Close Brothers

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Registered in England No. 520241

Half year results for the six months to 31 January 2016

8 March 2016

Solid Performance in More Challenging Market Conditions

- The group delivered a solid performance in the period with adjusted operating profit up 2% to £111.2 million and adjusted basic earnings per share up 5% to 61.1p
- The Banking division continued to deliver growth at strong returns with 4.0% loan book growth in the first half to £6.0 billion and bad debts at a long-term low of 0.6%
- Despite difficult market conditions Winterflood continued to trade profitably, delivering adjusted operating profit of £6.8 million
- Asset Management has made further progress with good net inflows at 8% of opening managed assets
- Dividend per share up 6% to 19.0p, in line with our progressive dividend policy
- Strong return on opening equity of 17.9% and common equity tier 1 capital ratio of 13.6%

Financial Highlights

	First half 2016	First half 2015[1]
Adjusted operating profit[2]	**£111.2m**	£108.6m
Adjusted basic earnings per share[3]	**61.1p**	58.2p
Operating profit before tax	**£108.7m**	£106.2m
Basic earnings per share	**59.7p**	56.9p
Profit attributable to shareholders	**£88.6m**	£84.1m
Ordinary dividend per share	**19.0p**	18.0p
Return on opening equity[4]	**17.9%**	18.8%

1 Results from continuing operations exclude Seydler, the sale of which was completed on 5 January 2015 and which has been classified as a discontinued operation under IFRS 5 in the 2015 results.
2 Adjusted operating profit is before amortisation of intangible assets on acquisition.
3 Adjusted basic earnings per share is before amortisation of intangible assets on acquisition and the tax effect of this adjustment.
4 Return on opening equity (“RoE”) calculated as adjusted operating profit after tax and non-controlling interests on opening equity, excluding non-controlling interests.

Note: All figures in this report relate to the six month period to 31 January unless otherwise indicated.

Preben Prebensen, Chief Executive, commenting on the results, said:

"We are pleased to report a solid first half result for the group, with further growth in our earnings and dividend against a backdrop of more challenging market conditions. With our strong capital position, prudent funding and long track record we remain well positioned to continue to invest in our business and deliver sustainable growth and strong returns."

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A presentation to analysts and investors will be held today at 9.30 am GMT at our offices at 10 Crown Place, London EC2A 4FT. A listen-only dial-in facility will be available by dialling +44 203 059 8125. A recording of this call will be available for replay for two weeks by dialling +44 121 260 4861, access code 2651671#.

About Close Brothers

Close Brothers is a leading UK merchant banking group providing lending, deposit taking, wealth management services and securities trading.

Our Banking division provides lending to small businesses and individuals, with an emphasis on specialist finance. We also offer deposit-taking services to UK businesses and individuals.

In Securities, we provide trading services in the UK through Winterflood, a leading market-maker.

Close Brothers Asset Management provides a range of financial advice, investment management and online investing services to private clients and professional advisers.

Established in 1878, we believe our traditional merchant banking values, based on service and integrity, continue to be relevant today. We define our approach to business as "Modern Merchant Banking" – values that are embedded in our culture and that underpin everything we do.

Today, Close Brothers Group plc employs over 2,900 people, principally in the UK. We are listed on the London Stock Exchange and are a member of the FTSE 250.

CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

Close Brothers has delivered another solid result, building on our long history of performance through the economic cycle. This track record reflects our established business model with a focus on niche markets which we know and understand, along with our disciplined approach to managing our business and financial resources. Our consistent profitability and strong capital position allow us to generate attractive and sustainable returns for our shareholders while continuously investing in our products, people and systems to protect and extend our successful business model.

Solid First Half Performance

In the first half of our 2016 financial year we continued to generate strong returns. The loan book increased 4% with growth across our markets, and Banking division profits increased year on year. We continued to achieve good net inflows and increased profitability in Asset Management, and Winterflood demonstrated its resilience and traded profitably in difficult conditions.

Overall, adjusted operating profit increased 2% to £111.2 million and adjusted earnings per share increased 5% to 61.1p, generating a return on opening equity of 17.9%. The Board has declared an interim dividend of 19.0p, up 6% year on year, reflecting our commitment to progressive and sustainable dividends.

The Banking division has continued to perform well and in line with expectations at this stage in the cycle. Notwithstanding the ongoing increase in competition, we continue to see growth opportunities across our markets and most importantly we are maintaining our consistent approach to lending with strict criteria for credit quality, margins and returns. As a result, margins remain strong, bad debts are at a long-term low, and the return on net loan book remains ahead of the long-term average at 3.7%, allowing us to continue to invest to strengthen and develop our business.

Our market-facing businesses have been affected by the market headwinds in the period. Winterflood's trading income and profits were lower than the first half last year, reflecting difficult market conditions throughout the period. Asset Management continued to achieve good net inflows at 8% of opening managed assets, although total client assets reduced to £9.1 billion primarily reflecting the disposal of our corporate business which completed in November, as well as the impact of negative market movements.

A Strong Financial Model

In a challenging and often unpredictable environment, our established business model provides resilience and positions us for significant growth in more favourable conditions. Throughout the recent years of high growth we have maintained the same prudent underwriting criteria that enabled us to control bad debts and remain profitable throughout the credit crisis. Our lending remains predominantly secured, short term, and in specialist market segments where we have many years of experience. When we enter new markets we do so slowly and carefully, ensuring that we fully monitor and understand the risk profile before we expand.

The careful management of our capital, funding and liquidity underpins our ability to support our clients and maximise growth opportunities in all market conditions. We have always maintained a strong capital position, supported by the profitability of the business which has enabled us to deliver significant growth and increasing dividends over many years, while continuing to comfortably meet all regulatory requirements. Our capital ratios remain strong with a common equity tier 1 capital ratio of 13.6% and a leverage ratio of 10.5% at 31 January 2016, giving us flexibility for future growth and the ability to respond to changes in regulatory requirements.

As a result, we remain well positioned to trade profitably and maximise the market opportunity as conditions change, and we remain confident in both our short-term performance and our long-term competitive position.

Continued Opportunities for Growth

We continue to see good opportunities for growth across our markets and are actively investing to pursue these. In our core businesses, we continuously seek ways to enhance our distribution capabilities and develop and extend our existing products and services. This includes further development of propositions for dealers in the motor finance business, the expansion of our property finance lending into high quality regional locations and, in Asset Management, the development of a new solution in response to the increasing need for pensions advice and lifetime asset allocation arising from recent changes in pensions regulations.

Our direct, relationship-based distribution is a core part of our business model and an important service differentiator for our clients, and we continue to invest in people and talent development. In September we hired around 30 recruits into our new Asset Finance Training Academy, who are undergoing a combination of classroom and field-based training over a period of two years. We are continuing to develop our financial adviser force in Asset Management and recently launched the Adviser Academy which provides career development opportunities for new and existing advisers.

We have always looked at new growth initiatives which fit with our specialist focus and have the potential to generate strong returns in future years. Recent examples have included expanding our operations in Ireland, where the loan book now exceeds £350 million, as well as the development of our green energy lending team in asset finance. More recently, we have launched our consumer finance initiative, which provides point of sale finance through retailers, and our technology leasing service which is in the early stages of development.

Outlook

We have a long track record of growth and profitability throughout the cycle and our businesses remain well positioned against the current backdrop of economic and political uncertainty.

We continue to see growth opportunities for our lending businesses, both in existing markets and through new initiatives. We continue to actively invest to protect and extend our successful business model, while maintaining our focus on strong margins, prudent underwriting and good returns. Winterflood remains sensitive to market conditions but is well positioned when conditions improve and in Asset Management we expect continued net inflows and progress in the business.

Overall, we continue to expect a satisfactory performance for the current year.

FINANCIAL REVIEW

Solid First Half Performance

Close Brothers has delivered a solid performance in the period despite more challenging market conditions. Adjusted operating profit increased 2% to £111.2 million (2015: £108.6 million) and adjusted earnings per share ("EPS") increased 5% to 61.1p (2015: 58.2p). Return on opening equity remains strong, although lower than the prior year at 17.9% (2015: 18.8%).

The Banking division continued to deliver growth at strong returns, with 4.0% loan book growth to £6.0 billion and a return on net loan book of 3.7% (2015: 4.0%). A further improvement in the bad debt ratio partially offset our continued investment in the business and adjusted operating profit increased 2% to £108.4 million (2015: £106.4 million).

Despite weak market conditions in the period, Winterflood continued to trade profitably, delivering £6.8 million (2015: £10.3 million) adjusted operating profit. Asset Management continued to make progress with good net inflows, delivering adjusted operating profit of £8.4 million (2015: £5.1 million).

Group Income Statement

	First half 2016 £ million	First half 2015 £ million	Change %
Adjusted operating income	**341.0**	330.4	3
Adjusted operating expenses	**(213.1)**	(202.5)	5
Impairment losses on loans and advances	**(16.7)**	(19.3)	(13)
Adjusted operating profit	**111.2**	108.6	2
Banking	**108.4**	106.4	2
Securities	**6.8**	10.3	(34)
Asset Management	**8.4**	5.1	65
Group	**(12.4)**	(13.2)	(6)
Amortisation of intangible assets on acquisition	**(2.5)**	(2.4)	4
Operating profit before tax	**108.7**	106.2	2
Tax	**(20.1)**	(22.2)	(9)
Non-controlling interests	**-**	0.1	
Profit attributable to shareholders (continuing operations)	**88.6**	84.1	5
Profit from discontinued operations, net of tax	**-**	11.2	
Profit attributable to shareholders (continuing and discontinued operations)	**88.6**	95.3	(7)
Adjusted basic earnings per share (continuing operations)	**61.1p**	58.2p	5
Basic earnings per share (continuing operations)	**59.7p**	56.9p	5
Basic earnings per share (continuing and discontinued operations)	**59.7p**	64.5p	(7)
Ordinary dividend per share	**19.0p**	18.0p	6
Return on opening equity	**17.9%**	18.8%	

FINANCIAL REVIEW

Total revenues increased 3% in the period to £341.0 million (2015: £330.4 million) with both higher net interest and fee income in the Banking division and further growth in investment management income in Asset Management.

We continue to actively invest in the business to support long-term growth. As a result, adjusted operating expenses increased 5% to £213.1 million (2015: £202.5 million) reflecting continued investment in growth initiatives in the Banking division.

