Close Brothers Group

Securities Seminar – Monday 1 February 2010

Preben Prebensen

I think we are ready to start so let me first introduce myself. I am Preben Prebensen for any of you I haven't met before and I am delighted to welcome you to our Presentation this afternoon. I hope you realised coming into reception that we had that spruced up particularly for today and for your benefit.

This is the third of our Presentations on our Divisions which we have made over the past 18 months. We started with the Bank back in June of '08 and then Asset Management in April of last year. And the focus today as you know is the Securities Division.

Our objective today is really to provide you with a lot more depth and detail about that Division and the businesses inside it. As well as touch on current and future developments. Again as I am sure you will know, the Division consists really of three businesses.

Winterflood which is a leading market maker in UK equities.

Close Brothers Seydler is a Frankfurt based broker dealer and is both a leading floor specialist and designated sponsor to German mid cap companies.

And finally Mako which is a leading market maker in exchange traded equity, fixed income and commodity derivatives, which is 49.9% owned by Close Brothers Group.

Overall the Securities division is a very significant contributor. 50% of our adjusted profit before tax in 2009, which was up from 27% in 2008. And of course Winterflood contributed three quarters of that number. You will have seen that we published a pre-close trading update on January 22, which confirmed that the Securities Division, particularly Winterflood has continued to perform well for the start of this year.

Today's focus though is not just about the business performance and financials but about the three businesses in detail and in depth. Today's presentations today will be led by Julian Palfreyman, Chief Executive of Winterflood, Rene Parmentier, the member of the Board of Close Brothers Seydler and Chris Welsh, the CEO of Mako. But I can also introduce Philip Yarrow and Jerry Hansford from Winterflood who will be joining Julian in giving his presentation and I would like to take the opportunity of introducing Erica Sibree who will be taking over from Sophie while she is on maternity leave. So you will meet Erica afterwards.

After the formal presentation, we will have questions and we will have plenty of time for that for the three businesses and also any questions you may have for Jonathan Howell and myself. We will then have a few drinks after the formalities.

So we can get underway, but just before I hand over to Julian, let me just make one comment which is that some of you may have noted a press article over the weekend, speculating about the future ownership of Winterflood. I can confirm that there has not been an approach and to the best of our knowledge and information, there is no substance at all to that speculation.

So with that said, let's get on with the presentations on the three parts of our Securities Division which are so well positioned and which we are committed to developing.

So let me hand over to Julian.

Julian Palfreyman

Thank you Preben. Good afternoon. This presentation is the first of its kind that Winterflood have been involved in and it gives us a great opportunity to give you a better understanding of our business.

There are four things we would like to tell you about today. Winterflood's position as an independent dedicated liquidity provider to the UK market. Our proprietary technology and the increasingly important role that it plays. The consistency of our financial performance over time. And finally how we can continue to grow and develop the business going forward.

I would like to start by taking you through some of the key moments in our evolution from a specialist small cap market maker to the current diversified model that we have today.

1988 was when it all began with 37 people who dared to be different. You could say that we were unique from day one. We left the security of UK Investment Bank County Natwest to start one of the first boutique operations since Big Bang. Most people thought we were mad, especially those that we left behind at County.

In the lead up to Big Bang in 1986 all 5 other UK market makers and the major broking houses had merged with banks to create huge integrated houses offering a full range of services. This was considered essential, along with size and scale.

County Bank wanted to concentrate on large-cap big-ticket trading. There were many conflicts between salesmen, who were driven by commission, and market makers who wanted to take a principal turn. Needless to say there had to be one winner and County decided to follow a commission driven model.

We wanted to work in an environment where small cap trading was the focus and not just an add-on, where the model was based on principal trading and capital commitment and not driven by commission, and where flexibility and speed of thought and action played a greater role. Thus Winterflood was born.

In 1993 Close Brothers bought Winterflood from Union Discount and by that time we had added a couple of staff and were trading in 1,150 UK small caps

By 1994 client demand had led to the introduction of Fixed Income trading and you could say this was the first step we took towards diversification.

1995, the London Stock Exchange formed AIM. Encouraged by the earlier success of the USM, the Unlisted Securities Market, we fully supported AIM from day one when there were only 10 companies quoted. As this market grew in popularity it became the vehicle for the dot-com boom in 1999/2000 and we still support it today.

In 2000 we extended coverage to include European and American securities to facilitate increasing demand from UK retail investors.

We also introduced our own electronic trading platform known as Winner. Up until this point we had been paying to display our quotes on Dresdner Kleinwort`s system.

In 2002 we hired the Investment Trust team from HSBC. They are the exception to the rule in that they offer a full service proposition that includes Sales, Research, Corporate Broking and Market Making to a very specialised sector.

In 2006, Winterflood acquired Boot Computers, the developers of Winner, and secured the Intellectual Property Rights to Winner, as well as giving us full control of the management and development of the platform. We will explain to you why this is fundamental to Winterflood's model later in the presentation.

In November 2007 MiFiD was implemented and this created opportunities for us by allowing new entrants to compete with the traditional Primary Exchanges to post liquidity

And today, in 2010, we are one of the leading market makers in the UK.

So, now moving on to what Winterflood actually does. We are the UK`s largest market maker in terms of stock coverage with 12,000 securities. We trade only with regulated counterparties, ie stockbrokers, wealth managers, Institutions and Hedge Funds who are either approved by the FSA or equivalent EU or US. We trade on a principal basis only. No agency trading.

Last year in the year ended 31 July 2009 we executed 10.7 million bargains or roughly 82 billion shares and we only won these trades because we were making the most commercial price amongst a number of electronic market makers at the time. 90% of these trades by volume were executed electronically.

There are lots of ways to measure market share whether you look at the market volume in entirety or the niche markets that one specialises in. If you look at what we do, that is make markets to UK stock brokers, and you add together the volumes of these types of principal to agent trades that are reported to the LSE or Plus from about 20 market makers, we rank number 1 across all sectors combined. That is FTSE 100, FTSE 250, Fledgling, Small Cap and AIM.

As you can see from the chart on the right hand side, we process order flow principally from retail stock brokers but also from institutional. This gets channelled directly to Winner, our own internal liquidity platform, or sales traders for large or complex orders.

As you can see, today WINS is a diversified business covering a comprehensive range of markets and securities. In equities, we cover UK, Europe and North America offering a full dealing service and we have 64 dedicated and experienced traders covering over 10,000 equities across these geographies. Our clients are predominantly UK based.

We also offer a full market making and dealing service for UK gilts, index linked instruments, international bonds and other debt products and exchange traded products covering an additional 1,000+ securities.

Our investment trust business makes markets in over 600 investment trusts along with sales and sales trading. We also provide research and corporate broking expertise to this specialised sector although this is not our primary focus and is more an exception to our model. It is worth mentioning as well that several clients offer complimentary products such as Covered Warrants over our platform in return for a distribution fee.

Now onto the team. Here you can see an overview of the team at Winterfloods. We have three dealing directors Ian Throssell, Richard Meaney and Spencer Crooks._The three dealing directors not only oversee the trading floor but also run their own trading books, allowing a hands-on approach in addition to the control systems that we employy. As you can see all three helped found the company in 1988 and they have been instrumental in the training, development and growth of the dealing team, as well as ensuring the continuity of the strong and unique Winterflood Culture.

