth and continuing investment spend. As a result, the expense/income ratio reduced to 48% (2009: 52%).

Impairment losses on loans and advances increased 31% to £30.6 million (2009: £23.4 million) reflecting the impact of a more difficult economic environment on the division's borrowers. This corresponds to a year on year increase in the bad debt ratio to 2.5% (2009: 2.1%), but is a reduction from the £36.5 million in impairment losses on loans and advances in the second half of the 2009 financial year, which corresponded to a 3.1% bad debt ratio. This reduction is principally driven by the Retail businesses, reflecting the more stable economic environment and the relatively short-term nature of the lending in this area, whilst the longer-term Commercial and Property lending businesses are yet to see a material improvement.

Loan Book Analysis

	31 January 2010 £ million	31 July 2009 £ million	Change %
Retail	**1,043.8**	995.4	5
Premium finance	**486.6**	455.5	7
Motor finance	**469.3**	443.5	6
Close Finance Channel Islands	**87.9**	96.4	(9)
Commercial	**1,035.8**	882.3	17
Invoice finance	**254.3**	170.3	49
Asset finance	**781.5**	712.0	10
Property	**498.1**	487.2	2
Closing loan book	**2,577.7**	2,364.9	9

During the first six months of the financial year, the loan book grew by 9% to £2,577.7 million at 31 January 2010 (31 July 2009: £2,364.9 million). This includes the acquisition of a £94 million invoice financing loan book in January 2010 from GMAC. Excluding the impact of this acquisition, organic loan book growth was 5%.

The Retail loan book grew 5% to £1,043.8 million (31 July 2009: £995.4 million) reflecting growth in both motor finance and premium finance, with particularly strong demand for personal insurance lines. The Commercial loan book grew 17% to £1,035.8 million (31 July 2009: £882.3 million) driven by good demand and strong new business levels in asset finance and acquisition growth in invoice finance. Excluding the impact of the acquisition, the invoice finance loan book reduced slightly due to the ongoing impact of the economic environment on its customers. The Property loan book increased 2% to £498.1 million (31 July 2009: £487.2 million) reflecting the continued good demand from residential property developers, particularly in shorter-term bridging loans.

Both return on opening equity of 18% (2009: 15%) and return on net loan book of 3.0% (2009: 2.8%) improved demonstrating the division's strong performance, notwithstanding higher bad debts year on year.

Banking Key Financial Ratios

	First half 2010	First half 2009
Operating margin	**28%**	28%
Expense/income ratio	**48%**	52%
Compensation ratio	**27%**	30%
Return on opening equity	**18%**	15%
Return on net loan book*	**3.0%**	2.8%

* 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.

Business Review continued

Asset Management

- Closing Funds under Management up 7% to £7.3 billion since 31 July 2009
- Adjusted operating profit down to £2.7 million
- Private Clients positive net new funds of £91 million

Key Divisional Metrics

	First half 2010 £ million	First half 2009 £ million	Change %
Adjusted operating income	**43.5**	49.9	(13)
Management fees on FuM	**25.5**	29.4	(13)
Income on Assets under Administration and deposits	**15.9**	20.7	(23)
Other income*	**2.1**	(0.2)	–
Adjusted operating expenses	**(40.8)**	(43.3)	(6)
Adjusted operating profit	**2.7**	6.6	(59)
Management fees/average FuM (bps)	**72**	78	–
Closing FuM	**7,289**	6,870	6

* Includes performance fees, income on investment assets and other income.

The Asset Management division had a modest start to the year, with adjusted operating profit falling to £2.7 million (2009: £6.6 million) and return on opening equity reducing to 3% (2009: 7%) reflecting continued challenging conditions for most of the division's businesses. However, Private Clients FuM grew, with net new inflows of £91 million, and exceeded Funds FuM (£3.6 billion) for the first time.

Adjusted operating income was £43.5 million (2009: £49.9 million), a decline of 13% reflecting lower management fees on FuM and income on AuA and deposits.

Management fees on FuM declined by 13% to £25.5 million (2009: £29.4 million). This was the result of a 6% decline in average FuM to £7.1 billion (2009: £7.5 billion) and a six basis points ("bps") decline in management fees/average FuM ("revenue margin") to 72 bps. Both the reduction in the revenue margin and average FuM primarily reflect the deconsolidation of the group's private equity businesses in the first half of the 2009 financial year. However, the revenue margin was stable relative to the 2009 full year level of 72 bps.

Income on AuA and deposits reduced by 23% to £15.9 million (2009: £20.7 million) and continues to be affected by the impact of low interest rates on the margins earned on customer deposits and corporate balances.

Other income increased to £2.1 million (2009: £(0.2) million) as a result of improved performance from the division's corporate private equity investment portfolio.

Adjusted operating expenses reduced 6% to £40.8 million (2009: £43.3 million). This primarily reflects the deconsolidation of the division's private equity businesses and the ongoing benefit of cost saving measures taken during the 2008 and 2009 financial years, partly offset by increased investment spend to support ongoing growth initiatives in the Private Clients business.

During the period, a further £1 million in savings were realised from cost reduction measures undertaken in 2008 and 2009, taking aggregate savings to around £8 million. The full run rate of savings of around £9 million is expected to be realised by the end of the current financial year.

Funds under Management

	Private Clients £ million	Funds £ million	Total £ million
At 1 August 2009	3,349	3,490	6,839
New funds raised	264	246	510
Redemptions, realisations and withdrawals	(173)	(347)	(520)
Net new funds	91	(101)	(10)
Market movement	255	205	460
At 31 January 2010	**3,695**	**3,594**	**7,289**
Change	10%	3%	7%

Funds under Management by Asset Class

	31 January 2010	31 July 2009
Equities	**46%**	42%
Fixed income and cash	**26%**	28%
Property	**13%**	13%
Hedge funds	**7%**	8%
Structured funds	**8%**	9%

At 31 January 2010, FuM were £7.3 billion (31 July 2009: £6.8 billion), a 7% increase. There was a £460 million positive market movement with net new funds broadly neutral. In Private Clients, FuM increased 10% to £3.7 billion driven by a £255 million market movement (8% of opening FuM) and net new funds of £91 million (3% of opening FuM). Funds experienced net outflows of £101 million (3% of opening FuM) although this was more than offset by a £205 million positive market movement (6% of opening FuM) resulting in a 3% increase in FuM to £3.6 billion.

FuM has benefited from recent improvements in market conditions with overall positive market movements of 7% of opening FuM. This compares to an increase in the FTSE 100 of 13% over the same period. The difference in performance reflects the broad range of asset classes held across the division, where equities only represents 46%.

