



Close Brothers Group plc
Interim Report 2012

Close Brothers is a specialist financial services group which makes loans, trades securities and provides advice and investment management solutions to a wide range of clients.

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Corporate Overview

Financial Highlights

for the six months ended 31 January 2012

£63.2m

(2011: £63.4m)

Adjusted¹ operating profit from continuing operations

31.9p

(2011: 32.9p)

Adjusted² basic earnings per share from continuing operations

£66.8m

(2011: £58.3m)

Operating profit before tax from continuing operations

34.8p

(2011: 29.4p)

Basic earnings per share from continuing operations

£50.5m

(2011: £14.6m)

Profit attributable to shareholders from continuing and discontinued operations

34.8p

(2011: 10.1p)

Basic earnings per share from continuing and discontinued operations

14.0p

(2011: 13.5p)

Ordinary dividend per share

12.3%

(2011: 13.1%)

Core tier 1 capital ratio

1 Stated before exceptional items, goodwill impairment and amortisation of intangible assets on acquisition.

2 Stated before exceptional items, goodwill impairment and amortisation of intangible assets on acquisition and the tax effect of such adjustments.

Corporate Overview

Chairman's and Chief Executive's Statement

The first half of our 2012 financial year has been characterised by economic and financial market uncertainty. However, Close Brothers achieved a resilient performance overall as conditions remained favourable for our Banking division which achieved another strong result. The group continues to benefit from its established business models, strong funding and capital base and the leading market positions of its businesses.

The Banking division achieved strong loan book growth and delivered a significant increase in adjusted operating profit as we continue to see good demand for our specialist lending services. The Securities division was affected by difficult market conditions, leading to substantially lower adjusted operating profit from Winterflood. The Asset Management division remains on track with the final stages of its restructuring and made a small loss in the period, as expected.

The group's strategic focus continues to be on capturing growth opportunities in the Banking division while maintaining its prudent, specialised model; maintaining our leading market positions in Securities, principally through Winterflood; and completing the transformation of Asset Management into a leader in UK private client wealth and asset management.

Results and Dividend

Overall, adjusted operating profit was broadly unchanged on the first half last year at £63.2 million (2011: £63.4 million) and adjusted basic earnings per share reduced 3% to 31.9p (2011: 32.9p). After exceptional items and amortisation, basic earnings per share was 34.8p (2011: 29.4p). For the first half of 2012, this includes £5.9 million of exceptional income largely related to foreign exchange gains realised on the partial sale of our investment in Mako, which completed in October 2011. The prior year period includes a £4.5 million exceptional charge related to the restructuring of the Asset Management division.

We remain focused on maintaining a strong funding, liquidity and capital position at all times, while maximising the efficiency of our balance sheet. Accordingly, the group has maintained a diverse funding position with a prudent maturity profile, and continues to hold a sound level of liquid assets principally in the form of deposits with the Bank of England and UK gilts.

The group remains well capitalised with a core tier 1 capital ratio at 31 January 2012 of 12.3% (31 July 2011: 13.1%) and a total capital ratio of 14.0% (31 July 2011: 14.9%). Our strong capital position has allowed us to achieve strong growth in the Banking division, while remaining comfortably above all regulatory benchmarks. We have also published a strong leverage ratio of 9.4% (31 July 2011: 9.5%) which is another clear measure of the strength of our capital position.

The board has declared an interim dividend of 14.0p (2011: 13.5p) per share, a 0.5p, or 4% increase on the prior year. This follows a 1.0p increase in the final dividend in 2011.

Divisional Performance

The **Banking** division has continued to benefit from its position as a specialist, predominantly secured lender to UK small and medium-sized companies and individuals, and achieved another strong result. Adjusted operating income increased 11% to £176.5 million (2011: £158.7 million) and adjusted operating profit increased 27% to £61.8 million (2011: £48.6 million).

The loan book increased a further 9% to £3.8 billion (31 July 2011: £3.4 billion) in the six months to 31 January 2012, with growth broadly spread across Retail, Commercial and Property. Growth continues to come principally from our core businesses where we are benefiting from an enhanced distribution capacity and significant demand for our specialist lending services from both new and existing clients.

As we grow, our priority is to maintain our specialist, predominantly secured lending model and focus on the credit quality of our loan book. Notwithstanding significant growth over the last few years, the overall shape of our loan book is unchanged and all key ratios for the division have remained consistent with their historical ranges. The bad debt ratio has improved substantially on the prior year period to 1.7% (2011: 2.4%) and is now close to the ten year average of 1.6%. The net interest margin has remained strong at 9.6% and close to the long-term high of 10.0% in the prior year period.

We have made significant investment in strengthening the division's infrastructure and management information systems, particularly in the areas of credit, finance and IT. This investment ensures we can grow safely while maintaining the local expertise and integrated model which supports our unique customer proposition and has allowed the delivery of robust margins and strong returns over the long term.

The **Securities** division has experienced difficult trading conditions, with significant uncertainty in the financial markets. Adjusted operating profit at Winterflood reduced substantially to £8.4 million (2011: £25.0 million) and Seydler recorded a small adjusted operating loss of £0.9 million (2011: profit of £4.9 million).

Winterflood was impacted by a reduction in retail investor risk appetite and a resulting reduction in trading activity, particularly in smaller, less liquid stocks. Overall, bargains per day remained



Strone Macpherson, Chairman



Preben Prebensen, Chief Executive

broadly stable on the prior year period, benefiting from particularly strong volumes in August, but income per bargain reduced substantially as a result of market volatility and a change in mix towards lower margin, more liquid stocks. Notwithstanding the difficult market conditions, the business recorded only six (2011: nil) trading loss days in the first half.