James Moseley heads the Investment Trust team who arrived from HSBC in 2002. Jerry Hansford joined in 1997 becoming FD in 2003, Philip Yarrow joined in 2000 becoming Director of Electronic Trading in 2002.

Their teams are skilled, experienced and motivated, with senior traders going through a rigorous and defined process starting at junior trader and working up before being given the responsibility of managing their own trading book.

Staff turnover is very low with the senior number one traders currently having an average 13 years experience in managing their own trading books. Many of the traders joined after school or university and I view them now in their mid-thirties, occupying senior and responsible positions, with a combination of pride and alarm at how quickly time has flown. The senior traders are ably supported by their assistants who may also have between 5 and 10 years experience in trading, along with trainees who are learning their trade as they come through the ranks. Therefore there is low key man risk throughout the trading operation and a continuity of people familiar with the company for many years.

We also recognise that efficient settlement is of paramount importance to our clients and as we are dealing in such high volumes our settlement and corporate actions staff are a key part of the team. Their close proximity allows them to interact with the traders in the most efficient way, leading to significant cost savings as well as increasing trading revenues.

WINS have always traditionally been known as specialists in servicing the retail investor, albeit indirectly via their agent or stockbroker. However, it has become increasingly important for Institutional Investors to access alternative sources of liquidity. Firstly because of the fragmentation of liquidity across multiple venues including both lit order books and third party dark pools, and also because of the withdrawal of liquidity provision during the recent financial crisis. Institutional now accounts for 20% of Winterflood's business by value.

Through many years of investment we have developed an extensive network that connects to some 360 retail brokers. The resultant flow is our internal pool of liquidity**.** As this slide shows, our systems allow us to facilitate interaction between the retail flow which is small and fragmented, and the much larger institutional flow. We can tap into the retail flow that institutions would otherwise not be able to access when trading in less liquid securities.

The retail flow rarely goes both ways at the same time, even in the most liquid stocks in the FTSE100, the flow tends to go in one direction, therefore managing this efficiently and profitably needs a great deal of experience and skill that can only be developed over time. Indeed one of the world`s biggest banks that is based in the UK decided to internalise their order flow in 2007 and have recently reversed their decision and rapidly become one of our largest clients again.

The reason why clients deal with us today are based on the quality of execution that we give them which takes in to account our commitment to continuously provide liquidity to the market whatever the financial climate. There is no better example of this than during the past 18 months when we have experienced some of the most volatile markets in living memory and I am very proud to say that we remained open for business throughout this period. Whether it was the day that Northern Rock or Lehman Brothers collapsed, we were there for our clients.

Our low cost base which is made up purely of market making associated costs and has no ancillary costs to cover. The benefits of this are reflected in the competitive pricing we offer our clients. Winterflood is committed to providing best execution for professional clients, using price as the primary measure.

Our coverage of products and markets is a source of competitive strength for us. Winterflood has extended its product offering and now deals in over 12,000 securities across the UK, US and Europe and is connected to 25 exchanges and MTFs.

We have a dedicated e-trading team focussed on the client and meeting clients needs. This team are available throughout the day to ensure connections and executions to our trading systems Winner are fully supported. If the order is complex, this will be processed and dealt with on the phone by our Sales Traders.

Winterflood has developed a strong brand as a market maker and is recognised as a trusted trading partner. There was grave concern about counterparty risk immediately after the collapse of Lehman Brothers and being part of Close Brothers with its sound and robust balance sheet was a great comfort to both existing clients and new ones alike. We also enhanced our own reputation by continuing to provide liquidity and immediacy throughout this volatile period.

And finally the flexibility and efficiency of our proprietary trading platform means we can offer a bespoke trading solution to the client`s needs and execute at speed. This is one of the key points of differentiation that allows us to punch above our weight and compete with the larger financial institutions.

So now I would like to hand over to my colleague Philip Yarrow who is Director of Electronic Trading. Today the business is driven by technology and Philip will explain how much importance we have placed on the continual building and development of the platform to remain at the forefront of innovation within the industry.

Philip Yarrow

Thank you Julian. Good afternoon. I would like to spend the next 15 minutes or so talking about electronic trading.

We will take some time to look closely at the technology component as Winterflood is a technology lead company.

In particular there are 3 key areas that I wish to cover and these are firstly, Winterflood's technology and secondly our electronic execution services and lastly, our reaction to MiFID and its impact on the electronic trading landscape.

So starting with Winterflood's technology. Up until late 1999 Winterflood focussed primarily on market making in AIM and small cap stocks. During 2000 our attention turned to expanding the product coverage to FTSE 100 and also the creation of an international trading desk. At the same time we also turned our attention to building out our electronic trading platform to provide a wide range of services delivered through direct connections to the retail broking community. This was the starting point for us in developing what is today a large distribution network of electronic connections to stockbroking firms and institutions. We now have approximately 360 firms connected to our two electronic trading platforms known as Winner and Win-X.

For many years our trading systems had been developed by our main software supplier Boot Computers. A key strategic step for us was the acquisition of that software supplier in late

2006. This not only gave us complete ownership of the source code but also brought with it over 20 staff dedicated to the ongoing development and support of our trading systems.

Our core trading system is called SPARK and it is a fully integrated front, back and middle office system. Integration is the key aspect here and any changes that we make to the front office will naturally flow through to the back office thereby giving us high levels of automation and ease of straight through processing to give us the maximum efficiency from our technology. This allows us to regularly execute in excess of 50,000 trades per day.

Our primary computing site is located in London and we also have a disaster recovery site outside of London offering a complete mirror copy of our live dealing floor including space for our operational and back office staff.

As a highly automated trading house utilising our proprietary technology gives us a wide range of other benefits, such as the ability to develop bespoke trading solutions for our clients which gives us significant flexibility in meeting a client's requirements.

A fully customisable in house trading system; whereby owning our own software gives us greater speed to market when delivering new functionality for our clients. And also the ability to retain a competitive edge since we own the Intellectual Property Rights over any new developments.

We continue to invest in the development of our trading systems and also that of our infrastructure to ensure that we maintain not only the functionality that our traders and our clients desire but also to ensure the system is both resilient and has the capacity to perform. We remain committed to the development and support of our trading platform and around 20% of our staff are now involved in this.

Let's take a closer look at our electronic execution services. In the year ending 2009, Winterflood traded approximately 82 billion shares averaging 42,000 trades a day, peaking at over 92,000 trades in a single day.

We are a highly automated firm with more than 90% of all client trades captured and executed electronically. This frees up our specialist traders to focus on manually working larger more complex orders and committing capital when necessary.

Winterflood is not only the leading market maker to the retail market place in the UK by market share but also by the number of stocks that we cover. The range of execution services that we supply to our clients is extensive and covers all the major western European and North American equity markets.

We also trade across the leading multilateral trading facilities of Chi-x, BATS Europe, Turquoise, and Nasdaq OMX. And we also access a wide range of third party dark pools.

Clients of Winterflood not only benefit from accessing our own internal liquidity via Winner, but they can also access the liquidity of lit exchange order books and other third party dark pools via our trading infrastructure. In effect we act as a consolidator of liquidity and through a single point of access our clients can access all of that liquidity. It is important to understand that we are a user of the proliferating platforms that have resulted from the fragmentation of liquidity across Europe rather than these being sources of competition for us.

Now let us take a look at our trading systems. We operate two proprietary and state of the art electronic trading platforms, and these are known as Winner and Win-X. Winner is accessed primarily by retail agency stockbrokers and Win-X is used by our institutional clients. In the year ending 2009, 91% of all equity trades by number and 62% by value were executed electronically by Winner and Win-X.