Private Clients investment performance has been positive in the period, though the majority of portfolios underperformed the respective APCIMS index. This reflected the relatively defensive position of the portfolios and resulting underweighting in UK equities and corporate bonds compared to the APCIMS indices. Performance in the Funds area was mixed, with difficult market conditions impacting negatively on property and structured funds, and solid performance in the majority of the multi-manager products.

Asset Management Key Financial Ratios

	First half 2010	First half 2009
Operating margin	**6%**	13%
Expense/income ratio	**94%**	87%
Compensation ratio	**59%**	58%
Return on opening equity	**3%**	7%
Net new funds/opening FuM	**0%**	0%

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

Business Review continued

Securities

- Adjusted operating income up 11% to £89.6 million
- Winterflood average bargains per trading day up 20% to over 45,000
- Mako generated £3.4 million of associate income
- Close Brothers Seydler adjusted operating profit of £3.0 million

Key Divisional Metrics

	First half 2010 £ million	First half 2009 £ million	Change %
Adjusted operating income	**89.6**	80.8	11
Adjusted operating expenses	**(55.6)**	(47.6)	17
Adjusted operating profit	**34.0**	33.2	2

The Securities division has had a good performance, benefiting from strong volumes at Winterflood. Adjusted operating income increased 11% to £89.6 million (2009: £80.8 million). This includes £3.4 million (2009: £12.7 million) of associate income from a 49.9% stake in Mako. Total adjusted operating profit for the division increased 2% to £34.0 million (2009: £33.2 million) as a stronger performance from Winterflood was partly offset by a lower contribution from Mako. As a result of overall good income growth and a higher profit contribution principally from Winterflood, return on opening equity increased significantly to 46% (2009: 30%) and the operating margin improved to 35% (2009: 30%).

Winterflood adjusted operating income was £73.0 million (2009: £55.0 million), a 33% increase as a result of a significant increase in trading volumes, which were particularly strong in the first quarter, benefiting from the recovery in equity markets and strong retail investor demand. Overall, average bargains per trading day increased 20% year on year to 45,262 (2009: 37,861) remaining broadly in line with the second half of the 2009 financial year. The total number of bargains traded in the period was 5.7 million (2009: 4.8 million), up 19%, and income per bargain increased 12% to £12.80 (2009: £11.46).

Trading performance was consistent with a total of only two (2009: six) loss days out of a total 126 (2009: 127) trading days.

As a result of a strong trading performance and higher volumes, adjusted operating expenses increased 25% to £45.4 million (2009: £36.3 million) reflecting higher variable costs.

Adjusted operating profit increased 48% to £27.6 million (2009: £18.7 million).

Key Winterflood Metrics

	First half 2010 £ million	First half 2009 £ million	Change %
Adjusted operating income	**73.0**	55.0	33
Adjusted operating expenses	**(45.4)**	(36.3)	25
Adjusted operating profit	**27.6**	18.7	48
Number of bargains (million)	**5.7**	4.8	19
Average bargains per trading day	**45,262**	37,861	20
Income per bargain	**£12.80**	£11.46	12

Close Brothers Seydler ("CBS") had a resilient performance with adjusted operating profit for the first half of £3.0 million (2009: £1.8 million). Adjusted operating income at CBS was steady at £13.2 million (2009: £13.1 million). Adjusted operating expenses were £10.2 million (2009: £11.3 million) reflecting cost control.

CBS has maintained a strong market position with 2,281 specialist floor mandates (31 July 2009: 2,158) and 164 (31 July 2009: 168) designated sponsoring mandates.

The 49.9% investment in **Mako** generated £3.4 million (2009: £12.7 million) of after tax associate income. This reflects low volatility in the period with no significant market events. The prior year benefited from particularly high volumes and volatility driven by interest rate movements. Mako's investment management business has continued to perform well and FuM of Pelagus Capital, its fixed income relative-value fund, increased 133% to $601 million (31 July 2009: $258 million).

Key Close Brothers Seydler Metrics

	First half 2010 £ million	First half 2009 £ million	Change %
Adjusted operating income	**13.2**	13.1	1
Adjusted operating expenses	**(10.2)**	(11.3)	(10)
Adjusted operating profit	**3.0**	1.8	67

Key Mako Metrics

	First half 2010 £ million	First half 2009 £ million	Change %
Adjusted operating profit	**4.9**	17.4	(72)
Tax on adjusted operating profit	**(1.5)**	(4.7)	(68)
Profit after tax	**3.4**	12.7	(73)

Securities Key Financial Ratios

	First half 2010	First half 2009
Operating margin	**35%**	30%
Expense/income ratio	**65%**	70%
Compensation ratio	**46%**	44%
Return on opening equity	**46%**	30%

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

Principal Risks and Uncertainties

The group's approach to risk management is outlined on page 32 of the Annual Report 2009. A comprehensive review of the principal risks and uncertainties facing the group, and the group's approach to managing these risks and uncertainties are outlined on pages 22 to 24 of the Annual Report 2009.

A summary of the key risks and uncertainties which could impact the group for the remainder of the current financial year are outlined in the table below. The risks facing the group are largely unchanged from those set out in the Annual Report 2009. These risks should not be regarded as a comprehensive list of all the risks and uncertainties the group may potentially face which could adversely impact its performance.

Risk/uncertainty	Description
Reputation	• The loss of confidence in the group by its customers caused by single or multiple events.
Economic conditions	• The impact of poor economic conditions on the group's customers and markets. • Lower asset values caused by reductions in the present value of future cash flows.
Credit/counterparty risk	• The failure of one or more financial institutions to which the group has made loans and advances or from whom the group has purchased debt securities. • Increased experience of default in one or more of the bank's credit portfolios and/or increased levels of loss given default giving rise to higher than expected impairment charges.
Funding	• The inability of the group to access sufficient sources of funding to support its client lending and to grow its business.
Liquidity	• The inability to obtain sufficient cash resources to enable the group to meet its liabilities as they fall due.
Regulation	• Changes in the regulatory, legislative and/or taxation environment which could have a material impact on the group's performance, particularly in the light of enhanced scrutiny of financial institutions following the banking crisis of 2008.
Operational	• The loss or other material impact arising from failed internal processes, people, systems or from external events.
Market	• Losses arising from price movements in equities, fixed income and foreign exchange rates, or from changes to interest rates.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

- the condensed set of consolidated financial statements has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting";
- the Interim Report 2010 includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the Interim Report 2010 includes a fair review of the information required by Disclosure and Transparency Rule 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the board