Winterflood's focus continues to be on maintaining the leading market position of its core UK market-making business. At the same time it continues to make progress on its additional growth initiatives, including the provision of outsourced execution and custody through Winterflood Business Services and through its recently opened office in the US.

Seydler also experienced difficult equity trading conditions in Germany, as well as a lack of equity and debt capital markets activity. However, the business has maintained a strong market position and remains well placed for any recovery.

In September 2011 we agreed the phased sale to the management team of our 49.9% investment in Mako for a consideration of US\$40 million and up to US\$7.5 million deferred contingent consideration. The sale of the first 16.6% completed on 31 October 2011, reducing our investment to 33.3%. Mako contributed £5.7 million (2011: £1.2 million) of associate income in the first half, benefiting from increased market volatility particularly in August and September.

The **Asset Management** division is now in the final stages of its restructuring and investment and has made substantial progress in the last six months.

In November, the division's new advised proposition went live to new clients, supported by our new technology platform. Initial feedback from our advisers has been positive. The new proposition for self directed clients, including our online SIPP and direct access to the platform, will be available later this financial year.

We also completed our range of investment products with the launch in October of our multi-manager and passive funds. As a result we are now able to offer clients a full range of in-house funds, third party multi-manager and passive funds, as well as segregated and fully bespoke portfolios for high net worth clients.

We made a further acquisition of a Scottish IFA business, Scott-Moncrieff Wealth Management, with approximately £280 million of client assets increasing our total Private Clients Assets under Management ("AuM") to £6.9 billion (31 July 2011: £6.5 billion). Overall, AuM reduced to £8.6 billion (31 July 2011: £9.6 billion) including the expected redemption of a £1 billion institutional mandate. We will continue to review potential acquisition opportunities on a highly selective basis, with a view to increasing our geographic coverage in the UK.

As expected, the division made a small loss in the first half of £2.6 million (2011: loss of £6.0 million), reflecting the current phase of restructuring and investment.

The rollout of our new client propositions and technology, and the associated investment, is now nearing completion. Over the coming periods, we will focus on driving sales of our new propositions to both new and existing clients.

Outlook

Economic and market conditions remain uncertain but the group's businesses are well positioned.

The **Banking** division continues to see good opportunities for growth and expects a further strong performance in the second half.

The **Securities** businesses remain well positioned for any recovery in financial markets and have seen early signs of improvement in trading conditions since the start of the second half.

The **Asset Management** division is in the final stages of its restructuring and is expected to record a further small loss in the second half.

Overall, the group is confident that it will deliver a solid performance for the 2012 financial year.

Business Review

Overview

Close Brothers achieved a resilient performance in the first half of the 2012 financial year with a strong performance from the Banking division. Overall adjusted operating profit was unchanged on the prior year period at £63.2 million (2011: £63.4 million) notwithstanding difficult market conditions for Securities.

Adjusted operating profit in the Banking division increased 27% to £61.8 million (2011: £48.6 million) and the loan book increased 18% over the last year including 9% in the last six months. In Securities both Winterflood and Seydler were impacted by difficult trading conditions, leading to a 58% reduction in adjusted operating profit to £13.2 million (2011: £31.1 million). The Asset Management division has made good progress and is now in the final stages of its restructuring and investment, and delivered a small loss in the period of £2.6 million (2011: loss of £6.0 million).

Adjusted operating income reduced 5% on the prior year to £261.8 million (2011: £275.0 million) reflecting lower trading income in Securities, which more than offset strong income growth in Banking and a more modest increase in Asset Management.

Adjusted operating expenses were 3% lower at £168.7 million (2011: £174.4 million) as the group continues to manage costs carefully, while maintaining the resources and infrastructure needed to support its businesses. The reduction was principally driven by lower variable costs in Securities as a result of lower trading income. This more than offset an increase in the Banking division to support continued strong loan book growth, while expenses in Asset Management were broadly stable. Group expenses from central functions were £9.0 million (2011: £10.2 million).

Impairment losses on loans and advances ("bad debts") reduced £7.3 million, or 20% to £29.9 million (2011: £37.2 million) reflecting improvements across the portfolio. As a result the bad debt ratio improved substantially to 1.7% (2011: 2.4%), in line with the second half of the last financial year.

The group reports adjusted operating profit before exceptional items, goodwill impairment and amortisation of intangible assets on acquisition. During the period the group recorded exceptional income of £5.9 million (2011: expense of £4.5 million) relating to the sale of the first 16.6% of the group's 49.9% investment in Mako, principally realised foreign exchange gains. The exceptional expense in the first half of 2011 relates to the restructuring of the Asset Management division. The group also incurred a charge for amortisation of intangible assets on acquisition of £2.3 million (2011: £0.6 million), an increase reflecting acquisitions made in Asset Management in the last financial year.

Operating profit before tax, after exceptional items, goodwill impairment and amortisation of intangible assets on acquisition increased 15% to £66.8 million (2011: £58.3 million).

The tax charge for the period was £15.5 million (2011: £15.8 million). This corresponds to an effective tax rate of 23% (2011: 27%), lower than the UK corporation tax rate of 26%, reflecting the impact of non-taxable exceptional income in the period and the inclusion of associate income from Mako in the income statement on an after tax basis.

Profit attributable to shareholders from continuing operations was £50.5 million (2011: £42.3 million) and basic earnings per share was 34.8p (2011: 29.4p). Excluding exceptional items and amortisation of intangible assets on acquisition, adjusted basic earnings per share decreased 3% to 31.9p (2011: 32.9p).

