Close Brothers Group

Interim Results Presentation – 16 March 2010

PREBEN PREBENSEN

Good morning everyone and thank you for joining us today. We are delighted to welcome you to the Interim Results Presentation for the first half ended 31 January 2010. And let me begin by saying that we apologise for bringing you to this gloomy basement again. As you will be aware, we are in the process of renovating Crown Place. We hope that by the full year Preliminary Result, we will be welcoming you back to the sixth floor with its full face lift.

I would like to remind you that today's proceedings are being webcast and I welcome those of you who are joining us via this facility. For the benefit of webcast participants, can I ask you to switch off your mobile phones.

Jonathan Howell will be taking you through the results and afterwards I will share some of my perspectives on the Group and our priorities going forward. And following that there will be an opportunity for Q&A.

Before we begin I would like to introduce you to some of my colleagues. In the first row we have Stephen Hodges, Managing Director of the Group and Chief Executive of the Banking Division. Martin Andrew, Chief Executive of Asset Management and Julian Palfreyman, Chief Executive of Winterflood.

Turning to the formal Presentation. We are pleased to say that the Group delivered a good first half performance with the £63 million adjusted operating profit. The Banking Division delivered a strong result benefiting from current favourable conditions and its consistent approach to lending. Securities had a continued good performance particularly from Winterflood and conditions remained challenging for us at Management, although Private Clients remained resilient.

We are also pleased to announce the Interim Dividend of 13.5 p. We have a conservative approach to funding, which has resulted in a sound and diversified funding position. The wide range of funding sources we utilise provide significant resilience and we will continue to manage funding with a view to both cost efficiency and long-term flexibility. Our good profitability during the period has allowed us to maintain a strong capital base and our Tier 1 ratio is now 14.5 %. This provides us with the ability to take advantage of growth opportunities which our businesses identify.

While these results reflect the strength of our portfolio, it is also a time of growth and transition for the Group. We remain focused on the opportunities that exist for each of our three business areas and I will take you through them in more detail later on.

For now though, I will hand over to Jonathan to will take you through the first half results.

JONATHAN HOWELL

Thank you very much Preben and good morning to everyone here at Crown Place. I am pleased to say that the Group has delivered a good overall result. I will start first of all by taking you through the first half results including details of contribution by division and then I will finish with the outlook for the remainder of the financial year.

Adjusted operating income increased by 5% to £262 million. This reflects a strong performance from the Bank's lending activities, as well as strong trading at Winterflood.

Adjusted operating profit was £63 million, a 4% reduction. This reflects first of all a 5% increased in adjusted operating expenses to £169 million, principally driven by increased trading activity at Winterflood. And secondly an increase in bad debts to £31 million, up from £23 million in H1 2009, due to the challenging economic conditions. However this is an improvement on the £37 million bad debt charge in the second half of 2009.

Overall this was a good first half performance, particularly against the strong first half last year. It was also a 28% improvement on the second half of last year which reported adjusted operating profit of £49 million.

There are no exceptional items or other material adjustments to operating profit in the first half, however last year there were total adjustments of £23 million, including restructuring costs and goodwill impairment.

As a result, operating profit before tax was £62 million, a 50% increase from £42 million in H1 2009. Tax was £16 million, at an effective tax rate of 26% including the associate income from Mako which is reported on an after tax basis. Excluding this item, the underlying affective tax rate was 28% in line with the UK corporate tax rate.

Adjusted EPS was 32.4 pence, down 7% on H1 last year. However basic EPS for the period was 31.2 pence, up some 68% due to the exceptional items taken last year. The good performance was reflected in an improved Group operating margin of 23% and an RoE of 12%, up from 10% in the first half last year.

I am pleased to say that we have declared an interim dividend of 13.5 pence reflecting the overall good result and the resilience of the Group's businesses.

Let's touch briefly on each of the divisions. The best performance was from Banking which took advantage of favourable business conditions to deliver £37 million. This 14% increase in operating profit was due to good demand for its specialist lending activities. There was also strong loan book growth of 9% across the lending portfolio and an increase of net interest margin to 9.7%.

Asset management had a modest start to the year. Adjusted operating profit reduced to £3 million reflecting continued challenging conditions and investment in the business for the future. Nonetheless the Private Clients Business remained resilient.

