

CLOSE BROTHERS GROUP PLC

INTERIM RESULTS PRESENTATION

10 MARCH 2009

COLIN KEOGH

Introduction

Good morning to you all, and welcome to the presentation of our Interim Results, for the six months to January 31.

Jonathan Howell and I will take you through the results today, and there will be plenty of time for questions and answers afterwards.

Here in the front row we also have the heads of our four divisions:

- Martin Andrew from Asset Management
- Stephen Hodges from Banking
- Stephen Aulsebrook from Corporate Finance, and
- Julian Palfreyman from Winterflood

Slide 4

Close Brothers has delivered a sound overall Group performance, in a tough market environment.

Adjusted operating profit is down 18% on the first half of 2008, but in line with the second half of last year. In the current environment I think this really demonstrates the quality of our businesses.

We have had a particularly strong performance in our Securities division, from both Winterflood and Mako.

The Banking division has put in a solid performance with good growth in income, and has demonstrated its ability to absorb higher bad debt charges as the recession impacts our borrowers.

And in Asset Management our Private Clients business has remained resilient, although the division as a whole has been affected by a tough market and lower Funds under Management.

Performance in Corporate Finance has also been affected by market conditions.

We remain soundly funded and our loan book remains twice covered by equity, committed facilities and customer deposits. We are well capitalised with a core tier 1 ratio of 13%. And we are pleased to be able to maintain our interim dividend at last year's level of 13.5p per share. This reflects the Group's sound performance in the first half and our strong capital position, notwithstanding the tough market conditions we are currently operating in.

And now, over to Jonathan.

JONATHAN HOWELL

Slide 6

Thank you Colin. I will now take you through the results in more detail.

Overall, we have achieved another set of sound results against a tough market backdrop.

Adjusted operating income increased 5% to £266 million, reflecting good growth in the Banking and Securities divisions.

However, adjusted operating profit declined £13 million, or 18%, to £62 million. This reflects:

- An increase in the bad debt provision from £10 million to £23 million, and
- Operating expenses which increased by £13 million, in line with income, to £181 million, primarily as a result of acquisitions and higher variable costs in Securities.

Looking at the adjusted operating profit in each of our divisions:

- (1) Asset Management adjusted operating profit reduced from £18 million to £7 million, which reflects lower funds under management, and a shift in the mix towards lower fee products
- (2) In the Banking division, good growth in income was more than offset by higher bad debts, and adjusted operating profit reduced 15% to £32 million.
- (3) Corporate finance has been affected by low activity levels, and posted a loss of £3 million.
- (4) And in Securities, a very good performance from both Winterflood and Mako resulted in a 39% increase in profit to £33 million

Finally, Group net expenses were £7 million, which includes £10 million of ongoing costs, and £3 million of income.

Slide 7

Adjusted operating profit is reported after a number of standard adjustments consistent with our normal reporting practice.

In the first half of 2009, these adjustments included:

- £4 million of exceptional expenses related to restructuring costs, primarily in Asset Management, and
- a £19 million goodwill impairment related to a number of past acquisitions in Asset Management, which we have taken alongside the ongoing restructuring of the division.

After these items, operating profit before tax was £39 million, compared to £70 million in H1 2008.

Tax in the period was £14 million, equivalent to an effective tax rate of 35%.

But excluding the impact of goodwill impairment, which is non tax deductible, the effective tax rate was 23%. This reflects an increase in associate income from Mako, which is included in the Group's operating profit on an after tax basis.

Basic EPS for the period was 17.4p, down 45% on H1 last year. And adjusted EPS was 33.0p, down 6%.

We are paying an interim dividend of 13.5p in cash, which is in line with last year. I am pleased to say that our solid performance and strong capital position have enabled us to maintain the dividend despite the difficult market conditions.

Slide 8

Turning now to the balance sheet.

Our liquid assets, which comprise Certificates of Deposit and loans and advances to banks, increased £54 million to £1.7 billion.

We also hold some £770 million of Floating Rate Notes, issued by a range of UK and overseas financial institutions, which are classified as available for sale.

In the first half these were marked to market resulting in a charge to equity reserves of £30 million, net of tax. However, foreign exchange movements resulted in an overall net increase of £22 million to their book value.

The loan book increased by £76 million, or 3%, to £2.3 billion.

On the liability side, customer deposits were resilient, reducing by £99 million to £2.5 billion.

However, short term deposits by banks reduced by £264 million to £34 million as banks have reduced their credit exposures.

Total borrowings increased by some £600 million to £1.9 billion, reflecting additional wholesale funds raised in the period.

The assets and liabilities which relate to our market making activities comprise settlement accounts, long trading positions, and stock lending. These were largely unchanged over the past six months at £661 million of assets, and £569 million of liabilities – overall a net position of £92 million.

Total equity reduced by £42 million to £678 million. Whilst we generated £25 million of retained profit, this was more than offset by:

- Dividend payments of £36 million,
- £22 million spent on the purchase of own shares to hedge employee share schemes, and
- other movements in equity reserves

Slide 9

The Group remains soundly funded, and we have diversified our sources of funding in a difficult wholesale market environment.