Discontinued Operations – Prior Year Period

There were no discontinued operations in the first half of our 2012 financial year however the prior year period includes a loss from discontinued operations of £27.4 million. This relates to the group's businesses in the UK offshore and Cayman Islands which were sold in the 2011 financial year.

Dividend

The board has declared an interim dividend of 14.0p (2011: 13.5p), up 4% on the 2011 interim dividend. The dividend will be paid on 25 April 2012 to shareholders on the register at 23 March 2012.

Group Income Statement

| | First half 2012 £ million | First half 2011 £ million | Change % |
|--|---------------------------------|---------------------------------|-------------|
| Continuing operations¹ | | | |
| Adjusted operating income | 261.8 | 275.0 | (5) |
| Adjusted operating expenses | (168.7) | (174.4) | (3) |
| Impairment losses on loans and advances | (29.9) | (37.2) | (20) |
| Adjusted operating profit | 63.2 | 63.4 | – |
| Exceptional items | 5.9 | (4.5) | |
| Amortisation of intangible assets on acquisition | (2.3) | (0.6) | |
| Operating profit before tax | 66.8 | 58.3 | 15 |
| Tax | (15.5) | (15.8) | (2) |
| Non-controlling interests | (0.8) | (0.2) | |
| Profit attributable to shareholders: continuing operations | 50.5 | 42.3 | 19 |
| Loss from discontinued operations | – | (27.4) | |
| Non-controlling interests: discontinued operations | – | (0.3) | |
| Profit attributable to shareholders: continuing and discontinued operations | 50.5 | 14.6 | 246 |
| Adjusted basic earnings per share: continuing operations | 31.9p | 32.9p | (3) |
| Basic earnings per share: continuing operations | 34.8p | 29.4p | 18 |
| Basic earnings per share: continuing and discontinued operations | 34.8p | 10.1p | 245 |
| Ordinary dividend per share | 14.0p | 13.5p | 4 |

¹ Results from continuing operations for the first half 2011 exclude the UK offshore and Cayman Islands businesses, the sales of which completed in 2011 and which have been classified as discontinued operations under IFRS 5. There were no discontinued operations in the current period and all commentary relates to continuing operations except where specified.

Note: Adjusted operating income, expenses, operating profit and earnings per share exclude the effect of exceptional items, goodwill impairment and amortisation of intangible assets on acquisition.

Divisional Adjusted Operating Profit/(Loss)

| | First half 2012 | | First half 2011 ¹ | | Change |
|----------------------------------|-----------------|-----|------------------------------|-----|----------|
| | £ million | % | £ million | % | % |
| Banking | 61.8 | 85 | 48.6 | 66 | 27 |
| Securities | 13.2 | 18 | 31.1 | 42 | (58) |
| Asset Management | (2.6) | (3) | (6.0) | (8) | (57) |
| Total divisions | 72.4 | 100 | 73.7 | 100 | (2) |
| Group | (9.2) | | (10.3) | | (11) |
| Adjusted operating profit | 63.2 | | 63.4 | | – |

¹ Results for the first half 2011 exclude the UK offshore and Cayman Islands businesses, the sales of which completed in 2011 and which have been classified as discontinued operations under IFRS 5.

Business Review

Overview continued

Balance Sheet

The group has maintained a strong financial position while continuing to optimise the efficiency of its balance sheet. As a result, in the six months to 31 January 2012 total assets were broadly stable at £6,174.3 million (31 July 2011: £6,108.6 million) despite strong growth in the loan book, as the group continued to manage down lower yielding treasury assets.

Cash and loans and advances to banks reduced £104.1 million to £605.2 million (31 July 2011: £709.3 million). This reflects a reduction in cash on deposit with the Bank of England to £488.7 million (31 July 2011: £594.4 million), which the group holds principally for short-term cash flow requirements.

Settlement balances, long and short trading positions and loans to and from money brokers are assets and liabilities which relate to market-making at Winterflood and Seydler. These reduced £57.8 million to £649.1 million (31 July 2011: £706.9 million) on the asset side and £20.0 million to £565.4 million (31 July 2011: £585.4 million) on the liability side, reflecting lower settlement balances at the balance sheet date.

Loans and advances to customers increased 9% or £319.8 million to £3,755.1 million (31 July 2011: £3,435.3 million) and account for 61% (31 July 2011: 56%) of the group's total assets. These are typically short-term, small ticket, secured loans to individuals and SME borrowers. The growth in the period has been well spread across Retail, Commercial and Property within the Banking division and on similar loan to value ratios and terms as the existing loan book.

Non-trading debt securities include floating rate notes ("FRNs"), certificates of deposits ("CDs") and gilts which are held by the group's Treasury function. These reduced in the period to £688.4 million (31 July 2011: £810.2 million), as the group reduced excess liquidity through a lower holding of CDs.

Deposits by customers remained stable in the period at £3,182.5 million (31 July 2011: £3,170.5 million), as shorter term corporate deposits were replaced with additional term retail deposits.

The group's borrowings include loans and overdrafts from banks, a group bond, securitisations and subordinated loan capital. Overall these increased £109.0 million to £1,234.7 million (31 July 2011: £1,125.7 million) reflecting increased utilisation of the group's bank facilities.

Equity at 31 January 2012 was broadly unchanged at £735.0 million (31 July 2011: £728.3 million) as profit attributable to shareholders of £50.5 million was partly offset by the 2011 final dividend payment of £38.1 million and net share purchases of £4.5 million to satisfy share awards and options.