P.S.S. Macpherson Chairman	P. Prebensen Chief Executive

16 March 2010

Independent Review Report

Independent Review Report to Close Brothers Group plc

We have been engaged by the company to review the condensed set of consolidated financial statements in the Interim Report 2010 for the six months ended 31 January 2010 which comprises the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and related notes 1 to 18. We have read the other information contained in the Interim Report 2010 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors’ responsibilities

The Interim Report 2010 is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Report 2010 in accordance with the Disclosure and Transparency Rules of the United Kingdom’s Financial Services Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of financial statements included in this Interim Report 2010 has been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting”, as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the Interim Report 2010 based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the Interim Report 2010 for the six months ended 31 January 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom’s Financial Services Authority.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Statutory Auditors
London, UK

16 March 2010

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

Consolidated Income Statement
for the six months ended 31 January 2010

	Note	Six months ended 31 January 2010 Unaudited £ million	Six months ended 31 January 2009* Unaudited £ million	Year ended 31 July 2009 Audited £ million
Continuing operations				
Interest income		**154.1**	192.4	352.8
Interest expense		**(58.0)**	(101.5)	(171.0)
Net interest income		**96.1**	90.9	181.8
Fee and commission income		**84.7**	85.6	171.4
Fee and commission expense		**(11.5)**	(10.5)	(19.7)
Gains less losses arising from dealing in securities		**80.4**	62.5	140.2
Share of profit of associates		**3.4**	12.7	16.1
Other income		**8.7**	7.9	12.3
Non-interest income		**165.7**	158.2	320.3
Operating income		**261.8**	249.1	502.1
Administrative expenses		**168.7**	164.9	334.5
Impairment losses on loans and advances	8	**30.6**	23.4	59.9
Impairment losses on goodwill		**–**	19.0	19.0
Amortisation of intangible fixed assets on acquisition		**0.2**	0.3	0.4
Total operating expenses before exceptional items, goodwill impairment and amortisation of intangible fixed assets on acquisition		**199.3**	184.2	388.4
Exceptional items	4	**–**	4.1	6.0
Impairment losses on goodwill		**–**	19.0	19.0
Amortisation of intangible fixed assets on acquisition		**0.2**	0.3	0.4
Total operating expenses		**199.5**	207.6	413.8
Operating profit before exceptional items, goodwill impairment and amortisation of intangible fixed assets on acquisition and tax		**62.5**	64.9	113.7
Exceptional items	4	**–**	(4.1)	(6.0)
Impairment losses on goodwill		**–**	(19.0)	(19.0)
Amortisation of intangible fixed assets on acquisition		**(0.2)**	(0.3)	(0.4)
Operating profit before tax		**62.3**	41.5	88.3
Tax	5	**16.0**	14.1	26.1
Profit after tax from continuing operations		**46.3**	27.4	62.2
Profit/(loss) for the period from discontinued operations		**–**	(2.4)	10.4
Profit attributable to minority interests from continuing operations		**0.2**	0.1	0.3
Profit attributable to minority interests from discontinued operations		**–**	0.2	0.6
Profit attributable to the shareholders of the company		**46.1**	24.7	71.7
From continuing operations				
Basic earnings per share	6	**32.2p**	19.2p	43.6p
Diluted earnings per share	6	**31.7p**	19.0p	43.2p
From continuing and discontinued operations				
Basic earnings per share	6	**32.2p**	17.4p	50.5p
Diluted earnings per share	6	**31.7p**	17.2p	50.0p
Ordinary dividend per share	7	**13.5p**	13.5p	39.0p

* Re-presented (see note 2).

Consolidated Statement of Recognised Income and Expense

for the six months ended 31 January 2010

	Six months ended 31 January 2010 Unaudited £ million	Six months ended 31 January 2009 Unaudited £ million	Year ended 31 July 2009 Audited £ million
Profit after tax	**46.3**	25.0	72.6
Currency translation gains	**3.6**	37.6	18.8
Gains/(losses) on cash flow hedges	**4.6**	(10.5)	(11.1)
Other losses	**–**	(1.6)	(2.8)
Gains/(losses) on financial instruments classified as available for sale:			
Gilts and government guaranteed debt	**0.1**	–	0.6
Floating rate notes	**17.9**	(30.1)	(15.2)
Equity shares	**(0.7)**	(6.6)	(8.8)
	25.5	(11.2)	(18.5)
	71.8	13.8	54.1
Of which, attributable to:			
Minority interests	**0.2**	0.3	0.9
Shareholders	**71.6**	13.5	53.2
	71.8	13.8	54.1

Consolidated Balance Sheet
at 31 January 2010

	Note	31 January 2010 Unaudited £ million	31 January 2009* Unaudited £ million	31 July 2009 Audited £ million
Assets				
Cash and balances at central banks		**198.6**	1.7	1.7
Settlement balances		**596.2**	524.1	508.7
Loans and advances to banks		**247.2**	344.7	196.5
Loans and advances to customers	8	**2,577.7**	2,307.8	2,364.9
Debt securities	9	**1,722.2**	2,171.5	2,299.2
Equity shares	10	**72.2**	67.8	62.0
Loans to money brokers against stock advanced		**84.5**	72.0	158.3
Derivative financial instruments		**24.7**	50.2	32.5
Interests in associates		**77.8**	101.9	71.9
Intangible assets		**112.2**	146.2	107.6
Property, plant and equipment		**42.4**	39.6	41.6
Deferred tax assets		**25.8**	34.7	32.6
Prepayments, accrued income and other assets		**126.6**	141.1	141.8
Total assets		**5,908.1**	6,003.3	6,019.3
Liabilities				
Settlement balances and short positions	11	**584.6**	509.8	590.7
Deposits by banks	12	**39.7**	34.4	48.0
Deposits by customers	12	**2,892.4**	2,542.7	2,919.6
Loans and overdrafts from banks	12	**1,193.5**	1,652.6	1,340.5
Debt securities in issue	12	**21.7**	24.0	21.4
Loans from money brokers against stock advanced		**87.0**	58.9	–
Derivative financial instruments		**13.5**	21.3	21.9
Accruals, deferred income and other liabilities		**265.3**	280.6	304.5
Non-recourse borrowings		**–**	126.0	–
Subordinated loan capital		**75.0**	75.0	75.0
Total liabilities		**5,172.7**	5,325.3	5,321.6
Equity				
Called up share capital		**37.4**	37.4	37.4
Share premium account		**275.7**	274.5	274.5
Profit and loss account		**457.5**	418.9	445.7
Other reserves		**(37.5)**	(57.5)	(64.2)
Minority interests		**2.3**	4.7	4.3
Total equity		**735.4**	678.0	697.7
Total liabilities and equity		**5,908.1**	6,003.3	6,019.3

* Re-presented (see note 2).