Securities delivered another good performance with operating profit increasing to £34 million, up 2%. A strong performance at Winterflood was however partly offset by a reduced results from Mako.

And finally Group net expenses increased to £11 million, principally as a result of higher income in the prior period.

Now turning to the Balance Sheet. The Group has continued to maintain a strong Balance Sheet with £5.9 billion of total assets. Loans and advances to customers which make up just under half of total assets, increased 9% in the first half to £2.6 billion. This growth includes the £94 million invoice finance loan book which was acquired in January this year.

One of the principal Balance Sheet movements was the £606 million reduction of non trading assets to £1.7 billion as a result of maturing CDs. Due to a more favourable risk return profile, some of these funds were placed on deposit with the Bank of England, and as a result cash and loans and advances to banks increased by £248 million to £446 million.

Market making assets increased to £782 million as a result of trading activity and market valuations at the Balance Sheet date. However these were offset by £672 million of liabilities, resulting in a net long position of £110 million, just slightly down on the 2009 year end position.

Moving now to the liability side, customer deposits remained broadly stable at £2.9 billion. Borrowings were £1.3 billion, down £147 million since 31 July as the drawn portion of the Group's facilities was reduced. And total equity increased £38 million to £735 million which largely reflects a £12 million increase in retained earnings and an £18 million positive mark to market adjustment on the FRN portfolio.

The Group retains a strong and diversified funding position which includes drawn and undrawn wholesale facilities, long and short-term customer deposits and equity. Both wholesale facilities of £1.8 billion and customer deposits of £2.9 billion remain broadly stable and there were no significant maturities of existing facilities.

The £2.6 billion loan book remains well funded. Importantly the average maturity of facilities of 18 months exceeds the 11 month average loan book maturity. We will continue to focus on our liquidity and funding requirements with a view to managing cost efficiency and flexibility. After the half year end, the Group added to its funding position by raising a £200 million 7 year bond.

The capital position remained largely unchanged during the first half. Risk weighted assets increased 4% to £4.1 billion as a result of loan book growth. Overall, the core Tier 1 ratio was broadly stable at 14.5%. Going forward, the Group will maintain its strong capital position to support growth opportunities within the Divisions.

Now looking at the Banking Division in more detail. As I mentioned before, Banking's contribution was strong as it made the best of favourable conditions for many of its businesses. Adjusted operated income increased 11% to £128 million. This growth compares with only a 2% increase in adjusted operating expenses to £61 million. These results were achieved despite bad debts increasing to £31 million, reflecting the more difficult economic environment. We will touch on bad debt trends in more detail later in this section. The overall improvement in performance led to a 14% increase in profit to £37 million and an improved RoE of 18%.

The division's strong performance has been driven by good income growth and specialist lending activities, particularly in retail. Net interest and fees on the loan book increased some 17% to £119 million. And this was driven by firstly a 9% growth in the average loan book, and secondly a strong increase in net interest margin to 9.7% up from 9% for H1 last year. However, Treasury income reduced 32% to £9 million, as it was impacted by lower returns on money market assets.

The loan book increased by about £200 million to £2.6 billion since the full year. Of the 9% total loan book growth 5% was organic and the remaining 4% is due to the acquisition of the invoice finance book I mentioned earlier.

The retail loan book grew 5% to just over £1 billion as we saw continued good demand for both motor and premium finance. On the commercial side, the headline growth of 17% was largely driven by the acquisition. Excluding this, growth in commercial was 7% reflecting good new business levels in asset finance. And finally, the property loan book grew 2% as the business continued to see good demand, but our lending was selective.

Now looking in more detail at the bad debt. The bad debt ratio was 2.5% in H1 this year compared to 2.1% in H1 last year, reflecting the impact of a more difficult environment for borrowers. This increase was more than offset by the strong net interest margin, and importantly the return on net loan book improved to 3%. However, bad debts in H1 have reduced relative to the second half of last year when the ratio was 3.1%.

The recent improvement in bad debts has principally been driven by the retail businesses which are shorter term in nature and we are yet to see material improvement in commercial or property. Accordingly the outlook for bad debts remains sensitive to the economic environment.