Funding and Liquidity

The group's objective is to fund the loan book and maintain a sound level of liquidity, while considering overall balance sheet and cost efficiency. The group's Treasury function manages this through a diverse funding position with a prudent maturity profile and a focus on high quality liquidity.

The group has maintained a strong and stable funding position in the period with good access to a diverse range of funding sources, and has continued to strengthen the maturity profile of its funding. As a result, it has maintained significant flexibility and remains well positioned to fund future loan book growth.

At 31 January 2012, total funding was £5,325.3 million (31 July 2011: £5,402.0 million), equivalent to 142% (31 July 2011: 157%) of the loan book, a slight reduction as the group continued to reduce excess short-term funding and liquidity.

Overall wholesale funding includes the group bond of £198.3 million (31 July 2011: £198.1 million) and drawn and undrawn facilities, which reduced £95.6 million to £1,209.5 million (31 July 2011: £1,305.1 million). The group has largely renewed or replaced facilities which matured or were approaching maturity in the period, including raising a new £250 million securitisation of the motor finance loan book. Additionally, post the balance sheet date, the group has extended the term of a £350 million securitisation of the premium finance loan book which was due for maturity in the second half of the current financial year.

Despite increased competition for funding in the deposit markets, the group's customer deposit base remained stable overall at £3,182.5 million (31 July 2011: £3,170.5 million), as the group raised over £200 million of new term retail deposits.

The group has maintained a prudent maturity profile of its funding in relation to the loan book. As a result of new funding and renewals in the period, the group's term funding, with a residual maturity greater than one year, increased to £2,723.6 million (31 July 2011: £2,460.6 million) overall, covering 73% (31 July 2011: 72%) of the loan book. The weighted average maturity of this term funding, excluding equity, was 29 months (31 July 2011: 36 months), significantly exceeding the average maturity of the loan book of 13 months (31 July 2011: 13 months).

Group Balance Sheet

| | 31 January 2012 £ million | 31 July 2011 £ million |
|---|---------------------------------|------------------------------|
| Assets | | |
| Cash and loans and advances to banks | 605.2 | 709.3 |
| Settlement balances, long trading positions and loans to money brokers | 649.1 | 706.9 |
| Loans and advances to customers | 3,755.1 | 3,435.3 |
| Non-trading debt securities | 688.4 | 810.2 |
| Intangible assets | 138.2 | 133.1 |
| Other assets | 338.3 | 313.8 |
| Total assets | 6,174.3 | 6,108.6 |
| Liabilities | | |
| Settlement balances, short trading positions and loans from money brokers | 565.4 | 585.4 |
| Deposits by banks | 190.4 | 192.8 |
| Deposits by customers | 3,182.5 | 3,170.5 |
| Borrowings | 1,234.7 | 1,125.7 |
| Other liabilities | 266.3 | 305.9 |
| Total liabilities | 5,439.3 | 5,380.3 |
| Equity | 735.0 | 728.3 |
| Total liabilities and equity | 6,174.3 | 6,108.6 |

Group Funding Overview

| | 31 January 2012 £ million | 31 July 2011 £ million | Change £ million |
|---|---------------------------------|------------------------------|---------------------|
| Drawn and undrawn facilities ¹ | 1,209.5 | 1,305.1 | (95.6) |
| Group bond | 198.3 | 198.1 | 0.2 |
| Deposits by customers | 3,182.5 | 3,170.5 | 12.0 |
| Equity | 735.0 | 728.3 | 6.7 |
| Total available funding | 5,325.3 | 5,402.0 | (76.7) |

¹ Includes £189.8 million (31 July 2011: £410.2 million) of undrawn facilities and excludes £13.9 million (31 July 2011: £32.7 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 |
|---|------------------------------------|----------------------------------|--|--------------------|
| Drawn and undrawn facilities ¹ | 411.1 | 723.4 | 75.0 | 1,209.5 |
| Group bond | – | – | 198.3 | 198.3 |
| Deposits by customers | 2,190.6 | 534.0 | 457.9 | 3,182.5 |
| Equity | – | – | 735.0 | 735.0 |
| Total available funding at 31 January 2012 | 2,601.7 | 1,257.4 | 1,466.2 | 5,325.3 |
| Total available funding at 31 July 2011 | 2,941.4 | 982.8 | 1,477.8 | 5,402.0 |

¹ Includes £189.8 million (31 July 2011: £410.2 million) of undrawn facilities and excludes £13.9 million (31 July 2011: £32.7 million) of non-facility overdrafts included in borrowings.

Business Review

Overview continued

At 31 January 2012, the group's holding of liquid assets was £889.3 million (31 July 2011: £1,107.7 million) which includes gilts, deposits with the Bank of England and CDs. The reduction in the period reflects lower short-term funding, allowing the group to further reduce its holding of low yielding, excess liquidity while maintaining a prudent liquidity position relative to its cash flow needs.

Gilts remained stable at £226.1 million (31 July 2011: £228.8 million) while deposits with the Bank of England reduced £105.7 million to £488.7 million (31 July 2011: £594.4 million) reflecting lower short-term cash flow requirements. The CD portfolio also reduced to £174.5 million (31 July 2011: £284.5 million) as not all maturing CDs were replaced.

The group's portfolio of UK and international bank FRNs was broadly stable at £287.8 million (31 July 2011: £296.9 million), and had an average residual maturity of nine months (31 July 2011: 15 months) at the period end. Since the balance sheet date, £71.0 million of these FRNs have matured and were repaid in full.