Consolidated Statement of Changes in Equity

for the six months ended 31 January 2010

				Other reserves						
	Called up share capital £ million	Share premium account £ million	Profit and loss account £ million	Available for sale movements reserve £ million	Share-based reserves £ million	Exchange movements reserve £ million	Cash flow hedging reserve £ million	Total attributable to equity holders £ million	Minority interests £ million	Total equity £ million
At 1 August 2008	37.3	274.1	432.0	(12.3)	(19.4)	2.3	1.4	715.4	5.0	720.4
Profit for the period	–	–	24.7	–	–	–	–	24.7	0.3	25.0
Other recognised income for the period	–	–	(1.6)	(36.7)	–	37.6	(10.5)	(11.2)	–	(11.2)
Total recognised income for the period	–	–	23.1	(36.7)	–	37.6	(10.5)	13.5	0.3	13.8
Exercise of options	0.1	0.4	–	–	–	–	–	0.5	–	0.5
Dividends paid	–	–	(36.2)	–	–	–	–	(36.2)	–	(36.2)
Shares purchased	–	–	–	–	(22.2)	–	–	(22.2)	–	(22.2)
Shares released	–	–	–	–	1.2	–	–	1.2	–	1.2
Other movements	–	–	–	–	1.1	–	–	1.1	(0.6)	0.5
At 31 January 2009 (unaudited)	37.4	274.5	418.9	(49.0)	(39.3)	39.9	(9.1)	673.3	4.7	678.0
Profit for the period	–	–	47.0	–	–	–	–	47.0	0.6	47.6
Other recognised income for the period	–	–	(1.2)	13.3	–	(18.8)	(0.6)	(7.3)	–	(7.3)
Total recognised income for the period	–	–	45.8	13.3	–	(18.8)	(0.6)	39.7	0.6	40.3
Exercise of options	–	–	–	–	–	–	–	–	–	–
Dividends paid	–	–	(19.0)	–	–	–	–	(19.0)	–	(19.0)
Shares purchased	–	–	–	–	0.1	–	–	0.1	–	0.1
Shares released	–	–	–	–	3.1	–	–	3.1	–	3.1
Other movements	–	–	–	–	(1.3)	(2.5)	–	(3.8)	(1.0)	(4.8)
At 31 July 2009 (audited)	37.4	274.5	445.7	(35.7)	(37.4)	18.6	(9.7)	693.4	4.3	697.7
Profit for the period	–	–	46.1	–	–	–	–	46.1	0.2	46.3
Other recognised income for the period	–	–	–	17.3	–	3.6	4.6	25.5	–	25.5
Total recognised income for the period	–	–	46.1	17.3	–	3.6	4.6	71.6	0.2	71.8
Exercise of options	–	1.2	–	–	–	–	–	1.2	–	1.2
Dividends paid	–	–	(36.3)	–	–	–	–	(36.3)	–	(36.3)
Shares purchased	–	–	–	–	–	–	–	–	–	–
Shares released	–	–	–	–	6.8	–	–	6.8	–	6.8
Other movements	–	–	2.0	–	(5.6)	–	–	(3.6)	(2.2)	(5.8)
At 31 January 2010 (unaudited)	**37.4**	**275.7**	**457.5**	**(18.4)**	**(36.2)**	**22.2**	**(5.1)**	**733.1**	**2.3**	**735.4**

Consolidated Cash Flow Statement

for the six months ended 31 January 2010

	Note	Six months ended 31 January 2010 Unaudited £ million	Six months ended 31 January 2009 Unaudited £ million	Year ended 31 July 2009 Audited £ million
Net cash (outflow)/inflow from operating activities	18(a)	**(222.1)**	164.8	(168.8)
Net cash outflow from investing activities:				
Dividends received from associates		**–**	0.9	19.6
Purchase of:				
Assets let under operating leases		**(4.5)**	(3.5)	(12.4)
Property, plant and equipment		**(3.1)**	(3.7)	(8.8)
Intangible assets		**(1.0)**	(0.9)	(1.8)
Equity shares held for investment		**(0.2)**	(1.6)	(3.4)
Own shares for employee share award schemes		**–**	(22.2)	(22.1)
Minority interests		**(2.0)**	(0.5)	(0.6)
Purchase of loan book	16	**(97.8)**	–	(9.1)
Subsidiaries and associates	18(b)	**(0.5)**	(18.5)	(19.7)
Sale of:				
Property, plant and equipment		**–**	1.3	1.9
Equity shares held for investment		**0.2**	0.1	1.0
Subsidiaries	18(c)	**–**	–	51.1
		(108.9)	(48.6)	(4.3)
Net cash (outflow)/inflow before financing		**(331.0)**	116.2	(173.1)
Financing activities:				
Issue of ordinary share capital	18(d)	**1.2**	0.5	0.5
Equity dividends paid		**(36.3)**	(36.2)	(55.2)
Dividends paid to minority interests		**(0.3)**	(1.1)	(1.6)
Interest paid on subordinated loan capital		**(2.8)**	(3.0)	(5.6)
Reclassification of floating rate notes classified as available for sale		**–**	(773.2)	(751.3)
Net decrease in cash		**(369.2)**	(696.8)	(986.3)
Cash and cash equivalents at beginning of period		**1,398.3**	2,384.6	2,384.6
Cash and cash equivalents at end of period	18(e)	**1,029.1**	1,687.8	1,398.3

The Notes

1. Basis of preparation and accounting policies

The interim financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and in accordance with International Accounting Standard ("IAS") 34 – "Interim Financial Reporting". The consolidated financial statements incorporate the individual financial statements of Close Brothers Group plc and the entities it controls, using the acquisition method of accounting. They represent condensed financial statements in accordance with IAS 34.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future, a period of not less than twelve months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the half yearly condensed financial statements.

The annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The accounting policies, presentation and methods of computation used for this Interim Report are consistent with those set out in the group's latest annual audited financial statements, with the following exceptions:

IFRS 8 "Operating segments" has been adopted. This standard replaces IAS 14 "Segment reporting" and requires segmental information reported to be based on that which the group's Executive Committee, which is considered the group's chief operating decision maker, uses internally for the purposes of evaluating the performance of the group's operating segments. Note 3 of these condensed consolidated interim financial statements sets out the group's reportable segments and reconciliations between these and the results reported in the consolidated income statement and consolidated balance sheet. Adoption of this standard has not had a material impact.

Amendments to IFRS 3 "Business combinations" and IAS 27 "Consolidated and separate financial statements" have been adopted. The main changes to existing practice affect acquisitions achieved in stages and those where less than 100% of equity is acquired. In addition, acquisition related costs must be accounted for as expenses unless directly connected with the issue of debt or equity securities. The revised IFRS 3 applies prospectively to business combinations undertaken by the group on or after 1 August 2009.