Overall, the expense/income and compensation ratios (total staff costs on adjusted operating income) remained broadly stable at 62% (2015: 61%) and 38% (2015: 37%) respectively.

The group continues to benefit from its disciplined approach to underwriting over many years and the current favourable credit environment, resulting in a further decline in the bad debt ratio to 0.6% (2015: 0.7%).

Overall, this resulted in adjusted operating profit growth of 2% to £111.2 million (2015: £108.6 million) with the operating margin stable at 33% (2015: 33%).

The effective tax rate declined to 18.5% (2015: 20.9%) reflecting the write up of deferred tax assets due to the bank corporation tax surcharge which came into effect in January 2016. Including amortisation of intangible assets of £2.5 million (2015: £2.4 million), profit after tax increased 5% to £88.6 million (2015: £84.1 million).

Adjusted EPS from continuing operations increased 5% to 61.1p (2015: 58.2p) and our reported basic EPS, which includes amortisation of intangible assets, also increased 5% to 59.7p (2015: 56.9p) on a continuing basis. In 2015 we completed the sale of Seydler, our German securities business, and results from continuing operations exclude the £10.3 million profit on disposal and £0.9 million profit after tax in 2015.

Simple and Transparent Balance Sheet

The overall structure of the group's high quality and transparent balance sheet remains unchanged, and we have maintained our prudent capital, funding and liquidity positions. Our balance sheet is predominantly made up of loans and advances to customers, which are short term in nature and around 90% secured, cash and loans and advances to banks, and settlement balances held within our Securities division.

Total assets were unchanged at £8.0 billion (31 July 2015: £8.0 billion), as the 4.0% increase in loans and advances to customers was partially funded by a decrease in cash and loans and advances to banks. Settlement balances also reduced, reflecting lower trading activity at Winterflood.

Total equity increased to £1,026.5 million (31 July 2015: £1,009.9 million) reflecting profits in the period, partially offset by dividend payments of £52.3 million. The group's return on assets remained broadly stable at 2.2% (31 July 2015: 2.3%).

Group Balance Sheet

	31 January 2016 £ million	31 July 2015 £ million
Assets		
Cash and loans and advances to banks	**898.0**	1,122.6
Settlement balances, long trading positions and loans to money brokers	**427.6**	481.9
Loans and advances to customers	**5,968.8**	5,737.8
Non-trading debt securities	**200.9**	135.4
Intangible assets	**143.7**	144.2
Other assets	**381.8**	335.4
Total assets	**8,020.8**	7,957.3
Liabilities		
Settlement balances, short trading positions and loans from money brokers	**360.2**	404.3
Deposits by banks	**48.8**	35.1
Deposits by customers	**4,615.2**	4,481.4
Borrowings	**1,756.6**	1,792.6
Other liabilities	**213.5**	234.0
Total liabilities	**6,994.3**	6,947.4
Equity	**1,026.5**	1,009.9
Total liabilities and equity	**8,020.8**	7,957.3

Diverse and conservative funding position

Our conservative approach to funding and liquidity is a core part of our business model and we seek to maintain significant diversity of both the source and maturity of our funding.

Total funding increased £180.7 million, or 2%, in the period to £7,701.0 million (31 July 2015: £7,520.3 million) and accounted for 129% (31 July 2015: 131%) of the loan book. This primarily reflects a £133.8 million increase in customer deposits to £4,615.2 million (31 July 2015: £4,481.4 million) to fund loan book growth.

Term funding (with a maturity greater than 12 months) was stable at £3,979.0 million (31 July 2015: £4,018.7 million) and covered 67% of the loan book (31 July 2015: 70%) with an average maturity of 30 months (31 July 2015: 31 months), more than double the maturity of the loan book of 14 months (31 July 2015: 14 months), upholding our “borrow long, lend short” principle.

Group Funding

	31 January 2016 £ million	31 July 2015 £ million	Change £ million
Deposits by customers	**4,615.2**	4,481.4	133.8
Drawn and undrawn facilities[1]	**1,513.8**	1,512.2	1.6
Senior unsecured bonds	**545.5**	516.8	28.7
Equity	**1,026.5**	1,009.9	16.6
Total available funding	**7,701.0**	7,520.3	180.7

1 Includes £245.0 million (31 July 2015: £245.0 million) of undrawn facilities and £75.0 million (31 July 2015: £nil) of Treasury Bills drawn under the Funding for Lending Scheme but not currently in repurchase agreements, and excludes £17.3 million (31 July 2015: £8.6 million) of non-facility overdrafts included in borrowings.

Group Funding Maturity Profile

	Less than one year £ million	One to two years £ million	Greater than two years £ million	Total £ million
Deposits by customers	3,397.3	859.2	358.7	4,615.2
Drawn and undrawn facilities	296.6	553.0	664.2	1,513.8
Senior unsecured bonds	28.1	199.6	317.8	545.5
Equity	-	-	1,026.5	1,026.5
Total available funding at 31 January 2016	**3,722.0**	**1,611.8**	**2,367.2**	**7,701.0**
Total available funding at 31 July 2015	3,501.6	1,694.0	2,324.7	7,520.3

Prudent approach to managing liquidity

As a group we always look to balance maintaining our conservative approach to liquidity management with the efficiency of our balance sheet and funding mix. The majority of our liquidity is held on deposit with the Bank of England but from time to time we also place surplus funding in certificates of deposit ("CDs") or other liquid securities to maximise yield.

At 31 January 2016 treasury assets totalled £1,010.6 million (31 July 2015: £1,173.4 million), £809.7 million of which comprised high quality liquid assets in the form of deposits with the Bank of England. We also held £200.9 million (31 July 2015: £115.3 million) in CDs.

Treasury Assets

	31 January 2016 £ million	31 July 2015 £ million	Change £ million
Gilts	**-**	20.1	(20.1)
Bank of England deposits	**809.7**	1,038.0	(228.3)
High quality liquid assets[1]	**809.7**	1,058.1	(248.4)
Certificates of deposit	**200.9**	115.3	85.6
Total treasury assets	**1,010.6**	1,173.4	(162.8)

1 In addition to the above, at 31 January 2016 the group held £75.0 million (31 July 2015: £nil) of Treasury Bills drawn under the Funding for Lending Scheme which are classified as high quality liquid assets.

Sustaining a strong capital position

Our policy has always been to maintain a prudent capital position taking into account the quality of our asset base and long track record of financial performance through the cycle. This capital position is supported by the profitability of our business which has enabled us to grow the loan book, invest in our business and continue to pay a dividend as regulatory requirements have risen across the industry.

In the first half, common equity tier 1 ("CET1") capital increased by £32.6 million to £845.8 million (31 July 2015: £813.2 million) reflecting retained profit in the period, broadly offsetting 5% growth in risk weighted assets ("RWAs") to £6.2 billion (31 July 2015: £5.9 billion) predominantly due to loan book growth. As a result, our CET1 ratio at 31 January 2016 remained strong and comfortably ahead of minimum regulatory requirements at 13.6% (31 July 2015: 13.7%). Our leverage ratio, which is not affected by risk weightings, also remains well ahead of minimum requirements and industry benchmarks at 10.5% (31 July 2015: 10.2%).

As the regulatory environment continues to evolve, our strong CET1 position gives us headroom to absorb potential regulatory changes, just as we have in the past. As a result we remain confident in retaining flexibility for future growth while maintaining a prudent capital position which appropriately reflects the level of risk in our business.

Group Capital Position

	31 January 2016 £ million	31 July 2015 £ million
Common equity tier 1 capital ratio	**13.6%**	13.7%
Total capital ratio	**14.0%**	14.3%
Leverage ratio[1]	**10.5%**	10.2%
Common equity tier 1 capital	**845.8**	813.2
Total regulatory capital	**869.7**	848.0
Risk weighted assets	**6,218.1**	5,932.1

1 The leverage ratio is calculated in accordance with the European Union Delegated Act. It is calculated as tier 1 capital (£845.8 million) as a percentage of total balance sheet assets, adjusting for certain capital deductions, including intangible assets, and off balance sheet exposures (all of which total £8,058.0 million).

BUSINESS REVIEW

Banking

Key Financials

	First half 2016 £ million	First half 2015 £ million	Change %
Operating income	**258.1**	244.8	5
Net interest and fees on loan book[1]	**247.7**	237.8	4
Retail	**96.4**	89.9	7
Commercial	**102.4**	101.2	1
Property	**48.9**	46.7	5
Treasury income	**10.4**	7.0	49
Adjusted operating expenses	**(133.0)**	(119.1)	12
Impairment losses on loans and advances	**(16.7)**	(19.3)	(13)
Adjusted operating profit	**108.4**	106.4	2

Key Performance Indicators		
Net interest margin[2]	**8.5%**	8.8%
Bad debt ratio[3]	**0.6%**	0.7%
Expense/income ratio[4]	**52%**	49%
Return on opening equity[5]	**25%**	28%
Return on net loan book[6]	**3.7%**	4.0%

1 Includes £195.3 million (2015: £189.8 million) net interest income and £52.4 million (2015: £48.0 million) other income. Other income includes net fees and commissions, operating lease income and other miscellaneous income.
2 Net interest and fees on average net loans and advances to customers.
3 Impairment losses on average net loans and advances to customers.
4 Adjusted operating expenses over operating income.
5 Adjusted operating profit after tax and non-controlling interests on the division's opening equity, excluding non-controlling interests.
6 Adjusted operating profit on average net loans and advances to customers.

Delivering sustainable growth and strong returns over the long term

The Banking division has continued to deliver growth at strong returns, building on our long-term track record. Despite increased competition we have continued to see good demand across our lending businesses and have achieved 4.0% growth in our loan book to £6.0 billion (31 July 2015: £5.7 billion) while maintaining our disciplined underwriting.

Our strategy focuses on organic loan book growth in our core specialist areas. Our long history of growth in both existing and adjacent markets has allowed us to extend our business model into new areas which fit our specialist, expertise-led approach to lending which in turn has helped us to deliver our sustainable returns.

Our current initiatives, which are at different stages of development, include expansion in Ireland, consumer point of sale finance, our green energy team and technology leasing team.

Strong returns and continued investment

Adjusted operating profit has increased 2% year on year to £108.4 million (2015: £106.4 million), and we continue to deliver strong returns, with the return on net loan book at 3.7% (2015: 4.0%).