Asset Management had a modest start to the year, though Private Clients performance remained resilient. Adjusted operating income decreased 13% to £44 million, reflecting the challenging conditions for most of the division's businesses. Despite increased investment spend, adjusted operating expenses reduced 6%, to £41 million. This was due to the deconsolidation of the Group's private equity businesses in the last financial year and also the ongoing benefit of cost saving measures. As a result, adjusted operating profit decreased to £3 million from £7million in the first half last year.

Now looking more closely at operating income. Management fees on FuM reduced 13% to £26 million. This is a result of a 6% decline in average funds under management and a lower revenue margin of 72 basis points. The reduced average FuM again primarily reflects the deconsolidation of the Group's private equity businesses in 2009.

The low interest rate environment continues to impact income on AUA and deposits which fell to £16 million.

Finally the movement in Funds under Management. Closing FuM increased £450 million or 7% to £7.3 billion in the first half. Significant drivers of this increase were firstly a £460 million positive market movement, largely due to a recovery of equity markets. And secondly positive net new funds of £91 million from Private Clients. Overall, Private Clients FuM increased 10% to £3.7 billion, with ongoing investment in this business.

Securities has had another good performance in the first half, principally due to Winterflood's strong contribution. Adjusted operating income increased 11% to £90 million. Higher variable costs resulting from Winterflood's strong trading performance led to operating expenses increasing 17% to £56 million.

Winterflood increased operating profit by some 48% to £28 million - an outstanding performance, driven by strong volumes and retail invest demand.

Seydler's had a resilient performance with £3 million of operating profit. And Mako generated £3 million of post tax associate income, compared to a particularly high £13 million in H1 last year. Overall operating profit for the division increased 2% to £34 million.

As a result of the increased profitability in Winterflood RoE increased 16 percentage points to 46% and the operating margin improved to 35%.

Looking now at income in the three businesses, adjusted operating income at Winterflood increased 33% to £73 million. It reflects a 23% increase in average bargains a day to over 45,000 and a 12% increase in income per bargain to £12.80. Performance was particularly strong in the first quarter - August to October - as equity markets recovered. However volumes has slowed since with lower levels of market activity. These results were achieved with only two loss days in 126 days of trading - another very consistent performance.

Seydler income was stable at £13 million. And the Mako contribution reflected lower volatility and the absence of any significant market events in the period. In contrast the corresponding period last year benefited from high volumes and volatility driven by interest rate movements.

Now turning to the outlook for the rest of the financial year:

Our strong, well positioned businesses are well placed for future growth opportunities. In Banking, we expect a solid result from the second half, as a result of the good demand for our specialist lending services. Bad debts will remain sensitive to the economic environment.

In Asset Management, the current overall level of performance is likely to continue in the second half.

And finally in Securities, performance continues to be sensitive to market conditions. And Winterflood has been quieter since the very good first half.

In summary, we remain confident in delivering a solid overall result for the full year.

Thank you and I will pass you back to Preben.

PREBEN PREBENSEN

You have heard from Jonathan's presentation today how the businesses have been performing. And I thought I would take a moment to step back from this detail and remind you of where the Group is heading.

First, as I think you will be familiar with by now, we want to focus on our three business areas of banking, asset management and securities. We see value in each of these businesses and remain focused on their development. The question then becomes where are we taking them from here and how will each develop in the future.

Our main priority as we have talked about previously, is to extend the businesses organically along the strategic lines that they are currently pursuing. We also continue to look at ways that potential infill acquisitions might compliment each. I would note that should we go down the acquisition path, we will continue to be very selective and disciplined in our approach. I think we have demonstrated this to you with the recent transaction, the GMAC acquisition, where we bought a high quality loan book at a fair price.

Naturally, in order for us to successfully deliver on our strategy, we need to maintain our sound financial position, adapting it to the circumstances as required. The strong team we now have in place at the centre in finance, HR, corporate development and legal, enables us to provide better focus and direction to our businesses.

So let me now comment on each of the three business areas:

As you have head from Jonathan, Banking has had a strong start to the year, successfully leveraging favourable conditions for its businesses. Its £37 million operating profit was a 14% increase on the prior year and accounted for half the Group's profit. It is actually a very good time for Banking. While the environment is still challenging we have seen reduced competition in a number of our businesses. We are taking market share and also increasing the quality of the loan book. During the past six months, organic growth in the loan book was 5% or 10% annualised and net interest margins were strong.