Amendment to IAS 1 "Presentation of financial statements" has been adopted. The revised standard prohibits the presentation of items of income and expense in the statement of changes in equity, requiring non-shareholder changes in equity to be presented separately from shareholder changes in equity. All non-shareholder changes in equity are required to be presented in a performance statement. IAS 1 (Revised) permits a choice between presenting a single performance statement (being a Statement of Comprehensive Income) or two statements (being an Income Statement and a Statement of Recognised Income and Expense). The group has elected to present two statements. In addition, to comply with the revised standard, the group now presents a Consolidated Statement of Changes in Equity as a primary statement.

The following standards, amendments and IFRIC interpretations were also effective for the current period, but the adoption of these did not have a material impact on these condensed consolidated interim financial statements:

- Amendment to IFRS 2 "Share-based payment" relating to vesting conditions and cancellations;
- Amendment to IAS 23 "Borrowing costs". The standard has been revised to require capitalisation of borrowing costs on qualifying assets;
- Amendment to IFRS 7 "Financial instruments: disclosures" which requires enhanced disclosures of fair value and liquidity risk. There will be additional disclosures in the Annual Report 2010 as a result of adoption of this amendment;
- Amendment to IAS 32 "Financial instruments: presentation" and IAS 1 "Presentation of financial statements" in relation to puttable financial instruments arising on liquidation;
- Amendment to IAS 39 "Financial instruments: recognition and measurement" in relation to eligible hedged items and reassessment of embedded derivatives;
- IFRIC 15 "Agreements for the construction of real estate";
- IFRIC 16 "Hedges of a net investment in a foreign operation";
- IFRIC 17 "Distributions of non-cash assets to owners"; and
- IFRIC 18 "Transfers of assets from customers".

The preparation of the Interim Report requires management to make estimates and assumptions that affect the reported income and expense, assets and liabilities and disclosure of contingencies at the date of the Interim Report. Although these estimates and assumptions are based on management's best judgement at that date, actual results may differ from these estimates.

The Interim Report is unaudited and does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. However, the information has been reviewed by the company's auditors, Deloitte LLP, and their report appears on page 16.

The financial information for the year ended 31 July 2009 contained within this Interim Report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of those statutory accounts has been reported on by Deloitte LLP and delivered to the Registrar of Companies. The report of the auditors on those statutory accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

2. Re-presentation of comparative interim income statement and balance sheet

The consolidated income statement for the six months ended 31 January 2009 and the consolidated balance sheet as at 31 January 2009 have been re-presented as set out in note 1(b) of the Annual Report 2009. The re-presentation of these statements in the Annual Report 2009 was designed to ease 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. The consolidated balance sheet as at 31 July 2008 is disclosed on page 53 of the Annual Report 2009.

The impact on the consolidated income statement for the six months ended 31 January 2009 has been to increase interest income and expense by £8.5 million and £1.2 million respectively and to decrease fee and commission income and expense by £14.3 million and £7.0 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 Business Review section of this Interim Report.

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 Interim Report.

Divisions charge market prices for services rendered to other parts of the group. Funding charges between segments are determined by the Banking division's treasury operation having regard to commercial demands. Substantially all of the group's activities and revenue are located within the British Isles.

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Continuing operations £ million	Discontinued operations £ million	**Total £ million**
Summary Income Statement for the six months ended 31 January 2010							
Operating income before exceptional items	**128.3**	**43.5**	**89.6**	**0.4**	**261.8**	**–**	**261.8**
Administrative expenses	**(61.2)**	**(40.8)**	**(55.6)**	**(11.1)**	**(168.7)**	**–**	**(168.7)**
Impairment losses on loans and advances	**(30.6)**	**–**	**–**	**–**	**(30.6)**	**–**	**(30.6)**
Total operating expenses before exceptionals	**(91.8)**	**(40.8)**	**(55.6)**	**(11.1)**	**(199.3)**	**–**	**(199.3)**
Adjusted operating profit*	**36.5**	**2.7**	**34.0**	**(10.7)**	**62.5**	**–**	**62.5**
Exceptional items: Restructuring costs	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Impairment losses on goodwill	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Amortisation of intangible fixed assets on acquisition	**(0.2)**	**–**	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Gain on disposal of discontinued operations	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Operating profit before tax	**36.3**	**2.7**	**34.0**	**(10.7)**	**62.3**	**–**	**62.3**
Tax	**(10.2)**	**(0.5)**	**(8.2)**	**2.9**	**(16.0)**	**–**	**(16.0)**
Minority interests	**–**	**(0.2)**	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Profit after tax and minority interests	**26.1**	**2.0**	**25.8**	**(7.8)**	**46.1**	**–**	**46.1**

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

The Notes

3. Segmental analysis continued

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	**Total £ million**
Summary Balance Sheet at 31 January 2010					
Assets					
Cash and loans and advances to banks	**230.0**	**197.5**	**17.6**	**0.7**	**445.8**
Settlement balances, long trading positions and loans to money brokers*	**–**	**–**	**782.0**	**–**	**782.0**
Loans and advances to customers	**2,562.9**	**14.8**	**–**	**–**	**2,577.7**
Non trading debt securities	**1,507.6**	**143.3**	**4.4**	**–**	**1,655.3**
Intangible assets	**28.3**	**54.7**	**29.1**	**0.1**	**112.2**
Other assets	**151.0**	**56.7**	**17.8**	**109.6**	**335.1**
Intercompany balances	**(395.8)**	**424.3**	**(27.7)**	**(0.8)**	**–**
Total assets	**4,084.0**	**891.3**	**823.2**	**109.6**	**5,908.1**
Liabilities					
Settlement balances, short trading positions and loans from money brokers	**–**	**–**	**671.6**	**–**	**671.6**
Deposits by banks	**25.5**	**14.2**	**–**	**–**	**39.7**
Deposits by customers	**2,221.5**	**669.9**	**1.0**	**–**	**2,892.4**
Borrowings	**1,279.9**	**5.9**	**4.4**	**–**	**1,290.2**
Other liabilities	**169.8**	**44.3**	**50.2**	**14.5**	**278.8**
Intercompany balances	**59.1**	**18.2**	**0.3**	**(77.6)**	**–**
Total liabilities	**3,755.8**	**752.5**	**727.5**	**(63.1)**	**5,172.7**
Equity	**328.2**	**138.8**	**95.7**	**172.7**	**735.4**
Total liabilities and equity	**4,084.0**	**891.3**	**823.2**	**109.6**	**5,908.1**