Let's look more closely at Winner. Winner is our electronic trading engine providing an automated dealing service to private client stockbrokers. Clients have direct trading access to our in house liquidity in European and US equities and fixed income instruments.

Execution of a client's order is against our trader's books and is entirely automated with no intervention by the market maker. In effect Winner is operating an electronic algorithm to execute client trades based upon pricing and liquidity parameters set by our traders.

Clients of Winterflood benefit from immediate high speed executions in a single fill with the potential to achieve price improvement against the prevailing touch price. Execution quality is a key aspect of the Winner service.

It is important to note that electronic market making to retail brokers is a highly competitive business. There are over 20 electronic market makers including ourselves, who provide liquidity to stock brokers. Our broking clients typically price poll those 20 market makers in real time to identify the best price and liquidity for their end private client. And we will only win an order if we are making a better price or size than all the other market makers.

Julian has already mentioned the unique value of our experienced and skilled traders combined with our trading technology which is really, really fast. And it is this mix of technology and trading skill that makes us so successful in competing for and winning order flow.

Winner also has the advantage of acting as a one stop shop for clients. It is an online portal where clients can electronically access and trade across the most extensive stock coverage of any UK market maker. Today Winner currently has currently 215 connections to agency brokers and institutions.

The Winner system has played a pivotal role in supporting the UK private client broking market place by providing significant liquidity to allow private clients to deal at prices that are better than those available on the LSE. The end investor enjoys the ability to request a price and to deal at the quoted price, thereby giving immediacy of execution in a very fast and efficient manner. Without this liquidity and the speed of the Winner system, retail brokers would not be able to achieve such high levels of automation and they would suffer significant backlogs in attempting to execute order flow.

Let's look at Win-X, our order routing hub for institutional clients. Win-X is an intelligent routing hub that allows institutions to access both displayed liquidity on the main exchanges and MTFs and also to access our in house non displayed liquidity held within Winner.

For example, an institutional client order can be sent to Win-X and firstly be swept across Winner to see whether an immediate execution can be achieved. This is advantageous as a single complete fill might be given with price improvement and also with reduced market impact. If Winner is unable to execute the order, the order can then be routed to our direct market access engine for execution across an exchange or a range of MTFs. Our smart order router will execute the order by intelligently seeking out the best prices and liquidity across a range of order books to achieve the best result for that client's order. Alternatively, an institution could electronically route a care order directly to one of our sales traders with detailed instructions on how the order should be worked.

You can see therefore that we can provide institutional clients with a range of services from low touch trading via Winner and Direct Market Access through to high touch manual trading where clients value the trading expertise of Winterflood especially when executing in less liquid stocks or attempting to trade large blocks of shares typically utilising one of our algorithms.

Our trading solution can of course be tailored to the client and we are able to offer a range of flexible electronic trading features that include for example the ability to trade stocks in different currencies, or the ability to settle international trades in either the local CSD or within CREST itself.

Our ability to offer bespoke trading solutions to our clients is particularly important. For example, a significant proportion of retail trading is for non standard delayed settlement. This is because private clients are regularly dealing in share certificates that require T+10 settlement.

System speed is also important. We can process hundreds of thousands of price requests every day from online brokers and our ability to respond to those messages and execute trades within milliseconds is of paramount importance to those brokers and helps us to win order flow.

The retail market now enjoys the ability to trade very quickly against the liquidity of Winner. Retail brokers can therefore offer their clients excellent price discovery and price improvement combined with fast execution and flexibility in service. This is why so much of the UK retail order flow is executed through systems such as Winner rather than being routed to the London Stock Exchange order book which is not only inflexible, but also costly due to the combination of exchange fees and the clearing charges of the central counterparty.

Turning our attention now to MiFiD. The electronic trading industry has gone through tremendous change over the last 2 years, largely as a result of MiFiD which was introduced in November 2007. This has resulted in fragmented liquidity across multiple new trading venues and increased trading volumes.

Latency and speed are ever increasing requirements for the trader, especially now with a large part of electronic execution happening through algorithmic trading engines that automatically sweep across all trading venues to ensure the best possible execution is achieved for a client order.

The impact of MiFiD has been dramatic. The pan European equity market has seen the development of new multi lateral trading facilities that compete directly with the primary exchanges for order flow. With attractive maker–taker pricing policies and high speed trading platforms combined with new price efficient central counterparties, the MTFs have introduced significant fragmentation into the European equity marketplace.

For example, the LSE's market share of FTSE 100 trading has been diluted to approximately 60% with Chi-X the leading MTF regularly achieving a daily market share in excess of 25%. This fragmentation has changed the way firms trade European equities and how they deploy technology to cope with multiple trading venues.

We have responded to this challenge by developing our own trading platform whereby we now trade through a virtual consolidated order book. This in house virtual order book is an amalgamation of the primary exchange order books with those other alternative MTF order books.

The slide behind me shows an example of our consolidated order book for Barclays. The virtual consolidated order book combines the order books of the LSE, Chi-X, BATS Europe, Turquoise and Nasdaq into one virtual book. The best bid and offer on the LSE is highlighted in yellow and the best bid and offer across all the MTFs is highlighted in blue.

This virtual order book is constructed for any fully fungible stocks with orders ranked in price, then cost and time priority. The two key observations are that there can be better prices on the MTFs and secondly significant liquidity over the primary exchange touch price. You can see this just by observing the gap between the yellow and blue highlighted prices. It is also cheaper to trade and clear via the MTFs than the primary exchange.

I should put this slide in context as it is just a snap shot of the consolidated order book designed to illustrate a point in time where there is better liquidity available on the MTFs. I do not wish to mislead you into thinking that this is always the picture for UK stocks, as the LSE can be and is quite often equal to or better than the MTFs.

The point that I am making is that we have the ability to trade wherever the best prices and liquidity exists to ensure execution quality. Hence the importance to us of consolidating all the liquidity and accessing it via an intelligent smart order router in a low latent manner. When we execute an order now, we may end up trading across up to five different venues and settling against three separate central counterparties.

Having intelligent trading systems that can formulate a consolidated view of the market across multiple venues, make split second decisions to the nearest millisecond of how to execute in accordance with a prescribed execution strategy is a must have for any electronic trading house. The lack of such technology is a serious barrier to entry for any potential competitor.

We now execute over 20% of our order flow onto these new MTFs. The key however is in continual investment in our trading system to mitigate the infrastructural challenges around performance, capacity and resilience associated with this new equity market place.

And the scale of this challenge can be daunting. For example, on an average day we now process over 250 million market data messages, and we foresee these volumes continuing to increase. We have already experienced a tenfold increase in LSE message volumes in the past three years alone.

If we turn now to our key technology strengths. Our trading platform is not only rich in terms of functionality but it is also very fast and resilient. Our technology certainly gives us competitive advantage and we continue to invest significant time and effort as part of our R&D programme to explore new technologies to further advance our trading capabilities.

Our robust technical platform means better trade executions, and greater automation for our clients combined with exceptional service both in terms of trading but additionally with efficient settlement.

To conclude. We aim to lead the development of electronic trading services to retail intermediaries to support the growth in private client investing via our electronic trading supermarket. And our vision is to be recognised by our clients as the leading electronic market maker through the provision of a comprehensive automated dealing service across the major markets with a strong focus on client service.