The credit ratings for Close Brothers Group plc, issued by Fitch Ratings ("Fitch") and Moody's Investors Services ("Moody's"), have been maintained at A/F1 and A3/P2 respectively. Close Brothers Limited ("CBL"), the group's regulated banking subsidiary, has credit ratings of A/F1 by Fitch and A2/P1 by Moody's. The outlooks for both Close Brothers Group plc and CBL remained unchanged in the period at stable by Fitch and negative by Moody's. On 23 February 2012, after the balance sheet date, Moody's placed the ratings of Close Brothers Group plc and CBL on review for possible downgrade.

Capital

The group has maintained a strong capital position and at 31 January 2012 it had a core tier 1 capital ratio of 12.3% (31 July 2011: 13.1%) and a total capital ratio of 14.0% (31 July 2011: 14.9%).

The group's strong capital base has allowed it to continue employing capital in the period, principally into loan book growth. Core tier 1 capital was broadly stable at £586.4 million (31 July 2011: £588.5 million) as profit after tax was largely offset by the payment of the 2011 final dividend, the purchase of own shares to satisfy share awards, and other movements. However, risk weighted assets increased 6% to £4,768.2 million (31 July 2011: £4,493.0 million) which principally reflects an increase in credit and counterparty risk as a result of the strong growth in the loan book.

The group has also reported, for the first time, its leverage ratio, defined as core tier 1 capital as a percentage of total balance sheet assets adjusting for intangible assets and certain off-balance sheet exposures. At 31 January 2012, the group had a strong leverage ratio of 9.4% (31 July 2011: 9.5%), significantly ahead of the Basel III minimum of 3%, which reflects the low gearing of its balance sheet. Combined with the strong core tier 1 capital ratio and the secured nature of the loan book, with a track record of limited loan losses, this gives the group additional confidence in the strength of its capital position.

The group's assessment remains that it will not be materially affected by the proposed regulatory changes under Basel III. In addition, the group does not currently expect its capital position to be materially impacted by changes to the UK regulatory requirements proposed by the Independent Commission on Banking. Its Banking division already operates through a separately capitalised and funded entity, Close Brothers Limited, with a core tier 1 capital ratio of 10.9% at 31 January 2012 (31 July 2011: 11.4%), and the group's core tier 1 capital ratio is comfortably ahead of the proposed new minimums. However, the group continues to monitor any regulatory changes carefully.

Overall, the group is confident that the strength of its capital base, the strong position of its businesses and the high quality, secured nature of its loan assets give it the flexibility it needs to execute its strategy.

Key Financial Ratios

Despite a strong performance from the Banking division, the reduced profitability of the Securities division has affected the group's key financial ratios in the first half of the year. Overall, the group's operating margin reduced modestly to 22% (2011: 23%) and the expense/income ratio increased slightly to 66% (2011: 64%). However, the compensation ratio reduced to 38% (2011: 40%) reflecting lower performance related costs in the Securities division. The group's return on opening equity was 11% (2011: 13%), also slightly down on the prior year period.

Treasury Assets

| | 31 January 2012 £ million | 31 July 2011 £ million | Change £ million |
|--------------------------|---------------------------------|------------------------------|---------------------|
| Gilts | 226.1 | 228.8 | (2.7) |
| Bank of England deposits | 488.7 | 594.4 | (105.7) |
| Certificates of deposit | 174.5 | 284.5 | (110.0) |
| Liquid assets | 889.3 | 1,107.7 | (218.4) |
| Floating rate notes | 287.8 | 296.9 | (9.1) |
| Treasury assets | 1,177.1 | 1,404.6 | (227.5) |

Group Capital Position

| | 31 January 2012 £ million | 31 July 2011 £ million |
|---------------------------|---------------------------------|------------------------------|
| Core tier 1 capital | 586.4 | 588.5 |
| Total regulatory capital | 667.0 | 669.1 |
| Risk weighted assets | 4,768.2 | 4,493.0 |
| Core tier 1 capital ratio | 12.3% | 13.1% |
| Total capital ratio | 14.0% | 14.9% |
| Leverage ratio | 9.4% | 9.5% |

Group Key Financial Ratios

| | First half 2012 | First half 2011 |
|---------------------------------------|--------------------|--------------------|
| Operating margin ¹ | 22% | 23% |
| Expense/income ratio ² | 66% | 64% |
| Compensation ratio ³ | 38% | 40% |
| Return on opening equity ⁴ | 11% | 13% |

1 Adjusted operating profit on adjusted operating income.

2 Adjusted operating expenses on adjusted operating income.

3 Total staff costs excluding exceptional items on adjusted operating income.

4 Adjusted operating profit after tax and non-controlling interests on opening equity adjusted for discontinued operations.

Note: All key financial ratios exclude associate income, exceptional items, goodwill impairment and amortisation of intangible assets on acquisition, and are in respect of continuing operations.

Business Review

Banking

Adjusted operating profit up 27%
to £62 million

9% loan book growth since 31 July 2011
to £3.8 billion

Bad debt ratio substantially improved to 1.7%

Strong return on equity of 20%

The Banking division achieved a strong performance with 18% loan book growth and 27% increase in adjusted operating profit to £61.8 million (2011: £48.6 million) over the last year, as it continues to capture growth opportunities in a favourable market environment, while maintaining its prudent, specialist lending model.

Adjusted operating income increased 11% to £176.5 million (2011: £158.7 million). This was driven by a 14% increase in net interest and fees on the loan book to £172.7 million (2011: £151.4 million). The net interest margin remained strong at 9.6%, albeit below the long-term high of 10.0% achieved in the first half of 2011. Treasury and other non-lending income reduced to £3.8 million (2011: £7.3 million) as Treasury continues to focus on its core function of funding the loan book.