Income has increased 5% to £258.1 million (2015: £244.8 million), reflecting continued loan book growth. Net interest and fees on the loan book have increased 4% to £247.7 million (2015: £237.8 million) resulting in a net interest margin of 8.5% (2015: 8.8%). The margin remains strong but below the prior year due to ongoing price competition, particularly in Commercial, as well as lower fee income in some businesses.

Banking continued

Bad debts remain at a long-term low of 0.6% (2015: 0.7%), benefitting from the benign credit environment and our strict underwriting criteria.

Expenses increased 12% to £133.0 million (2015: £119.1 million) as we continue to invest in our customer proposition as well as new initiatives to support future growth, including our sales academy and expansion into adjacent markets. As a result, the expense/income ratio increased to 52% (2015: 49%) but remains consistent with the range we have seen over previous cycles.

Solid growth

We delivered 4.0% loan book growth in the period to £5,968.8 million (31 July 2015: £5,737.8 million). This reflects solid demand and good levels of new business across our lending businesses.

Loan Book Analysis

	31 January 2016 £ million	31 July 2015 £ million	Change %
Retail	**2,332.3**	2,266.0	2.9
Motor finance	**1,633.3**	1,600.3	2.1
Premium finance	**699.0**	665.7	5.0
Commercial	**2,278.3**	2,172.8	4.9
Asset finance	**1,905.9**	1,796.2	6.1
Invoice finance	**372.4**	376.6	(1.1)
Property	**1,358.2**	1,299.0	4.6
Closing loan book	**5,968.8**	5,737.8	4.0

The Retail loan book has increased 2.9%, or £66.3 million, to £2,332.3 million (31 July 2015: £2,266.0 million). This has been driven by both motor finance, up £33.0 million to £1,633.3 million (31 July 2015: £1,600.3 million) and premium finance which has increased £33.3 million to £699.0 million (31 July 2015: £665.7 million). The motor finance market remains competitive, but good demand in the car market has supported lending in the period as we focus on maintaining our margins. The premium finance loan book increased with a number of new broker relationships and increasing volumes from our existing brokers.

The Commercial loan book is up 4.9% to £2,278.3 million (31 July 2015: £2,172.8 million) driven by asset finance which increased 6.1% to £1,905.9 million (31 July 2015: £1,796.2 million). This was due to good new business volumes, particularly in green energy and more bespoke leasing products. Invoice finance was broadly stable at £372.4 million (31 July 2015: £376.6 million).

The Property finance loan book increased 4.6%, or £59.2 million, to £1,358.2 million (31 July 2015: £1,299.0 million) due to good demand for residential development finance in London and the regions.

Securities

Key Financials

	First half 2016 £ million	First half 2015[1] £ million	Change %
Operating income[2]	**35.2**	41.9	(16)
Operating expenses	**(28.4)**	(31.6)	(10)
Adjusted operating profit[2]	**6.8**	10.3	(34)
Key Performance Indicators			
Average bargains per day ('000)	**51.4**	54.9	
Operating margin[3]	**19%**	25%	
Return on opening equity[4]	**14%**	21%	

1 Results from continuing operations exclude Seydler, the sale of which was completed on 5 January 2015 and which has been classified as a discontinued operation under IFRS 5 in the 2015 results.
2 Operating income and adjusted operating profit include £3.7 million (2015: £6.7 million) and £1.9 million (2015: £3.4 million) respectively relating to the disposal of Euroclear shares.
3 Adjusted operating profit over operating income.
4 Adjusted operating profit after tax on opening equity. Opening equity relates to Winterflood only and excludes the brought forward equity of Seydler due to its disposal in the prior year.

Continued profitability despite difficult trading conditions

Winterflood's performance has been affected by difficult market conditions in the first half, but the business continued to trade profitably. Concerns around the outlook for global growth and falling commodity prices resulted in increased volatility and falling equity markets. These conditions impacted retail investor sentiment causing lower trading volumes and 13 loss days in the period (2015: 10 loss days).

Volumes decreased year on year, with average bargains per day down 6% to 51,359 (2015: 54,868), particularly impacting smaller, less liquid stocks. Income per bargain declined slightly to £4.87 (2015: £5.05) year on year.

As a result, income declined 16% year on year to £35.2 million (2015: £41.9 million) predominantly due to a reduction in trading revenues. Expenses have also reduced to £28.4 million (2015: £31.6 million) reflecting Winterflood's variable cost model.

Despite these difficult conditions, Winterflood continued to trade profitably, delivering £6.8 million adjusted operating profit in the period (2015: £10.3 million), which includes £1.9 million benefit (2015: £3.4 million) from the disposal of our remaining holding in Euroclear. Operating margin and return on opening equity both reduced, to 19% (2015: 25%) and 14% (2015: 21%) respectively.

Asset Management

Key Financials

	First half 2016 £ million	First half 2015 £ million	Change %
Operating income	**47.0**	43.3	9
Income on client assets	**44.9**	42.9	5
Advice and other services[1]	**16.7**	17.2	(3)
Investment management	**28.2**	25.7	10
Other income[2]	**2.1**	0.4	
Adjusted operating expenses	**(38.6)**	(38.2)	1
Adjusted operating profit	**8.4**	5.1	65
Key Performance Indicators			
Total client assets (£ billion)	**9.1**	10.2	(10)
Revenue margin (basis points)[3]	**90**	86	
Operating margin	**18%**	12%	
Return on opening equity[4]	**29%**	23%	

1 Income from advice to private and corporate clients and self-directed services, excluding investment management income.
2 Net interest income and expense, income on principal investments and other income. The first half 2016 also includes the £1.9 million profit on disposal of our corporate advice and investment management activities.
3 Income on client assets over average total client assets.
4 Adjusted operating profit after tax and non-controlling interests over opening equity, less non-controlling interests.

Continued progress in difficult market conditions

Asset Management has continued to make progress in the period despite the backdrop of difficult market conditions. We continue to see good net inflows from both our own advisers and third party IFAs, demonstrating the breadth of our distribution capabilities and the quality of our advice and investment management propositions. Net inflows increased year on year to £310 million (31 January 2015: £195 million) or 8% of opening managed assets annualised, helped by lower outflows.

Despite positive inflows, total client assets reduced year on year to £9.1 billion (31 January 2015: £10.2 billion), principally reflecting the disposal of £1.3 billion corporate assets which completed in the period and the effect of negative market movements. Within this, managed assets reduced to £7.3 billion (31 January 2015: £7.5 billion), also reflecting the impact of the disposal as net flows of £310 million (2015: £195 million) were broadly offset by adverse market movements of £382 million (2015: positive movements of £344 million).

Operating income increased 9% to £47.0 million (2015: £43.3 million) driven predominantly by good growth in investment management income. The revenue margin has increased year on year to 90 bps (2015: 86 bps) reflecting the disposal of lower margin corporate client assets.

Adjusted operating expenses remained broadly stable, reflecting the operating leverage within the business, increasing just 1% to £38.6 million (2015: £38.2 million).

Adjusted operating profit increased to £8.4 million (2015: £5.1 million), resulting in an 18% (2015: 12%) operating margin and 29% (2015: 23%) return on opening equity. Excluding the profit on disposal and trading profit in the period from the corporate business, adjusted operating profit was £6.1 million (2015: £5.5 million) in the first half of the year.

Asset Management continued

Movement in Total Client Assets

	2016 £ million	2015 £ million	Change %
Total managed assets at 1 August	**7,996**	6,922	16
Inflows	**601**	629	(4)
Outflows	**(291)**	(434)	(33)
Net inflows	**310**	195	59
Disposals[1]	**(653)**	-	
Market movements	**(382)**	344	
Total managed assets at 31 January[2]	**7,271**	7,461	(3)
Advised only assets at 31 January[3]	**1,873**	2,747	(32)
Total client assets at 31 January	**9,144**	10,208	(10)

1 Disposal of £1,335 million client assets in the period relating to our corporate advice and investment management activities; including £653 million managed only assets and £682 million advised only assets.
2 Total managed assets include £2,651 million (31 January 2015: £2,548 million) of assets that are both advised and managed.
3 Total advised assets of £4,524 million at 31 January 2016 comprise £1,873 million of advised only assets and £2,651 million of assets that are both advised and managed.

Expect continued net inflows and progress in the business

Our priorities for the business remain unchanged, driving growth both organically and through the selective hiring of advisers and fund managers or small acquisitions to expand our offering.

We offer a high quality proposition with both our advice and investment management teams winning industry awards. The UK government's pension changes present a significant growth opportunity and we have increased our business development and seminar activities to ensure we are well positioned to take advantage of this opportunity. We are also investing in training for our advisers to ensure we provide the best advice to our clients as these changes take effect.

PRINCIPAL RISKS AND UNCERTAINTIES

The group is exposed to a number of risks in its day-to-day business which are managed by:
- Adhering to its prudent and established business model;
- Following a “three lines of defence” risk management approach; and
- Operating within a clearly defined risk appetite which is monitored against agreed metrics and limits.

A detailed description of the principal risks and uncertainties that the group faces and its approach to managing and mitigating those risks is set out on pages 28 to 31 of the Annual Report 2015 which can be accessed via the link on the Investor Relations home page of the group’s website at www.closebrothers.com.

In the six months to 31 January 2016 there have been no significant changes to our business model, risk management approach or risk appetite. The risks and uncertainties detailed in the Annual Report 2015 also remain unchanged and are summarised below. This summary should not be regarded as a comprehensive list of all potential risks and uncertainties faced by the group but rather those risks which it currently believes may have a significant impact on its performance and future prospects.