I will now hand over to Jerry Hansford, our Finance Director

Jerry Hansford

Thank You Philip. I would like to start by talking about Winterflood's performance over the last 11 years from 1999 to 2009. Adjusted Operating Income for the year ended 31 July 2009 increased to £128m from £81m in 2008, an increase of 58%, with Adjusted Operating profit for 2009 increasing to £47m from £24m in 2008 an increase of 96%. The gearing effect will be discussed later.

This profit was the second best result for Winterflood after 2000, which incorporated the extraordinary period of the Dotcom boom. Indeed, over the period of the last 11 years the business has been profitable each year through both Bull and Bear markets.

To give you some idea of how the business has been performing in the current financial year, in line with Close Brothers' recent pre-close trading statement on 22 January, Winterflood average bargains per day for the first five months of this financial year have been broadly in line with the levels seen in H2 2009.

As has been discussed by both Julian and Philip it is the breadth of the products in which Winterflood makes a market that has enabled Winterflood to achieve these consistent results.

The data in the slide demonstrates the consistently profitable performance on an annual basis, however what might surprise you is the consistent profitable performance is also on a daily and monthly basis as well.

Firstly looking at the performance on a daily basis, the number of loss days that Winterflood has suffered in 2009 was less than 1999, 7 against 11.

The table shows that the business had greater loss days in 1999 and the period after when we traded in fewer sectors than in 2009 and the preceding years when the business had expanded the sectors in which it trades. The high number of loss days in 2001 was due to the Bear market that followed the Dotcom boom and also at that time the business was only trading in SEAQ and AIM securities.

To give you an indication of the value of Wins loss days, the average trading day loss for the last 5 years was £240 thousand.

Secondly, looking at the performance on a monthly basis, Winterflood peak to trough monthly operating income for the last year was within the range of plus 44% and minus 39% away from the monthly average, not as extreme as you might have thought. A very resilient performance considering this was during the year August 2008 to July 2009, which perfectly straddled the financial crisis.

With regards to loss making months Winterflood has not had a loss making month in the last 7 years. And then there was only 1 loss making month in 2002, in 2001 there were a further 3 loss making months with these occurred in the Bear market that followed the Dot Com boom and also as a result of the terror attacks in the US. What might surprise you is that they are the only 4 loss making months the business has incurred since it was purchased by Close Brothers in 1993, 16 years ago. This demonstrates Winterflood's consistent performance is on a daily, monthly and annual basis.

Turning to the next slide, the chart shows the average number of bargains per day and the resultant income per bargain for each year. The business has seen a constant increase in its traded bargains over the period, from 5 thousand a day to 42 thousand a day, excluding 2000.

Over the period the average income per bargain has declined from £54 to £12. This income per bargain is calculated as a combination of trading profit as well as income from other areas of business. This increase in daily bargains and fall in average income per bargain has been as a result of changes in the market place as well a planned diversification of the product range in which Winterflood trades.

To give you an over view of these changes. Firstly, in 2001 Winterflood took up trading in FTSE100 stocks that are traded on the London Stock Exchange SETS platform. The resultant increase in bargains was at a lower margin than its traditional trading in SEAQ and AIM securities.

Secondly, in 2003 the London Stock Exchange introduced its SETSMM platform which was rolled out over the next 3 years into the most liquid stocks outside the FTSE100. The effect of the SETSMM platform was to **lo**wer the average income per bargain for the business over the period, whilst also increasing the number of bargains traded. At the end of 2005 the London Stock exchange finished expanding its SETSMM platform.

And finally, as you heard from Philip, the introduction of MiFiD in 2007 resulted in increased competition from the MTF's and this has had the effect of lowering the average bargain size of each trade. This lowering of the average size of a trade is probably set to continue in the future due to the increased competition between Exchanges and MTF's. As a result of these changes, there has been a reduction in the headline spreads at which securities trade.

In 2009, average bargains per day increased as a result of the turbulent markets and the continuing effect of MTF's. Retail investor interest in equity markets principally driven by the low interest rate environment and volatility in the markets also led to the strong 2009 performance.

Income per bargain, however, appears to have stabilised, as can be seen over the last 2 to 3 years. This though is subject to any unforeseen regulatory and market changes in the future. This stabilisation of average income per bargain is in part due to the diversified range of products in which Winterflood makes markets and the volatility in the marketplace at that time.

Moving on to the cost structure within Winterflood, the costs within Winterflood are highly geared in order to keep fixed costs low, relative to total income. In the year ended 31 July 2009 the fixed costs were £27m and represented only 21% of income. In the last 10 years fixed costs have been between 7% and 40%. Put another way this means Wins has always covered its budgeted costs for the year before Close Brothers announces its half year results.

Winterflood has a strong culture which is based on openness and transparency with staff aware of WINS budgeted costs and when these costs have been covered by income.

Staff Costs for 2009 before any bonus payments accounted for 53% of fixed costs and expenditure on IT accounted for a further 25%.These are the two biggest fixed expenditure items for Winterflood. Spend on IT has traditionally been at these levels and reflects the important ongoing investment in our systems.

Employees have grown steadily over the 10 year period as we have expanded. The increase in 2003 was due to the Investment Trust team joining from HSBC and the increase in 2007 was due to the purchase of Boot Computers Limited, both key strategic changes for

Winterflood. Winterflood has a stable employee base with low staff turnover. The business can expand its employee base if required and is not shy to do so. This high gearing of fixed and variable costs is the reason why the operating margin for 2009 was 37% and historically between 29% and 56% for the last 11 years.

Finally I would like to talk about Risk Management and the key risks facing the company. Before I talk about how Winterflood controls its risks it is important to note that over the last 11 years the business has not changed its risk appetite nor the provision of liquidity that it provides to the market and its clients.

Winterflood trades as a market maker with the intention of matching demand and supply for any given security. It does not trade in a proprietary capacity whereby it's long or short positions are based upon a view of the value of the security or sector.

Moving to the 2 main risks facing the company, namely, Market Risk and Credit Risk. Firstly turning to market risk, Winterflood controls it trading book position risk by having trading limits set by sector which are agreed with Close Brothers Group. These limits are held within the system and allow positions to be monitored on a real time mark to market basis. It is also important to note that all the products we trade are listed securities.

Additionally, Winterflood has an open and transparent approach to its trading activities, whereby all employees can see the daily Profit and Loss and trading activity for each stock, book, trader and sector in real time. This open and transparent approach is another control as 188 people, everybody within the Company can see every trade.

Secondly credit risk within the business is managed in 2 ways, Firstly, Winterflood has a strict client take on procedure whereby it will only trade with regulated counterparties from a pre authorised list of countries. And secondly, predominately all trades with counterparties are settled on a Delivery Versus Payment basis. Delivery Versus Payment is the settlement process whereby stock and cash in every trade move in opposite directions simultaneously, thus reducing the risk for each party in a transaction. This means that the credit risk Winterflood is exposed to is limited to the change in market price of a security between trade date and settlement date and not the absolute value of the trade.

The following slide shows the long and short positions, or Bull and Bear positions, in the securities in which it trades. Winterflood has bull and bear positions as it trades in a principal capacity and not as an Agent. The graph shows the average overnight bull/bear positions from 1999 to 2009. The bull and bear positions are the sum of Winterflood's long and short risk positions for each security in which it trades.