Adjusted operating expenses increased 16% to £84.8 million (2011: £72.9 million). The cost increase principally reflects an increase in staff and other volume related costs as a result of continued strong loan book growth, particularly in asset and motor finance. There has also been significant investment over the past 12 months in strengthening the division's infrastructure and management information systems, particularly in the areas of finance, credit and IT, to support current and future growth. As a result, the expense/income ratio increased to 48% (2011: 46%).

The division continues to focus on the credit quality of its loan book and bad debt charges reduced 20% on the prior year to £29.9 million (2011: £37.2 million). As a result, the bad debt ratio improved substantially year on year to 1.7% (2011: 2.4%), in line with the second half of the prior year. This reduction reflects improvement in both Commercial and Property, with Retail remaining at low levels.

Overall, this resulted in an increase in the return on the net loan book to 3.4% (2011: 3.2%) and a strong return on opening equity of 20% (2011: 19%).

In the six months to 31 January 2012, the loan book increased 9%, or £319.8 million, to £3,755.1 million (31 July 2011: £3,435.3 million) with good growth across the portfolio.

In Retail, the loan book increased 9% to £1,609.1 million (31 July 2011: £1,481.5 million). Motor finance has continued to see strong loan book growth of 11% reflecting increased geographic coverage and strong new business volumes in both its core business and from its key accounts team, which targets larger dealerships and franchises. The premium finance loan book increased 5% to £640.9 million (31 July 2011: £610.7 million). Overall income increased 13% to £71.7 million (2011: £63.2 million) as a 21% increase in the average loan book was partly offset by higher fee income in the prior year period.

The Commercial loan book increased 6% to £1,475.8 million (31 July 2011: £1,390.7 million). This reflects 11% growth in asset finance, with strong loan book growth in its core business from both new and existing borrowers. However, the invoice finance loan book reduced £34.2 million, or 11%, as the business continues to lend with consistent criteria in a competitive environment. Overall income increased 18% to £78.9 million (2011: £67.1 million), broadly in line with 19% growth in the average loan book over the last year.

In Property, the loan book increased 19% to £670.2 million (31 July 2011: £563.1 million) reflecting significant demand in a benign competitive environment, as the business continues to lend selectively with a focus on improving the credit quality of its loan book. Income increased 5% to £22.1 million (2011: £21.1 million) as the average loan book increased 10% over the past 12 months.

Key Figures

| | First half 2012 £ million | First half 2011 £ million | Change % |
|---|---------------------------------|---------------------------------|-------------|
| Adjusted operating income | 176.5 | 158.7 | 11 |
| Net interest and fees on loan book | 172.7 | 151.4 | 14 |
| Retail | 71.7 | 63.2 | 13 |
| Commercial | 78.9 | 67.1 | 18 |
| Property | 22.1 | 21.1 | 5 |
| Treasury and other non-lending income | 3.8 | 7.3 | (48) |
| Adjusted operating expenses | (84.8) | (72.9) | 16 |
| Impairment losses on loans and advances | (29.9) | (37.2) | (20) |
| Adjusted operating profit | 61.8 | 48.6 | 27 |
| Net interest margin ¹ | 9.6% | 10.0% | |
| Bad debt ratio ² | 1.7% | 2.4% | |
| Closing loan book | 3,755.1 | 3,169.6 | 18 |

1 Net interest and fees on average net loans and advances to customers.

2 Impairment losses on average net loans and advances to customers.

Loan Book Analysis

| | 31 January 2012 £ million | 31 July 2011 £ million | Change % |
|--------------------------|---------------------------------|------------------------------|-------------|
| Retail | 1,609.1 | 1,481.5 | 9 |
| Motor finance | 968.2 | 870.8 | 11 |
| Premium finance | 640.9 | 610.7 | 5 |
| Commercial | 1,475.8 | 1,390.7 | 6 |
| Asset finance | 1,198.5 | 1,079.2 | 11 |
| Invoice finance | 277.3 | 311.5 | (11) |
| Property | 670.2 | 563.1 | 19 |
| Closing loan book | 3,755.1 | 3,435.3 | 9 |

Banking Key Financial Ratios

| | First half 2012 | First half 2011 |
|--------------------------------------|--------------------|--------------------|
| Operating margin | 35% | 31% |
| Expense/income ratio | 48% | 46% |
| Compensation ratio | 27% | 27% |
| Return on opening equity | 20% | 19% |
| Return on net loan book ¹ | 3.4% | 3.2% |

1 Banking division adjusted operating profit before tax on average net loans and advances to customers.

Note: All key financial ratios exclude associate income, exceptional items, goodwill impairment and amortisation of intangible assets on acquisition.

Business Review

Securities

Adjusted operating profit of £13 million in difficult market conditions

Winterflood bargains per day unchanged at 48,000 although income per bargain significantly reduced

Seydler made a small loss of £1 million

The Securities division has been impacted by difficult market conditions in the first half of the financial year and adjusted operating profit was down 58% to £13.2 million (2011: £31.1 million).

Adjusted operating income was £51.6 million (2011: £86.7 million), a reduction of 40% reflecting substantially lower income at both Winterflood and Seydler. However, adjusted operating expenses also reduced 31% to £38.4 million (2011: £55.6 million) reflecting the largely variable cost structure of our Securities businesses.

During the period, the group agreed the phased sale to the management team of its 49.9% investment in Mako for a consideration of US\$40 million and up to US\$7.5 million deferred contingent consideration. The sale of the first 16.6% completed in October 2011 reducing the group's investment to 33.3%.