As at 31 January 2009, our £2.3 billion loan book was more than twice covered by some £2.2 billion of drawn and undrawn committed facilities and £2.5 billion of deposits. This gives us good headroom and resilience.

The 12 month average maturity of our loan book compares to 23 months for the committed facilities. In addition we have £0.4 billion of deposits with a maturity of over twelve months. This reflects term funds we have raised in the retail deposit market in the first half.

A full profile of the maturity of our funding is provided in the Appendix.

Slide 10

Turning now to Group capital.

We retain a strong capital position which provides us with flexibility and resilience in the current market environment.

As at 31 January 2009 our total capital ratio was 15% and our core Tier 1 ratio was 13.3%.

Total capital has remained broadly stable at around £600 million after movements in retained profits, dividends and other reserves.

Notional Risk Weighted Assets increased 5% to £4 billion, reflecting growth in both the loan book and other balance sheet assets.

Slide 11

Looking now at each of our divisions in turn.

In Asset Management, adjusted operating income declined by 28% to £50 million.

Adjusted operating expenses were reduced 15%, primarily as a result of cost saving initiatives taken in the last financial year and the deconsolidation of Close Brothers Private Equity.

However this only partly offset the decline in income, and adjusted operating profit declined to £7 million from £18 million.

As a result the operating margin reduced to 13% from 26%, and the compensation ratio increased from 49% to 58%.

Slide 12

At the Preliminary results in September 2008 we introduced an increased level of detail on the breakdown of income within each of our divisions. We are now introducing this same level of disclosure here at the half year.

In Asset Management, overall adjusted operating income was £50 million, down 28%, as a result of lower management fees and investment income.

Management fees declined by £10 million, or 26%, to £29 million. This reflects

- a 16% reduction in average Funds under Management to £7.5 billion, and
- a 10 basis point reduction in management fees as a percentage of Funds under Management to 78 basis points. This is the result of lower activity levels and a change in the mix of funds towards lower fee products.

Performance fees and investment income declined from £8 million to a small negative. This was the result of lower income and a mark-to-market valuation adjustment on our corporate private equity portfolio.

Income on Assets under Administration and deposits reduced by 4% principally as a result of a lower margin on customer deposits in the current lower interest rate environment.

Slide 13

Funds under Management as at 31 January 2009 were £6.9 billion, a decline of 16% from July 2008.

Net new funds in the period were a small positive, benefiting from a resilient performance in Private Clients which had a net inflow of £68 million.

Negative market movements in the period were some £700 million, or 9% of opening Funds under Management. This was against a backdrop of very significant market falls in most asset classes including a 23% decline in the FTSE 100.

As part of the ongoing restructuring of the division, we have also exited the majority of our private equity activities. This resulted in the deconsolidation of some £600 million of Funds under Management.

Slide 14

Turning now to the Banking division.

Adjusted operating income increased 16% to £115 million.

Adjusted operating expenses increased £7 million to £60 million. This includes some £5 million impact of acquisitions; as well as a £1 million charge for the Financial Services Compensation Scheme.

This corresponds to a 1% reduction in both the expense/income ratio to 52%, and the compensation ratio to 30%.

Before the impact of bad debts, Banking division profit increased by 17% to £55 million. However, as expected the recession is impacting borrowers across our lending businesses, and bad debt provisions increased from £10 million to £23 million.

This resulted in a 15% reduction in adjusted operating profit to £32 million and a return on the average net loan book of 2.8%.

Slide 15

Now looking in more detail at income within the Banking division.

Net interest and fees on the loan book increased 19%. This was the result of:

- a 14% growth in the average loan book, and
- an increase in the net interest margin to 9%. Although we have seen a substantial increase in funding costs, we have so far been successful at passing these on to our borrowers.

Income from Treasury and other non-lending activities was broadly stable at £13 million.

Slide 16

The loan book grew by 3% in the first half to £2.3 billion. This reflects the acquisition of a Premium finance loan book of £80 million.

On an organic basis the loan book was flat, as we continue to adopt a cautious approach to new lending in the current economic environment.

As you can see, we have restated the loan book split to reflect the structure of how we manage the division.

In H1, the loan book was relatively stable in most of our lending businesses. However we saw some growth in Asset finance, where we are gaining market share as competitors withdraw.

Slide 17

Now looking in more detail at bad debts.

The bad debt ratio was 2.1% in H1 2009. This compares to

- 1% in H1 2008
- 1.7% in H2 2008, and
- a peak of 2.5% during the recession in the early 1990s

We have seen bad debts increase across the loan portfolio, as the recession increasingly impacts our borrowers.

Given the current economic outlook, we are planning for a period of higher bad debts.

However, we take comfort from the broad spread of our lending activities, prudent criteria and conservative LTVs.

And as you can see, we are able to absorb these higher bad debts, with

- a net interest margin of 9% and
- a net return on the loan book of 2.8%, after the 2.1% bad debt ratio in H1.

Slide 18

In the Corporate Finance division, adjusted operating income declined by 34% as a result of low activity in M&A and restructuring, particularly in the UK.

Adjusted operating expenses declined 6% to £20 million, resulting in an adjusted operating loss for the period of £3 million.