The positions for equities are pure risk positions with no hedge being taken. It is different for the Fixed Income positions whereby Winterflood does hedge its Interest rate risk in its positions. In addition Winterflood hedges its FX risk.

This graph shows that over the period, although the business has diversified its product range, and increased the number of bargains that it trades, it has still managed to control its trading positions and reduce them year on year for the last 3 years. The reason for this is two fold, firstly Winterflood is able to interact with the various Exchange and MTF order books in order to flatten its risk positions and secondly that risk within the company is actively managed.

To reiterate, although Winterflood actively manages its risk positions and has managed in the last few years to reduce its risk exposure, it is important to note that the business has not reduced its risk appetite nor the capital it commits to the market. Winterflood will maintain the provision of its liquidity to the market and its clients.

To sum up I would like to re iterate the four points about Winterflood's financial performance. Firstly, that it has been consistently profitable over the last 10 years whilst extending its product and market coverage and diversifying its income. Secondly, Income per bargain together with market volumes remain key drivers of our performance. Thirdly, our performance is partly cyclical and is impacted by retail investor demand and market forces. And fourthly, our low and flexible cost base supports the competitive pricing that we can offer our clients. Thank you.

I will now pass you back to Julian.

Julian Palfreyman

Thank you Jerry. I will now tell you about our structural growth opportunities for this business and how we are well positioned to capture these.

We operate in a very specific part of the financial services industry and we are very well known to a small and predominantly UK audience for being a trusted trading partner with a strong brand. However, I believe there is huge potential for us to make ourselves known to a much wider audience and to leverage off our existing strong brand and reputation for the provision of liquidity and execution services.

We are looking at several ways we can take our offering to a global audience as there is lots of flow that comes to the UK which is all potential to us. First, our intention is to engage with US institutions and broker dealers who are already trading and investing in UK and European securities and make them aware of the quality, commitment, bespoke services and market share that we already have. We have already been chosen as preferred UK market maker for a major US institution who have developed a retail platform for trading global equities.

Second, since the implementation of MiFID we have seen an explosion in the number of alternative venues that can post liquidity. The cost and complexities involved in connecting to these, and the more onerous demands around Best Execution, have prompted some firms to look to outsource their execution. This is particularly interesting as our business is entirely focussed on providing bespoke execution services to a variety of retail and institutional clients. Also as I mentioned earlier, providers of complementary products like Covered Warrants already pay to distribute their products across our extensive distribution network.

Third, we are also looking at opportunities to expand our institutional business. Institutional clients will tend to buy or sell for different reasons and at different times than retail clients, meaning trades will naturally offset each other between the two sets of clients. Winterflood can benefit from this and is uniquely placed to facilitate this as you saw earlier when I talked through our client base and the interaction we manage.

And finally, we were one of the first to realise the opportunities and interest around trading Exchange Traded Funds and Commodities. These products have proved hugely popular to both institutional and retail clients, and these sectors are the fastest growing in terms of new product. We will continue to invest to ensure we capture this growth and have already increased our resource in this area.

As you have seen, there are several distinguishing factors that combine to make us unique and provide Winterflood with competitive and sustainable advantages. Our core activity is market making, it always has been and it will remain so. Many of you here work for firms who were once purely stockbrokers but who later added a market making capability to facilitate your corporate clients and thereby offer a full service proposition. For you it was the missing piece of the puzzle but for us it is the foundation of our business model.

Our trading philosophy has remained independent and unconflicted. As pure principal traders we are only interested in finding the optimal share price where the most volume can be traded. We are not burdened by house-views or other sensitive issues thereby being able to be more dynamic in our price making which is especially important in small cap and AIM. We do not take long term views or proprietary positions or rely on research.

The depth and breadth of the connections and relationships that Winterflood has is vast. We deal in over 12,000 securities, of which we are registered market makers in over 3,000 UK listed securities and process order flow with some 360 stockbrokers. We cover more UK stocks than any other market maker.

Owning Winner gives us a crucial advantage because it enables us to provide a comprehensive service to our clients and offers, sophistication, adaptability to both retail & institutional requirements, product coverage and speed of development.

The depth of experience and skill in our team of traders is a huge driver of our success. We are committed to the ongoing training and investment in, and the retention of our talent pool, as well as maintaining the Wins Culture.

So in summary, it is the combination of being a committed liquidity provider, having cutting edge technology together with experienced, dedicated and skilled traders that make us unique and our robust model difficult to replicate.

So to conclude. We are proud of our track record over the last 21 years of sustained profitability. We are proud that we dared to be different by pursuing our own direction and that we have maintained faith in that model. We will continue to focus and develop our core business, but also market our services to a wider audience in a way that is tailored to their needs.

I hope you found this useful and informative and Phil and Jerry will be available for questions after the other presentations. Myself as well, sorry about that.

I will now hand you over to Rene Parmantier, CEO of Close Brothers Seydler.

Rene Parmantier – Seydler

Thank you very much Julian. My name is René Parmantier. I am the CEO at Close Brothers Seydler Bank. Let me begin by giving you an overview of the business areas at the Bank.

We were founded in 1994 and more than ten years later, our relationship with Close started when they became our parent company. In Germany, Close Brothers Seydler Bank AG is a household name in trading and sales.

Our roots are in Floor trading at the Deutsche Börse, where we act as order book and bond specialist. This remains one of our main businesses. Here we have over 2,000 accounts or Skontren as they are called in Germany and that means we are one of the biggest on the Floor.

Fixed Income Trading is also very important for us. With interbank and institutional customer flow, we trade a range of products like convertibles, government bonds and corporate bonds in a range of different currencies and have been very successful at that, especially during the last two years.

In 2002, we expanded our securities services to include Designated Sponsoring. For those who are not familiar with this term, Designated Sponsoring is a kind of designated market making. This is a captive corporate business that gives rise to additional opportunities, which I will touch on later.

In 2002 we also started our equity sales desk. We started off with German shares brokerage. Now we have sales professionals covering not just our home market Germany, but also the rest of Europe like France, Switzerland, Austria, Luxembourg, Belgium and Netherlands. We also have a UK sales team based in London.

In 2007, we received approval for a full banking license and this meant that we could expand our services to include more deal-related ones. Our Equity Capital Markets team handles primary and secondary market transactions including IPOs, capital increases, and placement of block trades. Our team also structures convertibles and corporate bonds for placement.

A new business area that we also started was professional account management services for our corporate clients. With our captive corporate clients in Designated Sponsoring, this made a lot of sense.

Our research subsidiary has made significant developments since its launch at the end of 2007. We have grown our research team and doubled our research coverage in the last 12 months from covering 40 stocks to 80. Having our own research in small and mid caps has enhanced our reputation in the industry.

Next slide Financial Performance. This graph shows you an overview of our profits for the last four years since Close Brothers acquired Seydler. As with Winterflood, volume and volatility in the markets also affects the performance at Close Brothers Seydler. Our underlying performance has been resilient over the last four years although it has been impacted by the build up of a provision for an industry wide customer protection levy in 2006 and 2007 which was later released in 2008. During this period, our Floor Specialist Trading business has provided stable revenues.

Our Designated Sponsoring business grew further in terms of number of mandates. We also benefited from market consolidation and acquired a number of quality mandates with promising add-on business prospects.

Our adjusted operating profit for 2009 was £1.5 million. This performance reflected low retail volumes in the German market and a particularly difficult environment for small and mid cap stocks and income was also affected by a write-down of investment assets.