Winterflood is a leading market maker in the UK and its business performance is largely driven by retail investor activity and risk appetite. Accordingly, the performance in the first half of the year has been affected by significantly reduced retail investor risk appetite. However, Winterflood has maintained its strong market position and remains well placed for any market recovery.

Adjusted operating income was £37.6 million (2011: £69.1 million), 46% lower than the prior year period. This primarily reflects the impact of increased market volatility on trading revenues, as well as a change in mix of bargains traded, away from higher margin AIM and small cap stocks. As a result, income per bargain was substantially lower in the period at £6.09 (2011: £11.24).

Average bargains per day traded were broadly unchanged overall at 48,202 (2011: 48,401), as high volumes in the volatile markets in August 2011 were offset by lower volumes thereafter.

The priority for Winterflood continues to be to maintain its leading market position and to maintain capacity for when trading conditions improve. However, due to the nature of its business model and its largely variable cost base, Winterflood reduced operating expenses 34% to £29.2 million (2011: £44.1 million) principally reflecting lower performance related costs. As a result, adjusted operating profit was £8.4 million (2011: £25.0 million), down 66% relative to the prior year period.

Seydler's performance has been affected by challenging conditions in the Securities industry. However, it has maintained its strong market position and is well placed for any recovery.

Adjusted operating income declined 49% to £8.3 million (2011: £16.4 million). This reflects both significantly lower equity and debt capital markets activity compared to a strong prior year period and the impact of low volumes and increased volatility on its equities trading businesses. Although adjusted operating expenses decreased 20% to £9.2 million (2011: £11.5 million) this only partly offset the reduction in revenues and as a result Seydler delivered an adjusted operating loss of £0.9 million (2011: adjusted operating profit of £4.9 million).

The group's investment in Mako delivered after tax associate income of £5.7 million (2011: £1.2 million), an increase on the prior year reflecting increased market volatility particularly in August and September 2011. Close Brothers' income in the period reflects a 49.9% ownership in the three months to 31 October 2011 and 33.3% thereafter.

Key Figures

| | First half 2012 £ million | First half 2011 £ million | Change % |
|---|---------------------------------|---------------------------------|-------------|
| Adjusted operating income | 51.6 | 86.7 | (40) |
| Adjusted operating expenses | (38.4) | (55.6) | (31) |
| Adjusted operating profit/(loss) | 13.2 | 31.1 | (58) |
| Winterflood | 8.4 | 25.0 | (66) |
| Seydler | (0.9) | 4.9 | (118) |
| Mako (associate income after tax) | 5.7 | 1.2 | 375 |

Key Winterflood Figures

| | First half 2012 £ million | First half 2011 £ million | Change % |
|----------------------------------|---------------------------------|---------------------------------|-------------|
| Adjusted operating income | 37.6 | 69.1 | (46) |
| Adjusted operating expenses | (29.2) | (44.1) | (34) |
| Adjusted operating profit | 8.4 | 25.0 | (66) |
| Number of bargains (million) | 6.2 | 6.1 | – |
| Average bargains per trading day | 48,202 | 48,401 | – |
| Income per bargain | £6.09 | £11.24 | (46) |

Key Seydler Figures

| | First half 2012 £ million | First half 2011 £ million | Change % |
|---|---------------------------------|---------------------------------|-------------|
| Adjusted operating income | 8.3 | 16.4 | (49) |
| Adjusted operating expenses | (9.2) | (11.5) | (20) |
| Adjusted operating (loss)/profit | (0.9) | 4.9 | (118) |

Key Mako Figures

| | First half 2012 £ million | First half 2011 £ million | Change % |
|---|---------------------------------|---------------------------------|-------------|
| Adjusted operating profit ¹ | 7.8 | 1.7 | 359 |
| Tax on adjusted operating profit ¹ | (2.1) | (0.5) | 320 |
| Profit after tax¹ | 5.7 | 1.2 | 375 |

¹ Close Brothers' share of result.

Securities Key Financial Ratios

| | First half 2012 | First half 2011 |
|--------------------------|--------------------|--------------------|
| Operating margin | 16% | 35% |
| Expense/income ratio | 84% | 65% |
| Compensation ratio | 47% | 44% |
| Return on opening equity | 11% | 45% |

Note: All key financial ratios exclude associate income, exceptional items, goodwill impairment and amortisation of intangible assets on acquisition.

Business Review

Asset Management

Adjusted operating income increased 14% to £34 million

Small operating loss of £3 million reflects final stages of restructuring

Private Clients Assets under Management increased to £6.9 billion

The Asset Management division is now in the final stages of implementing its Private Clients focused wealth and asset management strategy, and the development and rollout of its new client propositions and technology platform is nearing completion. Private Clients Assets under Management ("AuM") increased to £6.9 billion (31 July 2011: £6.5 billion) with a further small acquisition, and now accounts for 80% of total AuM of £8.6 billion (31 July 2011: £9.6 billion).

Adjusted operating income increased 14% on the prior year period to £33.9 million (2011: £29.7 million). This primarily reflects higher management fees on AuM which increased 18% to £31.7 million (2011: £26.8 million) following the acquisitions of Chartwell, Cavanagh and Allenbridge in the 2011 financial year. Other income was £2.2 million (2011: £2.9 million) and principally related to foreign exchange gains realised on the exit from non-core businesses in the prior year.

The revenue margin was broadly unchanged overall at 70 bps (2011: 71 bps) as a change in mix towards higher margin Private Clients AuM was offset by lower initial and dealing fees in a challenging market environment. The revenue margin on the Private Clients assets was 81 bps.