I am pleased to say that the organisational structure we introduced last year with a focus on our four key areas of retail, commercial, property and Treasury has been working well. The streamlined reporting has allowed the businesses to better focus on opportunities for growth. Let me remind you what each of these businesses do.

Retail comprises of motor and premium finance operations. Through intermediaries these businesses reach over 1.2 million consumers and around 200,000 SME's via a network of insurance brokers and car dealers.

Commercial includes the lending we do to SME's through our asset finance and invoice finance operations with some 17,000 SME borrowers. Property is our residential development lending business which is relatively short dated with typical loan maturity of 12-18 months.

And finally we will continue to have a separate Treasury function which provides funding for the entire bank. Despite the fact these businesses sit separately from an organisational perspective, they share a common approach. The engage in specialist expertise based lending. The lending they engage in is largely secured. It is also relatively short-term with about half the loan book turning over in any 12 month period. And importantly, we have had a consistent approach and conservative LTV's through the cycle. In turn this enables us to secure strong margins. And we have sustainable and growing positions within each of our markets.

Let me turn to the competitive environment and the growth in market share. The environment is clearly challenging, but our businesses have performed strongly. By providing a consistent and differentiated service, a number have gained market share. Take asset financing for example, where the industry body, the finance and leasing association, reports the market for business finance is down around 30% over the last 12 months. Against this considerable fall off, our Asset Finance business has grown its book 10% compared to the first half last year. It has achieved this by remaining committed to the market when key competitors have stepped away or have been unable to lend as they were balance sheet or capital constrained. It is also important to note that growth has not been at the expense of the quality of the loan book. Asset Finance has continued to be very selective. Indeed in sectors such as construction, it has considerably tightened its lending criteria and this new business will improve the quality of the portfolio.

Property has had a similar experience, where there are relatively few other players in the short dated residential development space. While the business has seen steady demand, it is able to lend very selectively and again has actually improved the quality of its loan book, notwithstanding the difficult market environment.

And strong market positions are not limited to Commercial and Property. Retail has had particular success in its key businesses of Motor and Premium And it has been winning market share. In motor, we are now the third largest lender to the independent used car point of sale sector with around 6% share of this market. In an environment where many of our competitors are cutting back on their high street presence, Motor competes on the local and personalised levels of service that its 12 countrywide branches provide.

In addition to capturing market share in existing markets, we always look to ways to take advantage of our established platform to expand our product offering, our client base and our geographic reach through organic growth. Our largest retail business is Premium, where we have benefited by developing additional niche produce areas. For example we now finance around 10% of all home information packs sold in the UK. As the size of these transactions are relatively low, we have structured our service around technology so that HIP providers can interface directly into our systems and in doing so, don't have to rekey information. They have access to our back office facilities, so administration costs are substantially reduced for us and service levels are increased for our intermediaries. A valuable service in a high volume environment, where demand has significantly increased.

The competitive environment for retail's other business, Motor, has allowed it to access larger auto franchise groups. Motor has also starting looking selectively at relationships with manufacturers and has recently entered into its first agreement with a large motorcycle manufacturer to provide finance for their customers.

Further tie-ups of manufactures would complement our core used car business. We are continuously assessing the market to look for opportunities to take our specialist businesses into new areas of the UK. In retail our Motor business is establishing a Swindon office, our Property business has set up its first dedicated office in Scotland and asset financing is expanding its operations in Northern Ireland. In addition to all these organic opportunities, we are looking to make the most of current market conditions and will acquire books from those that may be exiting the market in existing or adjacent areas of specialisation.

The invoice finance acquisition I mentioned earlier is a good example of the sort of infill acquisition we may look for in this business. High quality loans that we can bring onto our books on a selective basis. I have to say that when I visited the business in Brighton recently, I was particularly impressed at the speed with which the team managed to integrate that business into our existing structures. While there was still some documentation novation to go, it has only taken six weeks to bring the book over to our systems.

To conclude, this is a very good time for the Banking businesses. We are well positioned and well funded and will use the current environment to enhance our market share by building on the strength of the existing businesses while maintaining or even improving the quality of our book.

Turning to Asset Management, as you are aware there is considerable work currently being undertaken as the businesses there look to reposition or develop their proposition for the respective markets. The process of transformation impacted the Divisions overall profit which was down to £3 million for the first half. While its contribution today is modest, we have a clear plan for where we want to take asset management, particularly in private clients.