To summarise, Close Brothers Seydler Bank has been and remains resilient. We have a strong market position and are well placed to benefit from any improvement in market conditions or when demand for German small and mid caps picks up. Our business is stable and profitable and benefits from increased retail trading activity. We believe that our business model is robust, our employees remain committed and we will continue to take advantage of strategic opportunities, which I will discuss later.

Next slide, Core Business Areas. Let me start off by saying that in all parts of the business, we have experienced employees, a good many of whom have been with CBSB for 10 or more years. One of the reasons for our strong reputation in the German market is due in large part to the long-term trading and sales skills of our people. Our floor trading team at the Frankfurt Stock Exchange is ranked second largest in terms of traded volume.

Currently we have around 2100 accounts across US, Europe and Asia. Close Brothers Seydler Bank AG has ranked number one on the performance criteria set by the Deutsche Borse and this is due in large part to the skills of our experienced traders on the floor.

So the question is how do we make money here? Trading commissions and dealing profits. This is a lucrative business for us. Trading volumes are obviously important and largely driven by retail volumes. There have been changes happening in floor trading which were initiated by Deutsche Börse. The traditional floor trading on the Frankfurt Stock Exchange is evolving from the traditional model to an electronic one over Xetra, the electronic trading system of Deutsche Börse.

Our high-level infrastructure, experienced team and close relationship with Deutsche Börse have ensured that we will be part of the end equation and a key player after these changes are implemented.

On the Designated Sponsoring side, our money is made by corporate fees and trading profits. Our clients are German-listed Small and Mid Cap stocks which reimburse us for doing designated market making to improve liquidity by quoting binding prices for buying and selling the shares. Why is this important? The Deutsche Börse requires that any shares in one of the selection indices of Deutsche Börse be continuously tradable. So in 2002, when many of the major banks focused on other trading areas and discontinued their Designated Sponsoring, it was an opportunity for us to attract business. In the four years since Close Brothers Group became our parent company, we doubled the number of mandates and now have around 170 mandates. Our market position is a comfortable one and our nearest competitor has 53 mandates. You may be familiar with some of our client names. EADS, Axel Springer, Deutsche Euroshop, Dialog Semiconductor and as a good example IFM Immobilien, which we brought public in 2006 and has a number of UK institutional investors in the shareholding structure.

With Designated Sponsoring being a captive business, we are able to generate additional business that stem out of these client relationships for our equity and debt capital market team, equity institutional sales team and our research. CBSB continues to occupy a strong position in the German market and opportunities exist to capitalise on in our Designated Sponsoring activities.

Last slide. Strategic Opportunities. I would now like to outline a few strategic opportunities, or areas, which we have made our priority. Firstly, we want to capitalise on our strong fixed income trading franchise. We currently have a number of interbank and institutional customers, and these relationships have proved very fruitful in trading volumes and consequently, revenues. In order to strengthen this area, the plan is to invest in this area with additional sales professionals focused on fixed income sales.

Secondly, we will be managing the transition with Deutsche Börse on the floor trading system. This development is an important one and one that we are in constant communication with Deutsche Börse and the largest Floor Specialist Traders. We are confident that CBSB will be part of any new trading system. Changes could also mean consolidation and this could lead to opportunities for us.

Furthermore, we want to build on our Designated Sponsoring captive business. As addressed earlier, an objective here is to further improve the quality of mandates in our client portfolio and utilise cross-selling opportunities to ECM, Sales and research.

Another area is our capital markets franchise. We would like to expand outside the domestic market for sales brokerage in German shares. With a team covering a number of European countries like France, Switzerland, Austria, Benelux, US from Frankfurt and UK from London, we feel there are opportunities to develop this business further.

Very important is our high-level IT infrastructure. We will continue to develop this state-of-the-art architecture and that means continuous investment to comply with all regulatory requirements and to be competitive.

I have provided you with a brief overview of our business and scope for growth and hope that you found this fruitful and useful. I will now hand over to Chris Welsh at Mako. I will be available after the presentation for any questions.

Thank you.

Chris Welsh

Good afternoon. I am Chris Welsh, Chief Executive of Mako. And I am going to tell you about Mako, our core businesses, risk management and technology capabilities and then I am going to tell you about the growth prospects within our business.

We at Mako celebrated our 10th anniversary last year and during that decade we have evolved from a business that comprised solely of listed options market making to a broader firm that encompasses market making, broking and investment management. However, the common thread that links all of our activities is a focus on derivatives.

Mako is active on all of the major global derivative exchanges including Eurex and Euronext Life in Europe, CBOT and CME in the US and the Asian exchanges and we have got offices in Europe and the US. And we employ 118 people globally with a large majority of these based in Europe.

Our market making business is the core of our business and is the largest contributor to our revenues. Mako Investment Managers manages the Pelagus Capital Fund which, whilst a much smaller contributor to revenues, has performed extremely well since inception. And our Broking team provide a service to insurers, asset managers, pension funds, hedge funds and prop traders.

The business has grown primarily through organic growth supplemented by key strategic hires. Staff retention is high and the core leadership team have all been with the firm for over 8 years. The culture within the firm is vibrant with a well defined value set that encourages a loyal, adaptable and commercial approach to business. We take an innovative approach to personal development and draw on the services of a number of specialist coaches to support this. In addition to helping the business attract and retain talent, this also enables us to stay fresh and focused in a dynamic environment.

Until October 2007 we were a 100% independently owned business, with all bar one minority individual investor working actively within the business. In October 2007, Close Brothers acquired 49.9% of Mako. This left us well placed to deal with the challenges of 2008. Close Brothers invested $10m into the Pelagus Capital Fund on 1st June 2008 at a key stage in the Fund's development. This potential seeding and early stage investing activity is another valuable part of our partnership.

Returns have been steady since 2007 and the earnings profile of the business is akin to being paid to own a put on the equity markets. By that we mean that in normal markets the business tends to exhibit a relatively steady return and in the event of a major shock or dislocation the business tends to outperform. It is very difficult to model or predict this effect and simple measures such as overlaying with the VIX or with one of the global equity indices tend not to work well.

In Close Brothers' 2008 financial year Mako delivered an adjusted operating profit for the ten months to 31 July of £7.2 million. 2009 was an even stronger year with an exceptional first half following the extreme dislocations in the global markets and market activity related to interest rate movements.

These events included the financial markets disruption around the Lehmans crisis in September 2008, the announcement by SocGen of significant write-downs followed by a huge rate reduction by the Fed in January 2008. The second half of 2009 was relatively quieter.

As you can see the business is capable of substantially outperforming in favourable market conditions, but the risks remain well controlled on the downside. Mako has experienced only 2 loss months since 2007.

Options market making is the core business activity and the largest contributor to group revenues. The end-users of the listed options market place include Life and Pension Companies, Asset Managers, Hedge Funds and smaller institutions and individuals.

Mako interacts with the market place electronically via the trading screens and by phone via institutional brokers, Mako Financial Markets and other sales teams.

Mako's goal is to be the liquidity provider of choice to the market place and to be the first call for quotes. We set about achieving this through providing competitive pricing, continuous liquidity and a very high standard of service. It is a highly specialized activity and due to the nature of the products traded it places a heavy reliance on the traders pricing and position management skills.