Key risk and uncertainty	Description
Credit losses	At 31 January 2016 the group has £6 billion of loans to a range of small businesses and individuals. The group is exposed to credit losses if customers are unable to repay these loans and any outstanding interest and fees. The group is also exposed to counterparties with which it places deposits or trades.
Economic environment	Continued weakness in global markets or any deterioration in the UK economy caused by the global environment or UK-specific events, such as the forthcoming EU membership referendum, could lead to a reduction in demand for the group’s products and services.
Legal and regulatory	Changes in legal, regulatory and tax environments could adversely impact on the group’s performance, capital and liquidity as well as demand from its customers and counterparties. Failing to safeguard client assets or providing advice and products which are not in our customers’ best interests has the potential to damage the group’s reputation and may lead to sanctions including litigation and customer redress.
Competition	Growth in the UK economy has led to increased competition in our markets, particularly our lending businesses, which may impact the group’s performance.
Market exposure	Volatility or the absence of liquidity in financial markets may impact the group’s profitability, particularly in our trading operations. Changes in interest and exchange rates have the potential to impact the group’s earnings although the majority of these exposures are hedged.
Technology	Maintaining robust and secure IT infrastructure is fundamental in allowing the group to operate effectively, respond to new technology, protect client and company data and counter cyber threats. Failure to evolve with our customers’ technological expectations or effectively manage transitions to new infrastructure also has the potential to impact group performance.
Employees	The calibre and expertise of our employees is critical to the success of the group. The loss of key individuals or teams may have an adverse impact on the group’s operations and ability to deliver its strategy.
Funding	Access to funding markets is essential in supporting the group’s ongoing lending activities. Any significant or sudden change in these markets has the potential to impact the group’s ongoing performance.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- The condensed set of consolidated financial statements has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting";
- The Interim Report 2016 includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- The Interim Report 2016 includes a fair review of the information required by Disclosure and Transparency Rule 4.2.8R (disclosure of related parties' transactions and changes therein).

On behalf of the board

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

8 March 2016

INDEPENDENT REVIEW REPORT

Independent Review Report to Close Brothers Group plc

We have been engaged by the company to review the condensed set of consolidated financial statements in the Interim Report 2016 for the six months ended 31 January 2016 which comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and related notes 1 to 16. We have read the other information contained in the Interim Report 2016 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of consolidated financial statements.

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

Directors' responsibilities

The Interim Report 2016 is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Report 2016 in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of consolidated financial statements included in this Interim Report 2016 has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of consolidated financial statements in the Interim Report 2016 based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the Interim Report 2016 for the six months ended 31 January 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

8 March 2016

CONSOLIDATED INCOME STATEMENT
for the six months ended 31 January 2016

	Note	Six months ended 31 January 2016 Unaudited £ million	Six months ended 31 January 2015 Unaudited £ million	Year ended 31 July 2015 Audited £ million
Interest income		**272.1**	264.5	528.8
Interest expense		**(65.1)**	(67.1)	(132.3)
Net interest income		**207.0**	197.4	396.5
Fee and commission income		**92.9**	88.8	195.7
Fee and commission expense		**(14.7)**	(14.7)	(30.2)
Gains less losses arising from dealing in securities		**25.6**	30.6	72.0
Other income		**30.2**	28.3	55.5
Non-interest income		**134.0**	133.0	293.0
Operating income	2	**341.0**	330.4	689.5
Administrative expenses		**(213.1)**	(202.5)	(422.7)
Impairment losses on loans and advances	7	**(16.7)**	(19.3)	(41.9)
Total operating expenses before amortisation of intangible assets on acquisition		**(229.8)**	(221.8)	(464.6)
Operating profit before amortisation of intangible assets on acquisition		**111.2**	108.6	224.9
Amortisation of intangible assets on acquisition		**(2.5)**	(2.4)	(5.0)
Operating profit before tax		**108.7**	106.2	219.9
Tax	3	**(20.1)**	(22.2)	(45.4)
Profit after tax for the period from continuing operations		**88.6**	84.0	174.5
Profit for the period from discontinued operations, net of tax	4	**-**	11.2	11.2
Profit after tax for the period		**88.6**	95.2	185.7
Loss attributable to non-controlling interests from continuing operations		**-**	(0.1)	-
Profit attributable to shareholders		**88.6**	95.3	185.7
From continuing operations				
Basic earnings per share	5	**59.7p**	56.9p	117.8p
Diluted earnings per share	5	**58.9p**	56.2p	116.5p
From continuing and discontinued operations				
Basic earnings per share	5	**59.7p**	64.5p	125.4p
Diluted earnings per share	5	**58.9p**	63.7p	124.0p
Ordinary dividend per share	6	**19.0p**	18.0p	53.5p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 31 January 2016

	Six months ended 31 January		Year ended 31 July
	2016	2015	2015
	Unaudited	Unaudited	Audited
	£ million	£ million	£ million
Profit after tax for the period	**88.6**	95.2	185.7
Other comprehensive income/(expense) that may be reclassified to income statement from continuing operations			
Currency translation gains/(losses)	**1.6**	(1.7)	(3.0)
Losses on cash flow hedging	**(4.0)**	(7.6)	(5.5)
Losses on equity shares classified as available for sale	**-**	(0.5)	(0.5)
Available for sale investment gains transferred to income statement on disposal	**(4.0)**	(6.7)	(6.8)
Tax relating to items that may be reclassified	**1.9**	2.4	2.5
	(4.5)	(14.1)	(13.3)
Other comprehensive (expense)/income that will not be reclassified to income statement from continuing operations			
Defined benefit pension scheme losses	**(1.7)**	(4.7)	(2.0)
Tax relating to items that will not be reclassified	**0.3**	1.0	0.4
	(1.4)	(3.7)	(1.6)
Other comprehensive expense for the period, net of tax from continuing operations	**(5.9)**	(17.8)	(14.9)
Other comprehensive expense for the period, net of tax from discontinued operations	**-**	(1.2)	(1.2)
Total comprehensive income for the period	**82.7**	76.2	169.6
Attributable to			
Non-controlling interests	**-**	(0.1)	-
Shareholders	**82.7**	76.3	169.6
	82.7	76.2	169.6

CONSOLIDATED BALANCE SHEET
at 31 January 2016

		31 January		31 July
	Note	**2016 Unaudited £ million**	2015 Unaudited £ million	2015 Audited £ million
Assets				
Cash and balances at central banks		**809.7**	1,041.4	1,038.0
Settlement balances		**332.2**	436.9	398.3
Loans and advances to banks		**88.3**	83.8	84.6
Loans and advances to customers	7	**5,968.8**	5,461.0	5,737.8
Debt securities	8	**213.1**	46.5	149.5
Equity shares	9	**37.7**	45.0	41.2
Loans to money brokers against stock advanced		**47.7**	64.1	38.4
Derivative financial instruments		**30.0**	49.5	19.7
Intangible assets		**143.7**	141.6	144.2
Property, plant and equipment		**164.9**	125.1	148.4
Deferred tax assets		**51.3**	36.8	39.4
Prepayments, accrued income and other assets		**133.4**	108.0	117.8
Total assets		**8,020.8**	7,639.7	7,957.3
Liabilities				
Settlement balances and short positions	10	**350.2**	457.6	404.3
Deposits by banks	11	**48.8**	65.3	35.1
Deposits by customers	11	**4,615.2**	4,257.4	4,481.4
Loans and overdrafts from banks	11	**315.9**	235.3	381.2
Debt securities in issue	11	**1,394.3**	1,374.8	1,365.0
Loans from money brokers against stock advanced		**10.0**	36.2	-
Derivative financial instruments		**9.6**	13.2	7.1
Current tax liabilities		**25.1**	17.9	17.9
Accruals, deferred income and other liabilities		**178.8**	164.3	209.0
Subordinated loan capital		**46.4**	77.3	46.4
Total liabilities		**6,994.3**	6,699.3	6,947.4
Equity				
Called up share capital		**37.7**	37.7	37.7
Share premium account		**284.0**	283.9	284.0
Retained earnings		**728.9**	632.2	694.4
Other reserves		**(24.1)**	(13.7)	(6.3)
Total shareholders' equity		**1,026.5**	940.1	1,009.8
Non-controlling interests		**-**	0.3	0.1
Total equity		**1,026.5**	940.4	1,009.9
Total liabilities and equity		**8,020.8**	7,639.7	7,957.3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 January 2016

				Other reserves						
	Called up share capital £ million	Share premium account £ million	Retained earnings £ million	Available for sale movements reserve £ million	Share-based payments reserve £ million	Exchange movements reserve £ million	Cash flow hedging reserve £ million	Total attributable to equity holders £ million	Non-controlling interests £ million	Total equity £ million
At 1 August 2014 (audited)	37.7	283.8	589.8	9.6	(7.5)	1.0	2.1	916.5	1.1	917.6
Profit/(loss) for the period	-	-	95.3	-	-	-	-	95.3	(0.1)	95.2
Other comprehensive (expense)/income for the period	-	-	(3.7)	(6.3)	-	(2.9)	(6.1)	(19.0)	-	(19.0)
Total comprehensive income/(expense) for the period	-	-	91.6	(6.3)	-	(2.9)	(6.1)	76.3	(0.1)	76.2
Exercise of options	-	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	(47.6)	-	-	-	-	(47.6)	(0.1)	(47.7)
Shares purchased	-	-	-	-	(18.0)	-	-	(18.0)	-	(18.0)
Shares issued	-	0.1	-	-	-	-	-	0.1	-	0.1
Shares released	-	-	-	-	15.5	-	-	15.5	-	15.5
Other movements	-	-	(4.3)	-	(1.1)	-	-	(5.4)	(0.6)	(6.0)
Income tax	-	-	2.7	-	-	-	-	2.7	-	2.7
At 31 January 2015 (unaudited)	37.7	283.9	632.2	3.3	(11.1)	(1.9)	(4.0)	940.1	0.3	940.4
Profit for the period	-	-	90.4	-	-	-	-	90.4	0.1	90.5
Other comprehensive income/(expense) for the period	-	-	2.1	-	-	(0.9)	1.7	2.9	-	2.9
Total comprehensive income/(expense) for the period	-	-	92.5	-	-	(0.9)	1.7	93.3	0.1	93.4
Exercise of options	-	0.1	-	-	-	-	-	0.1	-	0.1
Dividends paid	-	-	(26.7)	-	-	-	-	(26.7)	-	(26.7)
Shares purchased	-	-	-	-	(0.2)	-	-	(0.2)	-	(0.2)
Shares issued	-	-	-	-	-	-	-	-	-	-
Shares released	-	-	-	-	5.0	-	-	5.0	-	5.0
Other movements	-	-	(4.0)	-	1.8	-	-	(2.2)	(0.3)	(2.5)
Income tax	-	-	0.4	-	-	-	-	0.4	-	0.4
At 31 July 2015 (audited)	37.7	284.0	694.4	3.3	(4.5)	(2.8)	(2.3)	1,009.8	0.1	1,009.9
Profit for the period	-	-	88.6	-	-	-	-	88.6	-	88.6
Other comprehensive (expense)/income for the period	-	-	(1.4)	(3.3)	-	1.6	(2.8)	(5.9)	-	(5.9)
Total comprehensive income/(expense) for the period	-	-	87.2	(3.3)	-	1.6	(2.8)	82.7	-	82.7
Exercise of options	-	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	(52.3)	-	-	-	-	(52.3)	-	(52.3)
Shares purchased	-	-	-	-	(24.6)	-	-	(24.6)	-	(24.6)
Shares issued	-	-	-	-	-	-	-	-	-	-
Shares released	-	-	-	-	10.6	-	-	10.6	-	10.6
Other movements	-	-	(1.1)	-	0.7	-	-	(0.4)	(0.1)	(0.5)
Income tax	-	-	0.7	-	-	-	-	0.7	-	0.7
At 31 January 2016 (unaudited)	**37.7**	**284.0**	**728.9**	**-**	**(17.8)**	**(1.2)**	**(5.1)**	**1,026.5**	**-**	**1,026.5**

CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 31 January 2016

	Note	Six months ended 31 January 2016 Unaudited £ million	Six months ended 31 January 2015 Unaudited £ million	Year ended 31 July 2015 Audited £ million
Net cash outflow from operating activities	15(a)	**(142.3)**	(73.3)	(18.0)
Net cash (outflow)/inflow from investing activities				
Purchase of:				
Property, plant and equipment		**(4.6)**	(4.4)	(14.8)
Intangible assets – software		**(7.4)**	(7.5)	(19.1)
Non-controlling interest	15(b)	**-**	(0.2)	(1.0)
Sale of:				
Property, plant and equipment		**0.1**	0.1	0.1
Equity shares held for investment		**6.1**	4.9	5.6
Subsidiary	15(c)	**2.3**	23.2	23.2
		(3.5)	16.1	(6.0)
Net cash outflow before financing activities		**(145.8)**	(57.2)	(24.0)
Financing activities	15(d)			
Issue of ordinary share capital, net of transaction costs		**-**	0.1	0.1
Purchase of own shares for employee share award schemes		**(24.6)**	(18.0)	(18.2)
Equity dividends paid		**(52.3)**	(47.6)	(74.2)
Dividends paid to non-controlling interests		**-**	(0.1)	(0.1)
Interest paid on subordinated loan capital and debt financing		**(8.2)**	(9.4)	(18.6)
Net decrease in cash		**(230.9)**	(132.2)	(135.0)
Cash and cash equivalents at beginning of period		**1,103.7**	1,238.7	1,238.7
Cash and cash equivalents at end of period	15(e)	**872.8**	1,106.5	1,103.7

THE NOTES

1. Basis of preparation and accounting policies

The interim financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and in accordance with the International Financial Reporting Standards ("IFRS") endorsed by the European Union. These include International Accounting Standard ("IAS") 34, Interim Financial Reporting, which specifically addresses the contents of condensed interim financial statements. The consolidated financial statements incorporate the individual financial statements of Close Brothers Group plc and the entities it controls, using the acquisition method of accounting. The accounting policies applied are consistent with those set out on pages 89 to 93 of the Annual Report 2015.

After making enquiries, the directors have a reasonable expectation that the company and the group as a whole have adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. For this reason, they continue to adopt the going concern basis in preparing the condensed consolidated interim financial statements.

The preparation of the Interim Report requires management to make estimates and assumptions that affect the reported income and expense, assets and liabilities and disclosure of contingencies at the date of the Interim Report. Although these estimates and assumptions are based on the management's best judgement at that date, actual results may differ from these estimates. There have been no significant changes in the basis upon which estimates have been determined compared to that applied at 31 July 2015.

The Interim Report is unaudited and does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. However, the information has been reviewed by the company's auditor, Deloitte LLP, and their report appears on page 17.

The financial information for the year ended 31 July 2015 contained within this Interim Report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of those statutory accounts has been reported on by Deloitte LLP and delivered to the Registrar of Companies. The report of the auditor on those statutory accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

2. Segmental analysis

The directors manage the group primarily by class of business and present the segmental analysis on that basis. The group's activities are organised in three primary divisions: Banking, Securities and Asset Management.

Divisions charge market prices for services rendered to other parts of the group. Funding charges between segments take into account commercial demands. More than 90% of all the group's activities, revenue and assets are located in the UK.

Summary Income Statement for the six months ended 31 January 2016

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Continuing operations £ million	Discontinued operations £ million	Total £ million
Net interest income/(expense)	**207.0**	**(0.2)**	**-**	**0.2**	**207.0**	**-**	**207.0**
Non-interest income	**51.1**	**35.4**	**47.0**	**0.5**	**134.0**	**-**	**134.0**
Operating income	**258.1**	**35.2**	**47.0**	**0.7**	**341.0**	**-**	**341.0**
Administrative expenses	**(113.8)**	**(27.7)**	**(37.8)**	**(13.1)**	**(192.4)**	**-**	**(192.4)**
Depreciation and amortisation	**(19.2)**	**(0.7)**	**(0.8)**	**-**	**(20.7)**	**-**	**(20.7)**
Impairment losses on loans and advances	**(16.7)**	**-**	**-**	**-**	**(16.7)**	**-**	**(16.7)**
Total operating expenses	**(149.7)**	**(28.4)**	**(38.6)**	**(13.1)**	**(229.8)**	**-**	**(229.8)**
Adjusted operating profit/(loss)[1]	**108.4**	**6.8**	**8.4**	**(12.4)**	**111.2**	**-**	**111.2**
Amortisation of intangible assets on acquisition	**(0.2)**	**-**	**(2.3)**	**-**	**(2.5)**	**-**	**(2.5)**
Profit on disposal of discontinued operations	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Operating profit/(loss) before tax	**108.2**	**6.8**	**6.1**	**(12.4)**	**108.7**	**-**	**108.7**
Tax	**(19.9)**	**(1.6)**	**(1.0)**	**2.4**	**(20.1)**	**-**	**(20.1)**
Non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(loss) after tax and non-controlling interests	**88.3**	**5.2**	**5.1**	**(10.0)**	**88.6**	**-**	**88.6**

1 Adjusted operating profit/(loss) is stated before amortisation of intangible assets on acquisition, profit on disposal of discontinued operations and tax.

2. Segmental analysis continued

The following table provides further detail on operating income:

	Six months ended 31 January 2016 £ million	Six months ended 31 January 2015 £ million	Year ended 31 July 2015 £ million
Banking			
Retail	**96.4**	89.9	181.1
Commercial	**102.4**	101.2	207.3
Property	**48.9**	46.7	96.8
Treasury and other non-lending income	**10.4**	7.0	13.4
Securities			
Market-making and related activities	**35.2**	41.9	94.6
Asset Management			
Advice and other services	**16.7**	17.2	36.1
Investment management	**28.2**	25.7	54.1
Other income	**2.1**	0.4	5.4
Group	**0.7**	0.4	0.7
Operating income from continuing operations	**341.0**	330.4	689.5
Operating income from discontinued operations	**-**	11.3	11.7
Operating income	**341.0**	341.7	701.2

Summary Balance Sheet at 31 January 2016

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Assets					
Cash and loans and advances to banks	870.7	13.2	13.9	0.2	898.0
Settlement balances, long trading positions and loans to money brokers	-	427.6	-	-	427.6
Loans and advances to customers	5,968.8	-	-	-	5,968.8
Non-trading debt securities	200.9	-	-	-	200.9
Intangible assets	67.4	26.0	50.3	-	143.7
Other assets	322.2	10.7	41.5	7.4	381.8
Total assets	7,430.0	477.5	105.7	7.6	8,020.8
Liabilities					
Settlement balances, short trading positions and loans from money brokers	-	360.2	-	-	360.2
Deposits by banks	48.8	-	-	-	48.8
Deposits by customers	4,615.2	-	-	-	4,615.2
Borrowings	1,544.0	6.8	-	205.8	1,756.6
Other liabilities	141.5	17.5	44.9	9.6	213.5
Intercompany balances	353.9	23.6	8.3	(385.8)	-
Total liabilities	6,703.4	408.1	53.2	(170.4)	6,994.3
Equity	726.6	69.4	52.5	178.0	1,026.5
Total liabilities and equity	7,430.0	477.5	105.7	7.6	8,020.8

2. Segmental analysis continued

Summary Income Statement for the six months ended 31 January 2015

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Continuing operations £ million	Discontinued operations £ million	Total £ million
Net interest income/(expense)	197.5	(0.4)	(0.1)	0.4	197.4	-	197.4
Non-interest income	47.3	42.3	43.4	-	133.0	11.3	144.3
Operating income	244.8	41.9	43.3	0.4	330.4	11.3	341.7
Administrative expenses	(103.1)	(31.2)	(37.5)	(13.2)	(185.0)	(9.4)	(194.4)
Depreciation and amortisation	(16.0)	(0.4)	(0.7)	(0.4)	(17.5)	-	(17.5)
Impairment losses on loans and advances	(19.3)	-	-	-	(19.3)	-	(19.3)
Total operating expenses	(138.4)	(31.6)	(38.2)	(13.6)	(221.8)	(9.4)	(231.2)
Adjusted operating profit/(loss)[1]	106.4	10.3	5.1	(13.2)	108.6	1.9	110.5
Amortisation of intangible assets on acquisition	(0.2)	-	(2.2)	-	(2.4)	-	(2.4)
Profit on disposal of discontinued operations	-	-	-	-	-	9.9	9.9
Operating profit/(loss) before tax	106.2	10.3	2.9	(13.2)	106.2	11.8	118.0
Tax	(21.9)	(2.1)	(0.6)	2.4	(22.2)	(0.6)	(22.8)
Non-controlling interests	-	-	0.1	-	0.1	-	0.1
Profit/(loss) after tax and non-controlling interests	84.3	8.2	2.4	(10.8)	84.1	11.2	95.3

1 Adjusted operating profit/(loss) is stated before amortisation of intangible assets on acquisition, profit on disposal of discontinued operations and tax.