Our Private Clients initiatives are where the bulk of our immediate attention is currently focused. Indeed high net worth and affluent clients present significant opportunity for the Division. We believe we can further develop our offering and utilise our brand at a time when the UK wealth management market is changing, particularly as a result of the retail distribution review.

We have spoken to you previously about the opportunities to take on IFA books in the lead up to IDR and our work since then corroborates this view. While it will take time to deliver this strategy, everything we see suggests that it is a very interesting opportunity. We are starting to have a few early successes and the team has an interesting pipeline of discussions going on.

We are also actively implementing a number of initiatives that will allow us to access our target clients through direct channels. Our direct campaign was piloted in June last year with further pilots in August and November with good initial response rates. It is essential that we get the right team in place. We have continued to add to the key hires we took on board last year, appointing for example, Steven Mendel as the new Head of Wealth Management. We are also building out the team to engage with the IFA community.

Work continues in the banking and administration businesses to enhance our offering to offshore clients. While margins have been suppressed as a result of continuing low interest rates, we see good appetite for our products, particularly in the qualifying recognised overseas pension scheme market or QROPS which provides an internationally portable pension wrapper to UK expatriates.

Finally, both our Private Client initiative and our Funds businesses need a compelling investment proposition to take to clients. In January of this year, the business took full ownership of Fortune, the specialist fund manager with heading hedge fund manager selection capabilities. Fortune's Chief Investment Officer, Nancy Curtain, who has over 20 years experience across a number of asset classes, agreed to step up to take on overall responsibility for managing all our asset classes in the Division. We are confident that this pooled capability will benefit retail and institutional clients alike.

Turning to the Securities Division, which had a good overall result and adjusted operating profit was £34 million. This corresponds to a 46% contribution to overall Group adjusted operating profit before group net expenses. In February we hosted a session for investors and analysts focused on the Securities three underlying businesses. The briefing provided a more detailed insight into Winterflood, Mako and Seydler and the opportunities they see in the market. As many of you will already be familiar with the content, I won't dwell too long on this division, but I thought I would provide a quick update for those of you not able to join.

First let me recap on the core competences within each of these businesses. We have strong leadership and very significant expertise in their respective fields. Technology and risk management are key areas of focus and expertise for all our businesses. This has helped drive and maintain our market leading positions. Over the last 18 months, which have seen some of the most difficult economic conditions in recent history, our businesses have realised the benefits of focusing on their core strengths and competencies. We liked the natural offset and counter cyclicality of our securities businesses.

Winterflood does well when there is good flow and market sentiment, whereas Mako has the capacity to outperform when there is significant volatility and/or there are events in the markets which lead to a divergence of views. And with this strong platform in place, we want to continue benefiting from our core businesses, while looking at how we can best capture structural growth opportunities and expand our franchise.

Winterflood is looking to access additional order flow from a wider audience globally and to take advantage of its existing strong brand and reputation for the provision of liquidity and execution services into the UK market. Firstly, WiNS has already expanded its relationships to institutions in Britain and dealers in the US, who trade in UK and European securities in order to capture additional order flow from that market. WINS was chosen as a preferred UK mid and small cap market maker for a major US institution which has developed a retail platform for trading global equities. We expect a proliferation of these sorts of platforms globally and Winterflood can potentially use these to access volume.

Winterflood has also previously had relationships with US broker dealers, however more recently has proactively been exploring additional opportunities and as a result has entered into an arrangement with the US broker dealer to facilitate client trade into the UK and Europe. Secondly, Winterflood will continue to seek niche outsourcing opportunities to market its existing bespoke execution services to a variety of retail and institutional clients. By way of example they already offer this service to providers of complementary products like covered warrants, who pay to distribute their products across Winterfloods extensive distribution network. We are continuing to review this and assess potential for additional products to be executed in this way.

WINS will also focus more generally on the institutional market whose trades provide an interesting offset for WINS retail client base, as institutional tends to buy or sell for different reasons and at different times than retail clients.

Seydler, while small, continues to build on its existing designated sponsoring capacity in the German market and is well positioned to respond to the changes that are occurring in the exchanges there.

And finally to Mako, where you heard Chris Welsh in February talk in detail about their existing core derivative market making business. And they are also focusing on building out their successful fixed income relative value fund called Pelagus, as well as identifying, seeding and launching new investment management products.