Unlike cash equity market making where one stock such as Vodafone, equals one net position in the traders inventory, for the same stock the options market maker he has got calls and puts, possibly 20 strikes and up to 10 serial months and this in practical terms tends to give around 100 separate lines in the inventory position. To complicate matters further, each of those individual lines will have different risk sensitivities and the relationships between them and time/market direction are non-linear. This means that in addition to the trader expertise, Mako requires very strong technology support and risk management oversight.

Now turning to look at risk management. Risk management within Mako is highly structured and this is led by Jonny Day, who is a former trader with over 10 years of experience in the derivatives markets. The formal part of the process consists of a structured set of trading limits, meetings and other protocols. This is supported by a number of other initiatives.

The objective here is to minimise revenue variability. The risk management team work with the Head Trader, with me and with other members of the management team to identify and mitigate any risks arising from trading activity.

We have got both hard and soft limits as part of our risk management framework to manage and monitor risks. These are different in nature with the soft limits triggering a proactive discussion around the nature of the inventory and the hard limits requiring immediate risk reduction interventions. All of the risk management, save the VaR calculation, is managed on a real-time basis and this is supported by a system of automated alerts. All risks are communicated in real time.

To give you a feel for the average scale of risk, the average VaR for 2009 was $843,000 to $100,000 using a 2 year history and at 95% confidence. The 2 year period in question captures some of the most turbulent markets in modern financial history and our VaR calculation implies that in those market conditions, only 1 trading day in 20 we could lose this amount.

Whilst it is very difficult to generalise on the drivers of performance in a business such as this, the diagram on this slide provides an indication of how different market conditions can affect Mako's performance. But bear in mind that what looks like a simple matrix, Mako's performance, regardless of the market circumstances, requires the continuous management of very complex set of positions by highly skilled market makers.

As can be seen, the most ideal conditions are those in the top right of the quadrant where both volume and volatility are high. Higher volatility results in lower price sensitivity among market participants, and therefore more market making profits, whilst higher volume gives Mako the opportunity to do more trades as well as closing positions with lower risk.

However, the trading performance consists of the aggregation of a number of different trading books covering a range of regions and asset classes. Added to that, the inventory within the books can change rapidly within a trading day and this means that it's difficult for anyone outside the business to predict the revenues in the short-term.

Looking at Mako Investment Managers (MIM) which manages the Pelagus Capital Fund. This is a Fixed Income Relative Value Fund, no corporate credit. This Fund was launched in April 2007 and it has developed well demonstrating strong year-on-year returns with a well managed drawdown profile. The Fund won the EuroHedge Fixed Income Fund of the Year for 2008 and just last week we won the award again for 2009.

The fund has over 80 investors and as at 1 January, had grown close to $500m under management. That has just increased today to just over $600m under management and as of today the fund is now closed for a three month period while we evaluate the future capacity. We are expecting the next stage will take us to somewhere between $1bn - $1.5bn but that is under review at the moment. The investor base includes large Institutional Investors, Pension Funds, Family Offices and larger Fund of Funds. They represent a mix of existing relationships and new relationships that we have met through our marketing efforts, Prime Brokerage Capital Introduction services and some investors who have approached us directly as the fund profile has increased.

In addition to developing a strong business in its own right, the Pelagus Capital Fund provides us with a beacon effect for other Mako Investment Management products and there are other opportunities to launch additional funds and leverage the current skills which I will discuss later on.

Now moving on to have a look at Mako's technology. All of our core technology applications have been developed in house. This gives us the benefit of a truly bespoke system to meet the trader's specialist needs and also the ability to adapt and customize this going-forward.

Automated pricing and trading software is used to support voice-based market making. The trader can use the software to reduce the amount of manual quoting that is required.

We make further use of automation in our algorithmic trading activity. This is a highly parameterised system that identifies opportunity, trades and risk manages the subsequent inventory without any direct trader intervention. In practice this is supervised by experienced traders, but is highly automated.

The Mako infrastructure has been developed by Mako IT over an extended period with direct input from Trading and the Financial Engineering teams. Through conversations with others in the industry we know that our technology is a source of competitive advantage and it is also extremely difficult to replicate.

Throughout the last 10 years the business has prospered in a range of market conditions and has also continually evolved and innovated. As a consequence we now have a robust core business with a strong business model.

Firstly, there is a well developed culture, high ethical standards and a talented team in place who are comfortable with change and enjoy working in a dynamic, creative environment.

Secondly, technology infrastructure is a key facilitator for our business and we have fully integrated platforms serving the front, middle and back offices.

Thirdly, as mentioned earlier, we have been able to diversify the types of business we have and the products we deal in which helps to create expertise which can be leveraged to create other opportunities, such as the investment management one.

Fourthly, at Mako, we have a strong risk management culture continually aiming to optimise the risk/reward profile within the business.

And finally, there is also an impressive history of identifying and delivering on new business opportunities, as we were the first UK firm to establish an integrated electronic trading business, the first market maker to add a sales portal, we developed an award winning investment management business and have developed an algorithmic trading business. It is a fast moving market place and our ability to develop, innovate and evolve are key to our on-going success.

Lastly, I would like to share with you some of the interesting areas and opportunities that we are currently looking at within Mako.

The fundamental point is that we recognise our strengths and want to build on those existing competencies, infrastructure and expertise to develop emerging businesses. There are exciting opportunities for us to develop Mako's fee based earnings streams in investment management activities. And this is via both, identifying, seeding and launching new investment management product and also as I touched on before, further expansion of the Pelagus Capital Fund.

We are also looking for further geographical expansion of the market making business into Asian equities and US equities via algorithmic trading. This again will allow us to diversify our revenue stream into new markets using our existing expertise.

Other opportunities include developing a more scalable broking operation and extending our existing client base, also leveraging the ongoing transition from OTC to exchange traded markets and again that is in our core market making business.

We are excited by these opportunities and will continue to evaluate growth initiatives on an ongoing basis to build on our existing strong franchise.

I will now hand back over to Preben to conclude.

Preben Prebensen

Thank you to Chris and indeed the other presenters.

Well I hope that you'll agree that we have given you an extremely detailed view of the Securities Division and indeed the three businesses in it. We also hope you will agree that all three have strong leadership and that those leaders have very significant expertise in their fields. And that each of the businesses are among the market leaders in their respective areas.

Interestingly, that they also have a real focus of the importance of in house technology to maintain as well as to have created that leadership. And that over the recent past, not only have they weathered the storms of the last 18 months, but they have really thrived in those conditions. And together they represent a very interesting and established platform to capitalise on future opportunities in the Division broadly.

So that brings us to the end of our prepared remarks. And now we are very happy to take questions. Can I just remind you that this is being webcast, so if you have a question, please use a microphone and state your name and company for us.

Question & Answer Session

Question 1 : Ian Poulter, CannaccordAdams

Hi, it's Ian Poulter from Cannaccord. It is just a question really on the Group side of things I guess. I didn't really pick up any comment on how the Securities business interacts with say the Asset Management or Banking divisions. I just wonder whether you could outline some of the gains that could be had from working within Close Brothers as part of the Group with the other two divisions?

Answer : Preben

Well I think, I will take that question. I think we would look to capitalise on the obvious connections that might exist between those divisions. And there are some. For example, Winterflood does actually execute trades on behalf of the private client wealth management business inside Asset Management. And so there are certain connections like that. And I think that the Winterflood capabilities as we expand our private client offering could indeed be interesting in terms of single stock and bond trading. But I think I would also say that our perspective on the three business areas of the group are that we should make use of those connections where they are obvious and where they can be beneficial, but we should not force them either.