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

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Continuing operations £ million	Discontinued operations £ million	Total £ million
Summary Income Statement for the six months ended 31 January 2009							
Operating income before exceptional items	115.4	49.9	80.8	3.0	249.1	17.3	266.4
Administrative expenses	(60.0)	(43.3)	(47.6)	(9.9)	(160.8)	(20.2)	(181.0)
Impairment losses on loans and advances	(23.4)	–	–	–	(23.4)	–	(23.4)
Total operating expenses before exceptionals	(83.4)	(43.3)	(47.6)	(9.9)	(184.2)	(20.2)	(204.4)
Adjusted operating profit*	32.0	6.6	33.2	(6.9)	64.9	(2.9)	62.0
Exceptional items: Restructuring costs	–	(3.4)	–	(0.7)	(4.1)	(0.1)	(4.2)
Impairment losses on goodwill	–	(19.0)	–	–	(19.0)	–	(19.0)
Amortisation of intangible fixed assets on acquisition	(0.3)	–	–	–	(0.3)	–	(0.3)
Gain on disposal of discontinued operations	–	–	–	–	–	–	–
Operating profit before tax	31.7	(15.8)	33.2	(7.6)	41.5	(3.0)	38.5
Tax	(9.6)	(0.4)	(5.9)	1.8	(14.1)	0.6	(13.5)
Minority interests	–	(0.1)	–	–	(0.1)	(0.2)	(0.3)
Profit after tax and minority interests	22.1	(16.3)	27.3	(5.8)	27.3	(2.6)	24.7

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

	Banking £ million	Asset Management £ million	Corporate Finance £ million	Securities £ million	Group £ million	Total £ million
Summary Balance Sheet at 31 January 2009						
Assets						
Cash and loans and advances to banks	98.4	195.4	21.2	30.7	0.7	346.4
Settlement balances, long trading positions and loans to money brokers*	–	–	–	661.0	–	661.0
Loans and advances to customers	2,291.2	16.6	–	–	–	2,307.8
Non trading debt securities	1,860.7	268.9	–	7.5	–	2,137.1
Intangible assets	27.2	56.5	32.8	29.7	–	146.2
Other assets	178.7	66.5	16.3	14.2	129.1	404.8
Intercompany balances	(294.9)	334.0	2.8	(27.4)	(14.5)	–
Total assets	4,161.3	937.9	73.1	715.7	115.3	6,003.3
Liabilities						
Settlement balances, short trading positions and loans from money brokers	–	–	–	568.7	–	568.7
Deposits by banks	21.0	13.4	–	–	–	34.4
Deposits by customers	1,830.2	710.7	–	1.8	–	2,542.7
Borrowings	1,788.1	0.6	–	3.9	85.0	1,877.6
Other liabilities	171.9	53.6	19.3	37.6	19.5	301.9
Intercompany balances	88.8	15.4	42.3	0.2	(146.7)	–
Total liabilities	3,900.0	793.7	61.6	612.2	(42.2)	5,325.3
Equity	261.3	144.2	11.5	103.5	157.5	678.0
Total liabilities and equity	4,161.3	937.9	73.1	715.7	115.3	6,003.3

* £34.4 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 balance sheet. These balances are included within "Debt securities" on the consolidated balance sheet.

The Notes

3. Segmental analysis continued

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Continuing operations £ million	Discontinued operations £ million	Total £ million
Summary Income Statement for the year ended 31 July 2009							
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.

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Summary Balance Sheet at 31 July 2009					
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 balance sheet. These balances are included within "Debt securities" on the consolidated balance sheet.

4. Exceptional items

	Six months ended 31 January 2010 £ million	2009 £ million	Year ended 31 July 2009 £ million
Exceptional expenses			
Restructuring costs	**–**	(4.1)	(6.0)
	–	(4.1)	(6.0)

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. Tax expense

	Six months ended 31 January 2010 £ million	2009 £ million	Year ended 31 July 2009 £ million
Tax recognised in the income statement:			
UK corporation tax	**10.3**	11.5	26.2
Foreign tax	**1.3**	0.8	0.8
Current year tax charge	**11.6**	12.3	27.0
Deferred tax expense/(credit)	**4.8**	0.8	(0.8)
Prior year tax provision	**(0.4)**	1.0	(0.1)
	16.0	14.1	26.1
Tax recognised in equity:			
Current tax relating to:			
Financial instruments classified as available for sale	**7.1**	(11.7)	(5.1)
Deferred tax relating to:			
Cash flow hedging	**1.7**	(4.1)	(4.4)
Financial instruments classified as available for sale	**–**	(0.2)	0.6
Share-based transactions	**–**	1.2	0.5
	8.8	(14.8)	(8.4)

The effective tax rate for the period is 25.7% (six months ended 31 January 2009: 34.0%; year ended 31 July 2009: 29.6%), representing the best estimate of the annual effective tax rate expected for the full year, applied to the operating profit before tax for the six month period.

The effective tax rate for the period is below the UK corporation tax rate of 28% due to 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. These effects are offset by standard disallowable expenses.

The Notes

6. 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.

	Six months ended 31 January		Year ended 31 July
	2010	2009	2009
Earnings per share			
Continuing operations			
Basic	**32.2p**	19.2p	43.6p
Diluted	**31.7p**	19.0p	43.2p
Adjusted basic	**32.4p**	34.9p	60.5p
Adjusted diluted	**31.9p**	34.5p	59.9p
Continuing and discontinued operations			
Basic	**32.2p**	17.4p	50.5p
Diluted	**31.7p**	17.2p	50.0p
	£ million	£ million	£ million
Profit attributable to shareholders	**46.1**	24.7	71.7
Loss/(gain) for the period from discontinued operations	**–**	2.4	(10.4)
Element attributable to minority interests	**–**	0.2	0.6
Profit attributable to shareholders on continuing operations	**46.1**	27.3	61.9
Adjustments:			
Exceptional expenses	**–**	4.1	6.0
Tax effect of exceptional expenses	**–**	(1.1)	(1.5)
Impairment losses on goodwill	**–**	19.0	19.0
Amortisation of intangible fixed assets on acquisition	**0.2**	0.3	0.4
Adjusted profit attributable to shareholders on continuing operations	**46.3**	49.6	85.8
	million	million	million
Average number of shares			
Basic weighted	**143.1**	142.3	141.9
Effect of dilutive share options and awards	**2.2**	1.4	1.4
Diluted weighted	**145.3**	143.7	143.3

The gain for the period from discontinued operations, net of any minority interest effect, is £nil (six months ended 31 January 2009: loss of £2.6 million; year ended 31 July 2009: gain of £9.8 million). The basic earnings per share from discontinued operations is nil (six months ended 31 January 2009: loss of 1.8p; year ended 31 July 2009: gain of 6.9p) and the diluted earnings per share from discontinued operations is nil (six months ended 31 January 2009: loss of 1.8p; year ended 31 July 2009: gain of 6.8p).