So finally to conclude, we have a robust and well positioned business and a clear strategy that directs us going forward. There are a wide variety of opportunities for each of our businesses in the sectors in which they specialise. And we like to think of these opportunities as multi-layered with benefits to be realised over time.

Firstly in Banking, we are taking advantage of current market conditions to maintain the quality of our business and to pursue growth. This is happening and we are already seeing some of the benefits come through. Secondly in Securities, we are looking at ways to access additional client flows while maintaining the core competences and strengths of the businesses. And finally in Asset Management, we are investing in this business particularly in Private Clients.

Importantly, it is worth reiterating that the Group has sound funding and strong capital positions to support its businesses both in the current state and through growth initiatives they may choose to pursue.

Thank you for your attention. Jonathan and I would be happy to take your questions. And as usual, could you please identify yourself when you ask a question. Who would like to start?

Question & Answer Session

Question 1 : Carolyn Dorrett, UBS

Good morning, Carolyn Dorrett at UBS. One question if I can in terms of the banking bad debts. Obviously see an improvement in the ratio in the first half versus the second half of last year. And I think you said that came through from the Retail side, with no improvement yet on commercial. If we look back over precious cycles, what is generally the lag behind retail picking up before we see Commercial picking up? And do you see any difference in the cycle maybe than previous cycles?

Answer : Preben Prebensen

I think that sounds like a very good question for Stephen Hodges to answer.

Answer : Stephen Hodges

Good morning. There is a difference between the divisions, essentially the Retail division has a shorter term loan book therefore you tend to turn over the loan book quicker and the impact of new lending impacts the bad debt ratio sooner. Your point about how does this particular environment compare with earlier recessions is an interesting one. Of course in previous recessions, we had much higher levels of interest rates which particularly in Property lending has had a more deleterious effect on the overall loan book. And therefore it is not necessarily appropriate to compare this recession directly with previous ones. Clearly we are going to be impacted by overall economic conditions and time will tell exactly what the timetable is in this particular recession.

Further answer : Jonathan Howell

Just to add, I think there are two factors you need to strip out here. One is obviously what is going to happen to the economy over the next 12-18 months. And that is of particular importance given that all the Commercial lending is SME lending and therefore will have direct impact on the business activity as opposed to private individuals. So that is the first variable. The second variable which as Stephen has quite rightly said, is down to the length of the loan maturity and average term, just to give you an idea if you think that the Retail average term is say something like a year, you are looking at an average term on the Commercial loan book which is more like two years or probably a little bit more. And so therefore, if that is going to be a more dominant factor in what happens to bad debts, then you could see it is going to take another year or so probably to flush right the way through the process. But I would stress though that these two factors you know we don't know to what extent this is going to be encouraged and helped by the economy or offset by the economy.

Question 2 : Philip Middleton, Merrill Lynch

Thank you very much. Philip Middleton from Merrill Lynch. Just a couple of things. First of all on the Banking, obviously very good results. I wonder if you could say a little bit about. You saw operating margin improvement there, is there further operating leverage or are you looking to drive future growth through the top line? And secondly could you say a little more about your strategy for the institutional side of the asset management business? Thanks.

Preben Prebensen:

Jonathan do you want to take the Banking one and then Martin you might come in on the institutional side.

Answer: Jonathan Howell

In terms of the Bank, I think that the key thing is what we are very pleased about in terms of the Bank's results is not only a very strong top line margin, which was greater than we anticipated at 9.7% but also something that we had anticipated to a degree and had flagged up clearly at the Pre close was strong underlying loan book growth. And the main thrust of what we see happening in the Banking division is going to be in terms of maintaining that margin to the extent we are able to in the current credit environment, whilst looking for both organic and acquisition growth in the bank.

In terms of the largest variable in the bank, is the one we have just touched on in Caroline's question which is bad debts, we will have to keep people updated. We have seen a very sharp and smart move down since H2 last year, down to 2.5%. In the six weeks or so since the half year, that has not materially improved. But we will have to see as we get closer to the election.