2. Segmental analysis continued

Summary Balance Sheet at 31 January 2015

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Assets					
Cash and loans and advances to banks	1,093.3	18.7	12.9	0.3	1,125.2
Settlement balances, long trading positions and loans to money brokers	-	560.4	-	-	560.4
Loans and advances to customers	5,461.0	-	-	-	5,461.0
Non-trading debt securities	20.3	-	-	-	20.3
Intangible assets	63.3	24.6	53.6	0.1	141.6
Other assets	279.1	12.0	27.1	13.0	331.2
Total assets	6,917.0	615.7	93.6	13.4	7,639.7
Liabilities					
Settlement balances, short trading positions and loans from money brokers	-	493.8	-	-	493.8
Deposits by banks	65.3	-	-	-	65.3
Deposits by customers	4,257.4	-	-	-	4,257.4
Borrowings	1,475.4	6.5	-	205.5	1,687.4
Other liabilities	126.6	20.0	35.3	13.5	195.4
Intercompany balances	342.9	23.6	19.1	(385.6)	-
Total liabilities	6,267.6	543.9	54.4	(166.6)	6,699.3
Equity	649.4	71.8	39.2	180.0	940.4
Total liabilities and equity	6,917.0	615.7	93.6	13.4	7,639.7

2. Segmental analysis continued

Summary Income Statement for the year ended 31 July 2015

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Continuing operations £ million	Discontinued operations £ million	Total £ million
Net interest income/(expense)	396.5	(0.9)	0.2	0.7	396.5	-	396.5
Non-interest income	102.1	95.5	95.4	-	293.0	11.7	304.7
Operating income	498.6	94.6	95.6	0.7	689.5	11.7	701.2
Administrative expenses	(214.6)	(69.0)	(76.4)	(26.3)	(386.3)	(10.4)	(396.7)
Depreciation and amortisation	(33.4)	(1.0)	(1.4)	(0.6)	(36.4)	-	(36.4)
Impairment losses on loans and advances	(41.9)	-	-	-	(41.9)	-	(41.9)
Total operating expenses	(289.9)	(70.0)	(77.8)	(26.9)	(464.6)	(10.4)	(475.0)
Adjusted operating profit/(loss)[1]	208.7	24.6	17.8	(26.2)	224.9	1.3	226.2
Amortisation of intangible assets on acquisition	(0.5)	-	(4.5)	-	(5.0)	-	(5.0)
Profit on disposal of discontinued operations	-	-	-	-	-	10.3	10.3
Operating profit/(loss) before tax	208.2	24.6	13.3	(26.2)	219.9	11.6	231.5
Tax	(43.3)	(4.7)	(2.6)	5.2	(45.4)	(0.4)	(45.8)
Non-controlling interests	-	-	-	-	-	-	-
Profit/(loss) after tax and non-controlling interests	164.9	19.9	10.7	(21.0)	174.5	11.2	185.7
External operating income/expense	511.8	94.6	96.5	(13.4)	689.5	11.7	701.2
Inter segment operating (expense)/income	(13.2)	-	(0.9)	14.1	-	-	-
Segment operating income	498.6	94.6	95.6	0.7	689.5	11.7	701.2

1 Adjusted operating profit/(loss) is stated before amortisation of intangible assets on acquisition, profit on disposal of discontinued operations and tax.

2. Segmental analysis continued

Summary Balance Sheet at 31 July 2015

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Assets					
Cash and loans and advances to banks	1,080.8	20.6	20.9	0.3	1,122.6
Settlement balances, long trading positions and loans to money brokers	-	481.9	-	-	481.9
Loans and advances to customers	5,737.8	-	-	-	5,737.8
Non-trading debt securities	135.4	-	-	-	135.4
Intangible assets	65.7	25.5	52.9	0.1	144.2
Other assets	283.4	10.7	27.3	14.0	335.4
Total assets	7,303.1	538.7	101.1	14.4	7,957.3
Liabilities					
Settlement balances, short trading positions and loans from money brokers	-	404.3	-	-	404.3
Deposits by banks	35.1	-	-	-	35.1
Deposits by customers	4,481.4	-	-	-	4,481.4
Borrowings	1,583.7	3.3	-	205.6	1,792.6
Other liabilities	140.8	35.5	41.9	15.8	234.0
Intercompany balances	351.0	23.7	11.6	(386.3)	-
Total liabilities	6,592.0	466.8	53.5	(164.9)	6,947.4
Equity	711.1	71.9	47.6	179.3	1,009.9
Total liabilities and equity	7,303.1	538.7	101.1	14.4	7,957.3

3. Taxation

	Six months ended 31 January 2016 £ million	Six months ended 31 January 2015 £ million	Year ended 31 July 2015 £ million
Tax charged/(credited) to the income statement			
Current tax:			
UK corporation tax	**31.6**	22.0	49.1
Foreign tax	**1.5**	2.0	2.6
Adjustments in respect of previous periods	**(2.1)**	-	(0.2)
	31.0	24.0	51.5
Deferred tax:			
Deferred tax credit for the current period	**(13.0)**	(1.8)	(6.5)
Adjustments in respect of previous periods	**2.1**	-	0.4
	20.1	22.2	45.4
Tax on items not (credited)/charged to the income statement			
Current tax relating to:			
Share-based transactions tax allowance in excess of expense recognised	**(1.9)**	(2.8)	(4.1)
Deferred tax relating to:			
Cash flow hedging	**(1.2)**	(1.5)	(1.1)
Defined benefit pension scheme	**(0.3)**	(1.0)	(0.4)
Financial instruments classified as available for sale	**(0.7)**	(0.9)	(1.0)
Share-based transactions tax allowance in excess of expense recognised	**1.2**	0.1	1.0
Currency translation losses	**-**	-	(0.4)
	(2.9)	(6.1)	(6.0)
Reconciliation to tax expense			
UK corporation tax for the period at 23.1% (2015: 20.7%) on operating profit	**25.1**	22.0	45.5
Effect of different tax rates in other jurisdictions	**(0.3)**	(0.3)	(0.8)
Disallowable items and other permanent differences	**0.7**	0.4	0.3
Deferred tax impact of (increased)/decreased UK corporation tax rate	**(5.4)**	0.1	0.2
Prior period tax provision	**-**	-	0.2
	20.1	22.2	45.4

The effective tax rate for the period is 18.5% (six months ended 31 January 2015: 20.9%; year ended 31 July 2015: 20.6%), representing the best estimate of the annual effective tax rate expected for the full year.

The standard UK corporation tax rate for the financial year is 20.0% (six months ended 31 January 2015: 20.7%; year ended 31 July 2015: 20.7%). However from 1 January 2016 an additional 8% surcharge applies to banking company profits as defined in legislation. As a result, the UK blended corporation tax rate applicable to Close Brothers for the full year is expected to be 23.1% (six months ended 31 January 2015: 20.7%; year ended 31 July 2015: 20.7%).

The effective tax rate is below the UK corporation tax rate, largely reflecting a write up of deferred tax assets due to the introduction of the bank corporation tax surcharge.

4. Discontinued operations

On 5 January 2015, the group completed the sale of Close Brothers Seydler Bank AG (“Seydler”) to Oddo & Cie for a gross cash consideration of €46.5 million (£36.4 million) which includes a post year end adjustment of £0.5 million following finalisation of completion accounts. The profit on disposal was £10.3 million.

Based in Frankfurt, Seydler provided equity and debt capital markets services, securities trading and research primarily in German small and mid-sized companies and was part of the Securities division.

The transaction fulfilled the requirements of IFRS 5 to be classified as “Discontinued operations” in the consolidated income statement, the results of which are set out below:

Results of discontinued operations

	Six months ended 31 January		Year ended 31 July
	2016	2015[1]	2015
	£ million	£ million	£ million
Operating income	**-**	11.3	11.7
Operating expenses	**-**	(9.4)	(10.4)
Operating profit before tax	**-**	1.9	1.3
Tax	**-**	(0.6)	(0.4)
Profit after tax	**-**	1.3	0.9
Profit on disposal of discontinued operations, net of tax	**-**	9.9	10.3
Profit for the period from discontinued operations	**-**	11.2	11.2

1 Profit after tax is up until the point of disposal.

Cash flow from discontinued operations

	Six months ended 31 January		Year ended 31 July
	2016	2015[1]	2015
	£ million	£ million	£ million
Net cash flow from operating activities	**-**	6.6	6.6
Net cash flow from investing activities	**-**	(0.1)	(0.1)
Net cash flow from financing activities	**-**	-	-

1 Up until the point of disposal.

5. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders and the number of basic weighted average shares. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the effects of all dilutive share options and awards.

	Six months ended 31 January		Year ended 31 July
	2016	2015	2015
Continuing operations			
Basic	**59.7p**	56.9p	117.8p
Diluted	**58.9p**	56.2p	116.5p
Adjusted basic[1]	**61.1p**	58.2p	120.5p
Adjusted diluted[1]	**60.3p**	57.5p	119.2p
Continuing and discontinued operations			
Basic	**59.7p**	64.5p	125.4p
Diluted	**58.9p**	63.7p	124.0p
Discontinued operations			
Basic	**-**	7.6p	7.6p
Diluted	**-**	7.5p	7.5p

1 Excludes amortisation of intangible assets on acquisition, discontinued operations and their tax effects.

	Six months ended 31 January		Year ended 31 July
	2016	2015	2015
	£ million	£ million	£ million
Profit attributable to shareholders	**88.6**	95.3	185.7
Less profit for the period from discontinued operations, net of tax	**-**	11.2	11.2
Profit attributable to shareholders on continuing operations	**88.6**	84.1	174.5
Adjustment:			
Amortisation of intangible assets on acquisition	**2.5**	2.4	5.0
Tax effect of adjustment	**(0.5)**	(0.5)	(1.0)
Adjusted profit attributable to shareholders on continuing operations	**90.6**	86.0	178.5

	Six months ended 31 January		Year ended 31 July
	2016	2015	2015
	million	million	million
Average number of shares			
Basic weighted	**148.4**	147.7	148.1
Effect of dilutive share options and awards	**1.9**	1.9	1.7
Diluted weighted	**150.3**	149.6	149.8

6. Dividends

	Six months ended 31 January 2016 £ million	Six months ended 31 January 2015 £ million	Year ended 31 July 2015 £ million
For each ordinary share			
Interim dividend for previous financial year paid in April 2015: 18.0p	**-**	-	26.7
Final dividend for previous financial year paid in November 2015: 35.5p (2014: 32.5p)	**52.3**	47.6	47.6
	52.3	47.6	74.3

An interim dividend relating to the six months ended 31 January 2016 of 19.0p, amounting to an estimated £28.0 million, is declared. This interim dividend, which is due to be paid on 20 April 2016 to shareholders on the register at 18 March 2016, is not reflected in these financial statements.