Adjusted basic earnings per share on a continuing and discontinued basis was 32.4p (six months ended 31 January 2009: 33.0p; year ended 31 July 2009: 67.4p), based on adjusted profit attributable to shareholders on continuing and discontinued operations of £46.3 million (six months ended 31 January 2009: £47.0 million; year ended 31 July 2009: £95.7 million).

7. Dividends

	Six months ended 31 January 2010 £ million	Six months ended 31 January 2009 £ million	Year ended 31 July 2009 £ million
For each ordinary share:			
Interim dividend for previous financial year paid in April 2009: 13.5p	**–**	–	19.0
Final dividend for previous financial year paid in November 2009: 25.5p (2008: 25.5p)	**36.3**	36.2	36.2
	36.3	36.2	55.2

An interim dividend relating to the six months ended 31 January 2010 of 13.5p, amounting to an estimated £19.2 million, is proposed. This interim dividend, which is due to be paid on 22 April 2010, is not reflected in these financial statements.

8. Loans and advances to customers

	31 January 2010 £ million	31 January 2009 £ million	31 July 2009 £ million
Loans and advances are repayable:			
On demand or at short notice	**140.0**	92.4	93.4
Within three months	**762.2**	699.3	652.2
Between three months and one year	**887.9**	816.7	827.6
Between one and two years	**425.8**	363.8	425.1
Between two and five years	**431.6**	383.4	426.3
After more than five years	**13.5**	10.7	11.5
Impairment provisions	**(83.3)**	(58.5)	(71.2)
	2,577.7	2,307.8	2,364.9
Impairment provisions on loans and advances:			
Opening balance	**71.2**	50.3	50.3
Charge for the period	**30.6**	23.4	59.9
Amounts written off net of recoveries	**(18.5)**	(15.2)	(39.0)
	83.3	58.5	71.2

The Notes

9. Debt securities

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

	Held for trading £ million	Held to maturity assets £ million	Available for sale assets £ million	Loans and receivables £ million	Total £ million
At 31 January 2009					
Long trading positions in debt securities	34.4	–	–	–	34.4
Certificates of deposit	–	–	–	1,341.4	1,341.4
Floating rate notes	–	22.5	773.2	–	795.7
Gilts and government guaranteed debt	–	–	–	–	–
	34.4	22.5	773.2	1,341.4	2,171.5

	Held for trading £ million	Held to maturity assets £ million	Available for sale assets £ million	Loans and receivables £ million	Total £ million
At 31 July 2009					
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

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

	31 January 2010		31 January 2009		31 July 2009	
	Book value £ million	**Fair value £ million**	Book value £ million	Fair value £ million	Book value £ million	Fair value £ million
Certificates of deposit classified as loans and receivables	**587.7**	**588.8**	1,341.4	1,350.4	1,202.2	1,207.9
Floating rate notes held to maturity	**18.4**	**17.8**	22.5	15.7	19.4	18.8
	606.1	**606.6**	1,363.9	1,366.1	1,221.6	1,226.7

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

	Gilts and government guaranteed debt	Floating rate notes		
	Available for sale £ million	Available for sale £ million	Held to maturity £ million	Total £ million
At 1 August 2009	285.0	754.7	19.4	1,059.1
Redemptions at maturity	–	(24.7)	(1.0)	(25.7)
Currency translation differences	–	8.5	–	8.5
Increase in carrying value of financial instruments classified as available for sale	0.8	24.9	–	25.7
At 31 January 2010	**285.8**	**763.4**	**18.4**	**1,067.6**

In respect of the floating rate notes, both classified as available for sale and held to maturity, £175.4 million (31 January 2009: £33.0 million; 31 July 2009: £141.5 million) were due to mature within one year and £28.1 million (31 January 2009: £28.5 million; 31 July 2009: £25.9 million) have been issued by corporates with the remainder issued by banks and building societies.

10. Equity shares

	31 January		31 July
	2010 £ million	2009 £ million	2009 £ million
Equity shares classified as held for trading	**34.4**	30.5	24.0
Other equity shares	**37.8**	37.3	38.0
	72.2	67.8	62.0

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

	Available for sale £ million	Valued at fair value £ million	Total £ million
At 1 August 2009	25.4	12.6	38.0
Additions	–	0.2	0.2
Disposals	–	(0.6)	(0.6)
Increase/(decrease) in carrying value of:			
Equity shares classified as available for sale	(0.7)	–	(0.7)
Listed equity shares held at fair value	–	–	–
Unlisted equity shares held at fair value	–	0.9	0.9
At 31 January 2010	**24.7**	**13.1**	**37.8**

11. Settlement balances and short positions

	31 January		31 July
	2010 £ million	2009 £ million	2009 £ million
Settlement balances	**526.4**	479.3	505.2
Short positions held for trading:			
Debt securities	**44.9**	22.1	71.4
Equity shares	**13.3**	8.4	14.1
	584.6	509.8	590.7

The Notes

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

	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 January 2009							
Deposits by banks	6.7	19.6	5.0	3.1	–	–	34.4
Deposits by customers	698.1	950.7	497.4	358.5	38.0	–	2,542.7
Loans and overdrafts from banks	11.3	120.2	465.2	860.9	195.0	–	1,652.6
Debt securities in issue	–	–	–	–	–	24.0	24.0
	716.1	1,090.5	967.6	1,222.5	233.0	24.0	4,253.7

	On demand or at short notice £ 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 £405.7 million of committed sale and repurchase facilities with a residual maturity of between three months and one year (31 January 2009: £507.6 million, £88.4 million with a residual maturity of less than three months and £419.2 million of between three months and one year; 31 July 2009: £405.1 million with a residual maturity of between one and two years). The debt securities in issue mature on 20 April 2015.

13. Capital

The group's individual entities and the group as a whole complied with all of the externally imposed capital requirements to which they are subject for the year ended 31 July 2009 and the period to 31 January 2010. The table below summarises the composition of regulatory capital and Pillar 1 risk weighted assets at those financial period ends.