Question 2 : Robin Savage, Collins Stewart

Thank you, it is Robin Savage from Collins Stewart. Could I ask whether Julian could elaborate on the market share. You said you were number 1 across all parts of the UK equities market. Could you talk about the market share that Winterflood has in say FTSE 100, and 250 and the AIM?

Answer: Julian

I would like to, but I can't really give that information, detailed information about market share other than to say that in terms of trades, half of our trades were accounted for by large cap trading in the last year.

Further question:

That's fine. Can I ask another question, which is to do with the cost of the back office and the settlement costs. I wonder whether you could elaborate on any potential that you might see over the next few years of post rate services provision perhaps reducing some of the settlement costs?

Answer: Jerry
Yeah, I think over the next few years we are probably going to see consolidation and settlement in the European arena and costs will probably lower. But settlement costs in Winterfloods are part of variable costs and are fairly significant, but not a major item for the company.

Further answer: Philip
Can I add something to that as well. I think it is about scale. I think when you have significant scale it certainly helps to reduce the unit cost of settlement. And I think we would also welcome any market wide initiatives that would introduce greater interoperability between the central counterparties. This is particularly important for our trading on the London Stock Exchange.

Further question:
Can I continue on that point about the interoperability. Are you saying that when a decision comes out of the regulators to allow interoperability that that is an opportunity for Winterflood to actually push the settlement, the clearing houses to reduce the cost to big organisations such as yourselves?

Answer:
I think it's a question of choice. Clearly from our viewpoint trading through an MTF and the CCP associated with that MTF is cheaper in terms of clearing costs, compared to trading on the primary exchange. We can't predict what will happen in the market place, but should the LSE look at acquiring EMCF, that would be quite an interesting scenario for all market participants.

Question 3 : Paul Measday Cazenove
It's Paul Measday from Cazenove. Perhaps another question for Jerry. On IT costs, do you still see a fairly stable proportion of revenues being spent on IT? Or should we expect a hump of investment to support some of the growth opportunities?

Answer : Jerry
No, I would expect that IT would carry on around the same level as our investment over the past years. But I can't really comment on the stuff in the future.

Further question
And a second broader question. For securities overall, what are the implications of changing capital rules in particular? Capital that has to be held against trading, but perhaps acknowledging that you have fairly stable if not slightly reducing risk positions, do you expect your risk weighted assets to increase quite dramatically over the next 2-3 years?

Preben
Jonathan, maybe that's one for you?

Answer : Jonathan
Yes in terms of capital. First of all if you look at the last segmental reporting for the full year end in the Annual Report, you will see that the Securities Division as a whole had between £90-100m of capital available. That is entirely down to Winterfloods and Seydler and not Mako because Mako is equity accounted. So that £90-100m gives us more than sufficient capital to absorb anything that the new regulatory requirements are going to put in place. And at the moment, given the short tail nature of our trading, given the low risk type of trading books we have got, we anticipate those requirements to be relatively low. And on the other side, it gives us room and scope to grow these two businesses. So we feel very comfortable at the moment.

Question 4 : Clive Beagles, J O Hambro Capital Management
Clive Beagles from J O Hambro Capital Management. A question for Chris actually about the Pelagus Fund. Could you share with us some numbers in terms of what the fees are on that fund and what the average assets under management in the last financial year for Close was for that product?

Answer : Chris
Sure yeah. Fees on the fund are 2 and 20 and all investors in on the same terms. Trying to think back, we run on a calendar year so it is always hard for me to think in Close years. We opened up January 2008 we were close to $200m and then finished last year close to $500m.

Further question:
But looking at the graph, the average for the Close year is probably less than $200 in terms of year to July '09?

Answer: Chris
Yeah

Further question:
And so did it contribute profitably to that financial year?

Answer: Chris
Yes

Question 5 : James Alexander, M&G
James Alexander, M&G. Is the opening up of the LSE's retail bond exchange going to be significant for Winterflood or will it not make much difference?

Answer : Julian
It's a little bit too early to say, seeing that it only started this morning! No I think we support any initiative that helps the retail investor to get better access to fixed income products and see greater transparency. It is just worth noting that we introduced our own retail fixed income platform in 2001, called bondscape which gives investors the opportunity to trade electronically already. But as I say, we support any initiative that allows the private investor greater access and more efficient trading.

Further question
Does bondscape work? Does it provide much?

Answer:
Yes it does work and continues to do so. And we are obviously fully supportive of that platform. It was developed in conjunction with HSBC and Barclays and those three provide liquidity to that platform.

Further question
I have another question on a separate subject. On Plus markets. What is the relationship between Winterfloods and plus markets these days?

Answer:
Well we are registered market maker on plus markets and continue to provide liquidity to that platform. Again we think it is very worthwhile and useful in order to give the investor choice and also market participants choice where they post their liquidity or where they transact their business. Obviously it is a very competitive world and especially since MiFID was

implemented, you know we have seen a whole host of new markets develop. And the choice is good and competition is good as far as we are concerned.

Further question
You do have a stake in plus markets don't you?

Answer: Preben
We do, but that is actually handled at Group level. It is just under 20% now, is that right Jonathan? It is quite small in terms of value and we wouldn't consider it particularly significant at the Group level.

<u>Question 4 : Ruth Keattch, Artemis</u>
Ruth Keattch of Artemis. On the subject of regulation, do the authorities understand where to draw the line between market making and proprietary trading etc? And where are we on bankers bonuses?

Answer : Preben
I think on where the authorities might draw the line between market making and proprietary trading, it is just very early. I think from our perspective as a Group, we have exited the private equity business that we were in. As you know, those demergers took place over the last couple of years. And as you have heard, really we are in the business of market making and not proprietary trading. We don't make prices. We make prices to clients rather than taking outright views for our own account. So based on what we have heard, that is a clear distinction as between what we do and where the regulatory focus seems to be. But clearly we are very early in any process which starts driving distinctions between permissible and non permissible activities. It seems to change every day actually. Having said that, what we do is make markets to clients rather than taking positions outright for our own account. That is a very important distinction to recognise.

And on the bonus tax, you know again that is still draft legislation. And it is still very early in terms of who it is going to affect in terms of businesses as widespread as the ones that we are in. And who as individuals it might or might not affect. So it is too early to say.

<u>Question 4 : Carolyn Dorrett, UBS</u>
Hi, Carolyn Dorrett from UBS, two quick questions please. Just in terms of the growth opportunities at Wins into the US order flow. Would that be expected to have any implications for the price per bargain for Wins going forwards? And secondly in terms of distribution agreements, obviously you have talked about covered warrants, can you give us some idea of what other product lines might be suitable for that?

Answer : Julian
Just to answer the first question. These ideas are at the early stage of development and it is very difficult to assess what sort of impact or what level the return or average profit per bargain may be on those initiatives. But when we have more information and the plans are more developed, obviously we can inform you at that time.

And the second question perhaps I can ask Philip to answer that one?

Answer: Philip
In terms of sort of third party products that are available on our trading platform, we obviously provide the structured products, the covered warrant products of the Royal Bank of Scotland and SocGen. And we also enable clients to trade through Winner and actually order route and receive executions in unit trusts. We are linked to a large fund platform known as co-funds. That is our current position as of today.

Preben Prebensen

Any other questions? Well I think we have succeeded in exhausting you. So many thanks to all the presenters and thank you very much indeed for coming today.

End of Presentation