7. Loans and advances to customers

The contractual maturity of loans and advances to customers is set out below:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Impairment provisions £ million	Total £ million
At 31 January 2016	**87.0**	**1,614.5**	**1,801.2**	**1,160.3**	**1,304.6**	**55.0**	**(53.8)**	**5,968.8**
At 31 January 2015	64.5	1,595.2	1,669.9	1,054.6	1,094.6	34.2	(52.0)	5,461.0
At 31 July 2015	45.4	1,543.5	1,797.8	1,108.2	1,254.1	44.9	(56.1)	5,737.8

	31 January 2016 £ million	31 January 2015 £ million	31 July 2015 £ million
Impairment provisions on loans and advances to customers			
Opening balance	**56.1**	48.3	48.3
Charge for the period	**16.7**	19.3	41.9
Amounts written off net of recoveries	**(19.0)**	(15.6)	(34.1)
Impairment provisions	**53.8**	52.0	56.1

At 31 January 2016, gross impaired loans were £160.0 million (31 January 2015: £171.2 million; 31 July 2015: £162.3 million) and equate to 3% (31 January 2015: 3%; 31 July 2015: 3%) of the gross loan book before impairment provisions. The majority of the group's lending is secured and therefore the gross impaired loans quoted do not reflect the expected loss.

8. Debt securities

	Held for trading £ million	Available for sale £ million	Loans and receivables £ million	Total £ million
Long trading positions in debt securities	**12.2**	**-**	**-**	**12.2**
Certificates of deposit	**-**	**-**	**200.9**	**200.9**
Gilts	**-**	**-**	**-**	**-**
At 31 January 2016	**12.2**	**-**	**200.9**	**213.1**

	Held for trading £ million	Available for sale £ million	Loans and receivables £ million	Total £ million
Long trading positions in debt securities	26.2	-	-	26.2
Certificates of deposit	-	-	-	-
Gilts	-	20.3	-	20.3
At 31 January 2015	26.2	20.3	-	46.5

	Held for trading £ million	Available for sale £ million	Loans and receivables £ million	Total £ million
Long trading positions in debt securities	14.1	-	-	14.1
Certificates of deposit	-	-	115.3	115.3
Gilts	-	20.1	-	20.1
At 31 July 2015	14.1	20.1	115.3	149.5

Movements in the book value of gilts held as available for sale during the period comprise:

	Gilts £ million
At 1 August 2014	45.6
Disposals	-
Redemptions at maturity	(25.0)
Currency translation differences	-
Movement in value	(0.3)
At 31 January 2015	20.3
Disposals	-
Redemptions at maturity	-
Currency translation differences	-
Movement in value	(0.2)
At 31 July 2015	20.1
Disposals	-
Redemptions at maturity	(20.0)
Currency translation differences	-
Movement in value	(0.1)
At 31 January 2016	**-**

9. Equity shares

	31 January 2016 £ million	31 January 2015 £ million	31 July 2015 £ million
Long trading positions	**35.5**	33.2	31.1
Other equity shares	**2.2**	11.8	10.1
	37.7	45.0	41.2

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

	Available for sale £ million	Fair value through profit or loss £ million	Total £ million
At 1 August 2014	19.5	0.1	19.6
Additions	-	-	-
Disposals	(7.1)	-	(7.1)
Currency translation differences	-	-	-
Movement in value of:			
Equity shares classified as available for sale	(0.7)	-	(0.7)
At 31 January 2015	11.7	0.1	11.8
Additions	-	-	-
Disposals	(1.0)	-	(1.0)
Currency translation differences	(0.4)	-	(0.4)
Movement in value of:			
Equity shares classified as available for sale	(0.3)	-	(0.3)
At 31 July 2015	10.0	0.1	10.1
Additions	-	-	-
Disposals	(7.5)	-	(7.5)
Currency translation differences	0.2	-	0.2
Movement in value of:			
Equity shares classified as available for sale	(0.6)	-	(0.6)
At 31 January 2016	**2.1**	**0.1**	**2.2**

10. Settlement balances and short positions

	31 January 2016 £ million	31 January 2015 £ million	31 July 2015 £ million
Settlement balances	**325.2**	433.4	376.5
Short positions held for trading:			
Debt securities	**10.6**	12.8	13.7
Equity shares	**14.4**	11.4	14.1
	25.0	24.2	27.8
	350.2	457.6	404.3

11. Financial liabilities

The contractual maturity of financial liabilities is set out below:

	On demand £ million	**Within three months £ million**	**Between three months and one year £ million**	**Between one and two years £ million**	**Between two and five years £ million**	**After more than five years £ million**	**Total £ million**
Deposits by banks	**18.7**	**3.5**	**15.1**	**11.5**	**-**	**-**	**48.8**
Deposits by customers	**496.0**	**896.3**	**2,005.0**	**859.2**	**358.7**	**-**	**4,615.2**
Loans and overdrafts from banks	**12.3**	**153.3**	**-**	**60.3**	**90.0**	**-**	**315.9**
Debt securities in issue	**20.5**	**6.6**	**201.0**	**602.2**	**246.2**	**317.8**	**1,394.3**
At 31 January 2016	**547.5**	**1,059.7**	**2,221.1**	**1,533.2**	**694.9**	**317.8**	**6,374.2**

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
Deposits by banks	37.2	6.6	18.0	3.5	-	-	65.3
Deposits by customers	122.4	810.5	2,057.4	1,074.2	192.9	-	4,257.4
Loans and overdrafts from banks	7.2	228.1	-	-	-	-	235.3
Debt securities in issue	21.1	0.5	107.2	205.4	741.8	298.8	1,374.8
At 31 January 2015	187.9	1,045.7	2,182.6	1,283.1	934.7	298.8	5,932.8

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
Deposits by banks	11.5	0.3	22.8	0.5	-	-	35.1
Deposits by customers	154.8	828.4	2,347.7	851.2	299.3	-	4,481.4
Loans and overdrafts from banks	8.6	99.1	123.7	59.9	89.9	-	381.2
Debt securities in issue	11.2	6.7	1.1	747.8	299.3	298.9	1,365.0
At 31 July 2015	186.1	934.5	2,495.3	1,659.4	688.5	298.9	6,262.7

11. Financial liabilities continued

At 31 January 2016, asset finance loan receivables of £745.2 million (31 January 2015: £679.5 million; 31 July 2015: £705.6 million) were positioned with the Bank of England. These loan receivables were used as collateral within the Funding for Lending Scheme, against which £375.0 million of UK Treasury Bills had been drawn as at the reporting date (31 January 2015: £225.0 million; 31 July 2015: £375.0 million). The term of these transactions is four years from the date of each drawdown of the Treasury Bills.

The group also had repurchase agreements whereby £300.0 million (31 January 2015: £225.0 million; 31 July 2015: £375.0 million) from a total of £375.0 million (31 January 2015: £225.0 million; 31 July 2015: £375.0 million) Treasury Bills drawn, have been lent in exchange for cash included within loans and overdrafts from banks.

The Treasury Bills are not recorded on the group's consolidated balance sheet as ownership remains with the Bank of England. The risk and rewards of the loans and advances to customers remains with the group and continue to be recognised in the consolidated balance sheet.

The group has securitised without recourse and restrictions £1,200.8 million (31 January 2015: £1,175.4 million; 31 July 2015: £1,164.8 million) of its insurance premium and motor loan receivables in return for debt securities in issue of £848.4 million (31 January 2015: £847.7 million; 31 July 2015: £847.7 million). As the group has retained exposure to substantially all the credit risk and rewards of the residual benefit of the underlying assets it continues to recognise these assets in loans and advances to customers in its consolidated balance sheet.

12. Capital

The group's individual regulated entities and the group as a whole complied with all of the externally imposed capital requirements to which they were subject for the periods to 31 January 2016 and 31 January 2015, and the year ended 31 July 2015. The table below summarises the composition of regulatory capital and Pillar 1 risk weighted assets at those financial period ends.

	31 January		31 July
	2016	2015	2015
	£ million	£ million	£ million
Common equity tier 1 capital			
Called up share capital	**37.7**	37.7	37.7
Share premium account	**284.0**	283.9	284.0
Retained earnings	**728.9**	632.2	694.4
Other reserves recognised for common equity tier 1 capital	**20.6**	17.4	18.3
Deductions from common equity tier 1 capital			
Intangible assets, net of associated deferred tax liabilities	**(140.8)**	(137.9)	(140.6)
Foreseeable dividend[1]	**(43.8)**	(46.3)	(52.4)
Investment in own shares	**(39.6)**	(30.4)	(25.6)
Pension asset, net of associated deferred tax liabilities	**(1.1)**	(0.2)	(2.5)
Additional valuation adjustments	**(0.1)**	(0.2)	(0.1)
Common equity tier 1 capital	**845.8**	756.2	813.2
Tier 2 capital			
Subordinated debt[2]	**23.9**	52.5	31.5
Unrealised gains on available for sale equity shares	**-**	3.3	3.3
Tier 2 capital	**23.9**	55.8	34.8
Total regulatory capital	**869.7**	812.0	848.0
Risk weighted assets (notional) – unaudited			
Credit and counterparty risk	**5,385.8**	4,779.7	5,103.2
Operational risk[3]	**753.5**	695.5	753.5
Market risk[3]	**78.8**	92.6	75.4
	6,218.1	5,567.8	5,932.1
Common equity tier 1 capital ratio (fully loaded)	**13.6%**	13.6%	13.7%
Total capital ratio (transitional)	**14.0%**	14.6%	14.3%

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised for a foreseeable dividend. In accordance with this standard, for 31 January 2016 and 31 January 2015 a foreseeable dividend has been determined based on the average payout ratio over the previous three years applied to the retained earnings for the period. For 31 July 2015 a foreseeable dividend was determined as the proposed final dividend (subsequently paid).