And then in terms of gearing and funding. We feel we are in a very strong position at the moment. Wholesale funding has remained consistent at £1.8 billion from where it was at the year end. The average term on that funding is 18 months, compared to the average term on the loan book of 11 months. And importantly, a very important measure for us is that if you look at the total facilities that we have, depositing facilities greater than 12 months, that's at £1.1 billion, compared to total number of greater than 12 months at £800 million. However we do feel that we are in a flexible and strong position. We have raised in the last 12 months, a billion of retail deposits and deposits which we have not done before. And we have reopened the public markets for Close debt. So I think what we are going to be doing going forward is looking to improve upon the cost efficiency and the flexibility of the funding that we have got. But remaining confident that actually we have got a more diverse set of funding alternatives and proven funding avenues that we didn't have say 18 months ago.

Preben Prebensen
Martin did you want to address the institutional question?

Answer: Martin Andrew
Yes by all means. The transformation in the asset management division that Preben alluded to, really covers threes areas, the private client business, the offshore administration business and thirdly the institutional business. The first two we made most progress and we are now into implementation. The institution is the one where we are still doing our business planning at the moment. So I should have more precise details to give in a couple of months. But just to give you an indication of where we are heading. We have integrated the Fortune hedge fund multi manager business with our long only multi manager business in February this year. And the reason why we did that was because we wanted to leverage the alternative skills and the long only skills to make a broader multi asset class multi manager proposition. We genuinely believe that the combination of those two are more attractive than having them separate. There is also some interesting technology in Fortune that we think we can leverage to support the overall proposition. And what we are exploring is where we can take that, both in terms of geographies and client types. The client types we will be looking at will be more institutional in nature than our private clients, but I wouldn't conclude from that that they will be necessarily defined benefit pension schemes.

Preben Prebensen
So more of that to come.

<u>Question 3 : Ian Poulter, Cannacord</u>
Thanks, it is Ian Poulter at Cannacord. It is really a question on the capital position. I was wondering what sort of minimal level of core Tier 1 is appropriate for Close and I suppose I am looking for a rough idea on the capital capacity is to support the organic and acquisitive growth in the Group that you are talking about?

Preben Prebensen
Jonathan do you want to address that?

Answer : Jonathan Howell
Yes the core Tier 1 capital ratio that you can see at the half year is 14.5%. We, that is just down slightly on where we were previously, partly because of good strong growth in risk weighted assets that we have taken onto the balance sheet. Going forward that capital ratio needs to service two requirements. One is the ongoing changing and increasing requirement for capital from the regulators. We have just been through our arrow and ICAAP process. We are happy with the outcome. Some small additional add-ons, but materially very much a similar position that we were in previously. It also is there to service future requirements in regulatory changes many

of which have not been voiced or discussed yet with the regulators. And then secondly is to have the capital basis to support the growth initiatives that we have. As you can see in the first half we have had good growth in the Bank's balance sheet. And in time we hope and anticipate that we can grow and develop in the two divisions. So all in all we think we are well capitalised at the moment, but equally we think we have got sufficient growth and development plans to absorb some of that capital surplus.

Further question
But you are not going to come up with a?

Answer : Jonathan Howell
Needless to say I won't give you a hard answer on what is the appropriate capital level for us.

Further answer: Preben Prebensen
It is actually a bit of a moving feast, because the regulatory environment, the economic environment and the opportunities for growth are all changing. What we want to make sure that we have is enough to cover those three, but importantly including growth.

Ian Poulter :
Thank you.

<u>Question 4 : Jeremy Grime, Arden Partners</u>
Jeremy Grime, Arden Partners. Two questions. One, It is probably about a year ago I think when you were talking about a lot of investment going into the Asset Management business on the Funds side. There is no evidence of any return on that investment and now we are seeing, Fortune appears to be changing the product mix a little. Is that evidence that there is a problem with product mix and that this marketing investment is not paying off and you know what actions are being taken to address that. Is the marketing still going on? And the second one on the funding, I was just struggling to understand if you have got available funding of more than twice your loan book, why a £200 million bond fund raise post year end would help your capital efficiency?

Preben Prebensen
Jonathan do you want to take the funding question first and then Martin come back to the institutional.