	31 January		31 July
	2010 Basel II £ million	2009 Basel II £ million	2009 Basel II £ million
Core tier 1 capital			
Called up share capital	**37.4**	37.4	37.4
Share premium account	**275.7**	274.5	274.5
Retained earnings and other reserves	**487.6**	473.7	477.8
Minority interests	**2.3**	4.7	4.3
Deductions from core tier 1 capital			
Intangible assets	**(112.2)**	(146.2)	(107.6)
Goodwill in associates	**(50.7)**	(56.3)	(49.0)
Investment in own shares	**(44.1)**	(54.1)	(50.9)
Unrealised losses on available for sale equity shares	**(5.3)**	(2.4)	(4.6)
Core tier 1 capital after deductions	**590.7**	531.3	581.9
Tier 2 capital			
Subordinated debt	**75.0**	75.0	75.0
Collective impairment allowances	**–**	0.8	–
Tier 2 capital	**75.0**	75.8	75.0
Deductions from total of tier 1 and tier 2 capital			
Participation in a non-financial undertaking	**(4.0)**	(2.7)	(4.8)
Other regulatory adjustments	**(0.2)**	(5.9)	(0.5)
Total regulatory capital	**661.5**	598.5	651.6
Risk weighted assets (notional)			
Credit and counterparty risk	**2,965.8**	2,760.6	2,840.2
Operational risk*	**993.8**	1,099.9	993.8
Market risk*	**119.8**	128.5	102.8
	4,079.4	3,989.0	3,936.8

	%	%	%
Core tier 1 capital ratio	**14.5**	13.3	14.8
Total capital ratio	**16.2**	15.0	16.6

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

The Notes

14. Contingent liabilities

Financial Services Compensation Scheme

As disclosed in note 28 of the Annual Report 2009, the group is exposed to the Financial Services Compensation Scheme ("FSCS") which provides compensation to customers of financial institutions in the event that an institution is unable, or is likely to be unable, to pay claims against it. In order to meet its obligations to the depositors of a number of failed institutions the FSCS has borrowed amounts from HM Treasury on an interest only basis. While it is anticipated that these borrowings will be repaid wholly or substantially from the realisation of the assets of the failed institutions, the FSCS will recoup any shortfalls from additional levies to FSCS participants. No further information has become available since the Annual Report 2009 and so at the date of this Interim Report it is not possible to estimate with any certainty the amount or timing of any such additional levies the group may be required to pay in respect of failed institutions. The group has accrued for its share of levies that will be raised by the FSCS, including the interest on the loan from HM Treasury, in respect of the levy years to 31 March 2011.

15. Related party transactions

Related party transactions, including salary and benefits provided to directors and key management, were not material to the financial position or performance of the group during the period. There were no changes to the type and nature of the related party transactions disclosed in the Annual Report 2009 that could have a material effect on the financial position and performance of the group in the six months to 31 January 2010.

16. Acquisitions

On 4 January 2010 the group acquired the invoice financing loan business of GMAC Commercial Finance Limited (UK) for a premium to net book value of up to £4.0 million in cash. The loan book acquired of £93.8 million is not regarded as material in the context of the group's financial statements and therefore the information that would be required for material acquisitions by IFRS 3 "Business Combinations" has not been disclosed.

17. Post balance sheet event

The group issued £200 million of 6.5% senior unsecured fixed rate notes in February 2010 due to mature February 2017.

18. Consolidated cash flow statement reconciliation

	Six months ended 31 January 2010 £ million	Six months ended 31 January 2009 £ million	Year ended 31 July 2009 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities			
Operating profit on ordinary activities before tax	**62.3**	38.5	98.3
Tax paid	**(12.2)**	(10.6)	(21.0)
(Increase)/decrease in:			
Interest receivable and prepaid expenses	**22.6**	(10.3)	(20.8)
Net settlement balances and trading positions	**(133.0)**	(19.1)	80.2
Net money broker loans against stock advanced	**160.8**	26.7	(118.5)
Increase/(decrease) in:			
Interest payable and accrued expenses	**(38.5)**	(17.8)	8.3
Depreciation, amortisation and impairment losses on goodwill	**7.5**	26.7	35.1
Net cash inflow from trading activities	**69.5**	34.1	61.6
(Increase)/decrease in:			
Loans and advances to banks not repayable on demand	**(0.2)**	0.2	(1.9)
Loans and advances to customers	**(119.0)**	8.5	(38.9)
Floating rate notes held to maturity	**1.0**	0.9	4.0
Floating rate notes classified as available for sale	**(8.7)**	–	(3.4)
Debt securities held for liquidity	**(0.8)**	–	(285.0)
Other assets less other liabilities	**18.6**	(58.8)	5.0
Increase/(decrease) in:			
Deposits by banks	**(8.3)**	(263.8)	(250.2)
Deposits by customers	**(27.2)**	(99.0)	277.9
Loans and overdrafts from banks	**(147.0)**	581.7	227.1
Non-recourse borrowings	**–**	(39.0)	(165.0)
Debt securities in issue	**–**	–	–
Net cash (outflow)/inflow from operating activities	**(222.1)**	164.8	(168.8)
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and associates			
Cash consideration in respect of current year purchases	**–**	(16.8)	(17.9)
Loan stock redemptions and deferred consideration paid in respect of prior year purchases	**(0.5)**	(2.0)	(2.1)
Net movement in cash balances	**–**	0.3	0.3
	(0.5)	(18.5)	(19.7)
(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

The Notes

18. Consolidated cash flow statement reconciliation continued

	Six months ended 31 January		Year ended 31 July
	2010 £ million	2009 £ million	2009 £ million
(d) Analysis of changes in financing			
Share capital (including premium) and subordinated loan capital:			
Opening balance	**386.9**	386.4	386.4
Issue of ordinary share capital	**1.2**	0.5	0.5
Closing balance	**388.1**	386.9	386.9
(e) Analysis of cash and cash equivalents			
Cash and balances at central banks	**196.5**	1.7	1.7
Loans and advances to banks repayable on demand	**244.9**	344.7	194.4
Certificates of deposit	**587.7**	1,341.4	1,202.2
	1,029.1	1,687.8	1,398.3

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 were reclassified during the prior period for cash flow presentation purposes since the majority of the portfolio had been hedged as collateral for sale and repurchase agreements and the market for those instruments was no longer regarded as highly liquid due to the prevailing economic environment.

Cautionary Statement

Certain statements included or incorporated by reference within this report may constitute "forward-looking statements" in respect of the group's operations, performance, prospects and/or financial condition. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions and actual results or events may differ materially from those expressed or implied by those statements. Accordingly, no assurance can be given that any particular expectation will be met and reliance should not be placed on any forward-looking statement. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. No responsibility or obligation is accepted to update or revise any forward-looking statement resulting from new information, future events or otherwise. Nothing in this report should be construed as a profit forecast. This report does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase any shares 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 report reflect the knowledge and information available at the time of its preparation. Liability arising from anything in this report shall be governed by English Law. Nothing in this report shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.

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