Slide 19

The 34% decline in operating income reflected a reduction in the number of transactions from 50 to 33, with stable income per transaction.

We experienced lower levels of activity in both M&A and Debt advisory and restructuring. And M&A accounted for 86% of income in the period.

Conditions have been most challenging for our UK business, which accounted for 26% of adjusted operating income.

Slide 20

Turning now to the Securities division, which has performed very well in the first half.

Adjusted operating profit increased 39% to £33 million as a result of a particularly strong performance at both Winterflood and Mako.

Operating profit at Winterflood was up 58% to £19 million.

And we recorded £13 million of associate income in the period from Mako.

Operating profit at Seydler was £2 million compared to £8 million in H1 2008. As previously reported, the prior year period includes the benefit of a £4 million provision reversal.

Slide 21

Looking at the performance of each of the Securities businesses in more detail.

Income at Winterflood increased 42%.

Winterflood has experienced good volumes and bargains per day increased 34% to 38,000. Volumes in the period benefited from retail activity in financial stocks, and an increased focus on the quality of counterparties among market participants.

Average income per bargain increased 7% to £11.50.

Seydler's income was broadly stable at £13 million, reflecting continued challenging conditions in the German retail market.

However Mako had a very good performance in the first half, benefiting from high volatility in financial markets. The fixed income desk in particular benefited from market activity related to interest rate movements.

Slide 22

So, in summary:

We have delivered a sound overall Group performance in tough markets.

We have maintained a strong capital position and remain soundly funded.

And we have been able to maintain the interim dividend.

Thank you. Now, I will hand you over to Colin.

COLIN KEOGH

Slide 24

Jonathan has taken us through the first half results, and as you can see we have once again delivered a sound performance in a tough market.

We believe we are well positioned to take advantage of better conditions as and when markets recover.

In the shorter term, our focus is on operational improvements in a difficult market environment.

In the **Asset Management** division, the ongoing restructuring is well underway and we are creating an integrated, scalable Asset Management business with emphasis on the mid-high net worth individual.

During the first half, we have substantially exited both our private equity and venture capital businesses.

Alongside the restructuring we have also undertaken a review of the goodwill in the division, which has resulted in a £19 million charge in the first half. This relates to several acquisitions made over a number of years, and reflects the change in market conditions affecting the asset management industry.

We have also identified additional areas for cost savings, and initiated a further program of cost reductions in the first half, on top of the measures undertaken in the last financial year. By the end of the current financial year, we expect to have made around 80 headcount reductions in Asset Management, equivalent to around 10% of the July 2008 level.

Finally, we are planning to hold educational seminar for investors and analysts on this division in April. We will give you the details in due course, but I hope many of you will turn up for that.

In the **Banking** division, the resilience of the results in the first half amply demonstrates the strength of the business model.

The effects of the credit crunch mean that we are seeing levels of competition reduce in the lending market, and this creates opportunities for us to strengthen our leading niche market positions.

However we continue to adopt a cautious approach to new lending in the current market environment, and the proportion of borrowers who meet our stringent criteria is reduced. As a result our loan book was flat, pre acquisitions, in the first half.

Our priority remains to manage credit quality throughout the cycle, and our prudent and consistent lending criteria give us the ability to do this.

We are also having to adapt to a more difficult funding environment. There has been limited availability of wholesale funding over the past few months, but we have nevertheless been able to raise significant funds. And we are building more flexibility into our model by raising term deposits.

Slide 25

In the **Corporate Finance** division, focus remains on managing the cost base whilst maintaining the critical mass and expertise to benefit from any future improvement in the market. We have also been making selective hires to fill gaps in our offering and position ourselves to take advantage of future opportunities.

Finally, **Securities** has had an outstanding performance in the first half of the year.

Winterflood has demonstrated the strength of its franchise in what has been a very challenging market.

Winterflood has evolved over the years from its small cap heritage to trading significant volumes in FTSE 100 stocks, gilts, investment trusts and international equities, and performance in the first half has been strong across most of these sectors. In fact October 2008 was Winterflood's highest volume month ever, when it traded 1.1 million bargains.

I am also pleased to say that our associate Mako has done extremely well in the first half, and benefited from very favourable market conditions.

Slide 26

Turning now to the Outlook.

We continue to plan for difficult conditions through the remainder of the year.

And we are focussed on managing our businesses through the downturn and improving the operational performance of each of our divisions.

We are confident our strong businesses and robust financial position will allow us to deliver a solid performance.

As you know this is my last presentation of Close Brothers results and I hand over to my successor, Preben Prebensen, on 1 April. I am pleased that I leave Close Brothers well capitalised, soundly funded and well placed to take advantage of better conditions as and when markets recover.

Slide 27

I will now open up the floor to Q&A.

Along with Jonathan and myself, the heads of our divisions sitting in the front row will be available to take any questions.

We have two microphones available in the audience, so if you would like to ask a question please raise your hand and someone will pass you a microphone.

Please could you give us your name and your company before asking your question.

This presentation is being audio cast therefore can I please ask that you speak clearly into the microphone while asking your question.