Answer : Jonathan Howell
Very good question on the funding. The vast majority of the funding that we have got within the Group, comes in the bank. And that has been traditionally the Close model. That is where the vast bulk of the funding is required. However we were very keen in this stage in the development of the business, to take funding in at Group

level and that gives us complete optionality to use that funding across the whole Group. And that includes within the Bank. If additional funding is required within the Bank. Or alternative across the Securities Division or Asset Management Division. We are not able in a capital efficient way, to raise funding in the Bank and then move that up out of the Bank to the rest of the Group because that just attracts a straight forward regulatory deduction of a pound for pound on capital. So at this stage in the development of the business, we thought it was a good opportunity to diversify funding and open up public bond markets for both Group and the Bank. But much more importantly to give us the flexibility to grow in any of our three divisions, not just within the Bank.

Preben Prebensen
Martin did you want to address the institutional question?

Answer: Martin Andrew
Yes. The bulk of the investment the division has made in terms of new propositions, new sales and marketing, and other initiatives, has been in the Private Client area and not the Funds area. There has also been some to support the development of the QROPS proposition offshore. But to date we have put little new investment back into the funds or institutional area. That will be predicated on the outcome of the business planning that we are doing over the next couple of months. In terms of ongoing sales and marketing in the funds area, you will have seen from the presentation, that the net outflow from Funds was £100 million over the first half. And the bulk of that was from Fortune, which has been suffering like many similar hedge fund advisory businesses from outflows over recent months. But the long only multi manager business showed good growth over that period.

Further question
Could you perhaps confirm how many people you have in marketing on the multi manager business?

Answer
Of the order of 5 – 7, something like that.

<u>Question 5 : Nitin Arora Execution Noble</u>
A couple of questions. Firstly a follow up on funding. I think if you look at slide 10, your loan book of £2.6 billion is more than covered by the retail deposits. Plus on top of that you have equity. I was wondering why have you drawn £1.3 billion from your banking facilities? Isn't it not a case of not using banking facilities at the moment and pushing up your net interest margins? Secondly on Securities, could you give us some sense of the US opportunity in maybe relative terms for UK opportunity, does 10% or 30%? How much do you think is the US opportunity there?

Preben
I think on the US opportunity, we could have Julian address that. On the funding side, historically Close has been very conservative in the allocation of short term deposits

to a medium term lending. And really has not allocated very much of that. With most of the short term deposits really being products of a funding for money market activities, again short dated and highly liquid assets on the other side. Going forward, Jonathan is alluding to looking at more flexibility, more cost efficiency in our overall funding strategy. And one of the things we will be looking at is whether it is appropriate for us to allocate a bit more of those short term deposits to the loan book for obvious reasons in terms of its benefit in a cost sense. Do you want to add anything to that Jonathan?

Answer : Jonathan Howell
No that's fine.

Preben Prebensen
So I think you will see us do a bit more on that going forward, it is a good point. Julian do you want to address the US question? First of all I guess it is important to say that you currently do, have done business with US broker dealers for some time. This is the question of finding more and then platforms I think is the other part of that which is interesting.

Answer: Julian Palfreyman
It is actually difficult to predict at this time, exactly what percentage of business or revenue we hope to get from the American market, but the initiative is in its relatively early stage. Although as Preben said, we do have existing relationships in that area. I think it is worth noting that the trend in the US is for increasing investment outside US markets. And obviously that takes into account UK and European markets and companies within those companies and it is something we hope to capitalise on with our extensive network and electronic trading capability.

<u>Question 6 : Sarah Spikes, Arden</u>
Sarah Spikes from Arden. My question is to do with Winterflood. I am just curious if you can say a bit more about how much of your earnings there and now come from institutional business and what the logic is in growing that particularly?

Preben Prebensen
Yes. Julian do you want to comment on that? The institutional side is a relatively modest part of the overall. Jonathan do we actually break down institutional?

Answer : Jonathan Howell
No at this stage, it is not a material component of the total. The traditional WINS model is based very much around the retail order flow. But it is something that you know the business at Winterflood is going to get more traction, there is more interest from the institutional side. And as and when that gets to a more substantial slightly more material level then we will start giving you a little bit of guidance on that.

Further question

And how does that work? Will you charge them differently or will you still make money on the spread like you do for the retail customers?

Answer
Both models as I say, early days at this stage, some of it on the spread and some of it will be on a sort of a commission basis.

Sarah Spikes
Okay, thanks.

PREBEN PREBENSEN

Any other questions? Well thank you very much indeed for coming and we look forward to seeing you in slightly more salubrious surroundings the next time we get together. Thank you very much.

End of Presentation