2 Shown after applying the Capital Requirements Regulation's transitional and qualifying own funds arrangements.

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

12. Capital continued

The following table shows a reconciliation between equity and common equity tier 1 capital after deductions:

	31 January		31 July
	2016	2015	2015
	£ million	£ million	£ million
Equity	**1,026.5**	940.4	1,009.9
Regulatory deductions from equity:			
Intangible assets, net of associated deferred tax liabilities	**(140.8)**	(137.9)	(140.6)
Foreseeable dividend[1]	**(43.8)**	(46.3)	(52.4)
Pension asset, net of associated deferred tax liabilities	**(1.1)**	(0.2)	(2.5)
Additional valuation adjustments	**(0.1)**	(0.2)	(0.1)
Other reserves not recognised for common equity tier 1 capital:			
Available for sale movements reserve	**-**	(3.3)	(3.3)
Cash flow hedging reserve	**5.1**	4.0	2.3
Non-controlling interests	**-**	(0.3)	(0.1)
Common equity tier 1 capital	**845.8**	756.2	813.2

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised for a foreseeable dividend. In accordance with this standard, for 31 January 2016 and 31 January 2015 a foreseeable dividend has been determined based on the average payout ratio over the previous three years applied to the retained earnings for the period. For 31 July 2015 a foreseeable dividend was determined as the proposed final dividend (subsequently paid).

13. Contingent liabilities

Financial Services Compensation Scheme ("FSCS")

As disclosed in note 24 of the Annual Report 2015, the group is exposed to the FSCS which provides compensation to customers of financial institutions in the event that an institution is unable, or is likely to be unable, to pay claims against it. The FSCS raises levies on UK licensed deposit-taking institutions to meet such claims based on their share of UK deposits on 31 December of the year preceding the scheme year (which runs from 1 April to 31 March).

Following the default of a number of deposit takers in 2008, the FSCS borrowed funds from HM Treasury to meet the compensation costs for customers of those firms. While it is expected that the substantial majority of the principal will be repaid from funds the FSCS receives from asset sales, surplus cash flow or other recoveries in relation to the assets of the institutions that defaulted, to the extent that there remains a shortfall, the FSCS will raise compensation levies on all deposit-taking participants.

The amount of any future compensation levies payable by the group also depends on a number of factors including participation in the market at 31 December, the level of protected deposits and the population of deposit-taking participants. The group continues to accrue for its share of levies that have been raised by the FSCS.

14. Related party transactions

Related party transactions, including salary and benefits provided to directors and key management, did not have a material effect on the financial position or performance of the group during the period. There were no changes to the type and nature of the related party transactions disclosed in the Annual Report 2015 that could have a material effect on the financial position and performance of the group in the six months to 31 January 2016.

15. Consolidated cash flow statement reconciliation

	31 January 2016 £ million	31 January 2015 £ million	31 July 2015 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities			
Operating profit before tax from continuing operations	**108.7**	106.2	219.9
Operating profit before tax on discontinued operations	**-**	11.8	11.6
Tax paid	**(21.4)**	(28.2)	(53.4)
Depreciation and amortisation	**23.2**	19.9	41.4
(Increase)/decrease in:			
Interest receivable and prepaid expenses	**(5.5)**	1.2	(4.2)
Net settlement balances and trading positions	**9.5**	22.3	22.8
Net loans to/from money broker against stock advanced	**0.7**	7.6	(2.9)
Interest payable and accrued expenses	**(35.8)**	(29.7)	8.2
Net cash inflow from trading activities	**79.4**	111.1	243.4
(Increase)/decrease in:			
Loans and advances to banks not repayable on demand	**(6.3)**	1.8	1.6
Loans and advances to customers	**(231.0)**	(172.0)	(448.1)
Assets held under operating leases	**(22.4)**	(14.8)	(39.8)
Certificates of deposit	**(85.6)**	-	(115.3)
Gilts held for liquidity	**20.0**	25.0	25.0
Other assets less other liabilities	**2.4**	(18.8)	(19.1)
Increase/(decrease) in:			
Deposits by banks	**13.7**	15.7	(14.5)
Deposits by customers	**133.8**	(247.2)	(23.0)
Loans and overdrafts from banks	**(65.3)**	225.9	371.8
Debt securities in issue, net of transaction costs	**19.0**	-	-
Net cash outflow from operating activities	**(142.3)**	(73.3)	(18.0)
(b) Analysis of net cash outflow in respect of the purchase of non-controlling interests			
Cash consideration paid	**-**	(0.2)	(1.0)
(c) Analysis of net cash inflow in respect of the sale of a subsidiary			
Cash consideration received	**2.4**	36.9	36.9
Cash and cash equivalents disposed of	**(0.1)**	(13.7)	(13.7)
	2.3	23.2	23.2
(d) Analysis of changes in financing activities			
Share capital (including premium), group bond and subordinated loan capital[1]:			
Opening balance	**566.6**	596.5	596.5
Prepayment of subordinated loan capital	**-**	-	(30.0)
Shares issued for cash	**-**	0.1	0.1
Closing balance	**566.6**	596.6	566.6

15. Consolidated cash flow statement reconciliation continued

	31 January 2016 £ million	31 January 2015 £ million	31 July 2015 £ million
(e) Analysis of cash and cash equivalents[2]			
Cash and balances at central banks	**802.5**	1,034.0	1,031.2
Loans and advances to banks repayable on demand	**70.3**	72.5	72.5
	872.8	1,106.5	1,103.7

1 Excludes accrued interest.
2 Excludes Bank of England cash reserve account and amounts held as collateral.

16. Fair value of financial assets and liabilities

The fair values of the group's financial assets and liabilities are not materially different from their carrying values, with the exception of subordinated loan capital, and the Close Brothers Group plc ("CBG") and Close Brothers Limited ("CBL") bonds.

	31 January 2016		31 January 2015		31 July 2015	
	Fair value	**Carrying value**	Fair value	Carrying value	Fair value	Carrying value
Subordinated loan capital	**54.1**	**46.4**	90.9	77.3	56.9	46.4
CBG bond	**216.1**	**205.8**	225.2	205.5	219.7	205.6
CBL bond	**315.8**	**319.5**	329.9	321.0	315.4	311.2

The group holds financial instruments that are measured at fair value subsequent to initial recognition. Each instrument has been categorised within one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. These levels are based on the degree to which the fair value is observable and are defined in note 29 "Financial risk management" of the Annual Report 2015.

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy:

	Level 1 £ million	**Level 2 £ million**	**Level 3 £ million**	**Total £ million**
At 31 January 2016				
Assets				
Debt securities:				
Long trading positions in debt securities held for trading	**9.8**	**2.4**	**-**	**12.2**
Gilts classified as available for sale	**-**	**-**	**-**	**-**
Equity shares:				
Held for trading	**35.5**	**-**	**-**	**35.5**
Fair value through profit or loss	**-**	**0.1**	**-**	**0.1**
Available for sale	**-**	**-**	**2.1**	**2.1**
Derivative financial instruments	**-**	**30.0**	**-**	**30.0**
	45.3	**32.5**	**2.1**	**79.9**
Liabilities				
Short positions:				
Debt securities	**8.5**	**2.1**	**-**	**10.6**
Equity shares	**14.4**	**-**	**-**	**14.4**
Derivative financial instruments	**-**	**9.6**	**-**	**9.6**
	22.9	**11.7**	**-**	**34.6**

16. Fair value of financial assets and liabilities continued

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 January 2015				
Assets				
Debt securities:				
Long trading positions in debt securities held for trading	22.0	4.2	-	26.2
Gilts classified as available for sale	20.3	-	-	20.3
Equity shares:				
Held for trading	33.2	-	-	33.2
Fair value through profit or loss	0.1	-	-	0.1
Available for sale	-	-	11.7	11.7
Derivative financial instruments	-	49.5	-	49.5
	75.6	53.7	11.7	141.0
Liabilities				
Short positions:				
Debt securities	9.9	2.9	-	12.8
Equity shares	11.4	-	-	11.4
Derivative financial instruments	-	13.2	-	13.2
	21.3	16.1	-	37.4

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2015				
Assets				
Debt securities:				
Long trading positions in debt securities held for trading	12.6	1.5	-	14.1
Gilts classified as available for sale	20.1	-	-	20.1
Equity shares:				
Held for trading	31.1	-	-	31.1
Fair value through profit or loss	-	0.1	-	0.1
Available for sale	-	-	10.0	10.0
Derivative financial instruments	-	19.7	-	19.7
	63.8	21.3	10.0	95.1
Liabilities				
Short positions:				
Debt securities	11.3	2.4	-	13.7
Equity shares	14.1	-	-	14.1
Derivative financial instruments	-	7.1	-	7.1
	25.4	9.5	-	34.9

There were no significant transfers between Level 1 and 2 during the periods.

16. Fair value of financial assets and liabilities continued

Movements in financial assets categorised as Level 3 during the periods were:

	Equity shares	
	Available for sale £ million	Fair value through profit/(loss) £ million
At 1 August 2014	19.5	0.1
Total losses recognised in the consolidated income statement	-	-
Total losses recognised in other comprehensive income	(0.7)	-
Purchases and issues	-	-
Sales and settlements	(7.1)	-
Transfers out	-	(0.1)
At 31 January 2015	11.7	-
Total losses recognised in the consolidated income statement	(0.9)	-
Total gains recognised in other comprehensive income	0.2	-
Purchases and issues	-	-
Sales and settlements	(1.0)	-
At 31 July 2015	10.0	-
Total losses recognised in the consolidated income statement	(0.4)	-
Total gains recognised in other comprehensive income	-	-
Purchases and issues	-	-
Sales and settlements	(7.5)	-
At 31 January 2016	**2.1**	**-**

There were £0.4 million unrealised losses recognised in the consolidated income statement relating to instruments held at 31 January 2016 (31 January 2015: £nil; 31 July 2015: £0.9 million losses).

Cautionary Statement

Certain statements included or incorporated by reference within this announcement may constitute "forward-looking statements" in respect of the group's operations, performance, prospects and/or financial condition. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as "anticipates", "aims", "due", "could", "may", "will", "should", "expects", "believes", "intends", "plans", "potential", "targets", "goal" or "estimates". By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions and actual results or events may differ materially from those expressed or implied by those statements. Accordingly, no assurance can be given that any particular expectation will be met and reliance should not be placed on any forward-looking statement. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. No responsibility or obligation is accepted to update or revise any forward-looking statement resulting from new information, future events or otherwise. Nothing in this announcement should be construed as a profit forecast. This announcement does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase any shares or other securities in the company, nor shall it or any part of it or the fact of its distribution form the basis of, or be relied on in connection with, any contract or commitment or investment decisions relating thereto, nor does it constitute a recommendation regarding the shares or other securities of the company. Past performance cannot be relied upon as a guide to future performance and persons needing advice should consult an independent financial adviser. Statements in this announcement reflect the knowledge and information available at the time of its preparation. Liability arising from anything in this announcement shall be governed by English law. Nothing in this announcement shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.