Adjusted operating expenses were broadly unchanged at £36.5 million (2011: £35.7 million) as the net impact of acquisitions and disposals made in the 2011 financial year was largely offset by a lower level of non-recurring investment of £2 million (2011: £5 million) related to the development of the new client propositions and platform.

The group has now substantially completed the planned £18 to £20 million investment in the development of its new client propositions and technology platform with a total investment of £19 million to date, of which £16 million has been charged through the income statement and £3 million was in the form of capital expenditure.

Overall, the division made a small loss of £2.6 million (2011: loss of £6.0 million) in the period, as expected in the current final stage of restructuring and investment.

Overall, AuM reduced 10% in the six months to 31 January 2012 to £8.6 billion (31 July 2011: £9.6 billion). This is consistent with the group's focus on building its Private Clients business, which increased 6% to £6.9 billion (31 July 2011: £6.5 billion), while Institutional AuM reduced to £1.7 billion (31 July 2011: £3.0 billion).

The increase in Private Clients AuM principally reflects £330 million of acquired AuM, including the acquisition of Scott-Moncrieff Wealth Management, with approximately £280 million of client assets, and a further small acquisition of client assets which completed in the period. Net new funds were £181 million, or 3% of opening AuM, with positive growth from both the affluent and high net worth segments, although new business levels were affected by reduced retail risk appetite in the uncertain market environment.

The Private Clients business experienced negative market movements of £91 million, around 1% of AuM. Overall, this was broadly consistent with a 2% reduction in the FTSE 100 and an unchanged APCIMS Balanced Portfolio Index, reflecting a conservative asset allocation and defensive mix of equities. In the year to 31 December 2011, their first full year of investment, all five of the Close Discretionary Portfolio Funds achieved a first quartile performance relative to their respective IMA benchmarks and the high net worth portfolios broadly outperformed their ARC benchmarks over the same period.

AuM in Institutional reduced reflecting £1.2 billion of net outflows as a result of the expected redemption of a £1 billion client mandate as well as the closure of the majority of the division's structured funds. Negative market movements reduced AuM by a further £137 million. The Institutional AuM at 31 January 2012 includes £343 million in respect of OLIM's property fund management business, the sale of which was agreed in July 2011 and is expected to complete in the second half of the financial year.

Key Figures

| | First half 2012 £ million | First half 2011 ¹ £ million | Change % |
|-----------------------------------|---------------------------------|--|-------------|
| Adjusted operating income | 33.9 | 29.7 | 14 |
| Management fees on AuM | 31.7 | 26.8 | 18 |
| Other income ² | 2.2 | 2.9 | (24) |
| Adjusted operating expenses | (36.5) | (35.7) | 2 |
| Adjusted operating loss | (2.6) | (6.0) | (57) |
| Revenue margin ³ (bps) | 70 | 71 | |
| Closing AuM (Total) | 8,621 | 8,232 | 5 |
| Closing AuM (Private Clients) | 6,929 | 4,460 | 55 |

1 First half 2011 excludes the AuM and operating result for the UK offshore and Cayman Islands businesses, the sales of which completed during 2011 and which are classified as discontinued operations under IFRS 5.

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

3 Management fees on average AuM.

Assets under Management

| | Private Clients £ million | Institutional ¹ £ million | Total £ million |
|---|---------------------------------|---|--------------------|
| At 1 August 2011 | 6,509 | 3,049 | 9,558 |
| New funds raised | 336 | 131 | 467 |
| Redemptions, realisations and withdrawals | (155) | (1,351) | (1,506) |
| Net new funds | 181 | (1,220) | (1,039) |
| Acquisitions | 330 | – | 330 |
| Market movement | (91) | (137) | (228) |
| At 31 January 2012 | 6,929 | 1,692 | 8,621 |
| Change | 6% | (45)% | (10)% |

1 Includes £343 million of AuM in respect of OLIM's property business, the sale of which was agreed in July 2011 and is expected to complete in the second half of the 2012 financial year.

Asset Management Key Financial Ratios

| | First half 2012 | First half 2011 |
|---|--------------------|--------------------|
| Operating margin | (8)% | (20)% |
| Expense/income ratio | 108% | 120% |
| Compensation ratio | 65% | 68% |
| Return on opening equity | (8)% | (12)% |
| Private Clients net new funds/opening AuM | 3% | 5% |

Note: All key financial ratios exclude associate income, exceptional items, goodwill impairment and amortisation of intangible assets on acquisition, and are in respect of continuing operations.

Business Review

Principal Risks and Uncertainties

The group seeks to achieve an appropriate balance between taking risk and generating sustainable returns for its shareholders.

The group's risk appetite continues to have at its core a cautious approach, in particular ensuring that the group is well capitalised, soundly funded and has adequate access to liquidity. This approach combined with the conservative business models common across each of the group's divisions has resulted in a resilient performance in recent years despite the considerable volatility in financial markets.

There has been no change to the group's cautious approach in the period under review. However, the group still faces risks and

uncertainties within each of its businesses. The principal risks and uncertainties, which are consistent with those disclosed in the Annual Report 2011, are summarised below. A more detailed description and the group's approach to the management and mitigation of these risks and uncertainties are set out on pages 24 to 28 of the Annual Report 2011, which can be accessed via the link on the home page of the group's website at www.closebrothers.co.uk.

The summary below should not be regarded as a comprehensive list of the risks and uncertainties that the group may face.

| Key risk and uncertainty | Description |
|--|---|
| Economic environment | Demand for the group's products and services is sensitive to global economic conditions and those within the UK in particular. While the group's direct Eurozone exposures are limited (see note 17 on page 37), the indirect impacts are uncertain and could have a material impact on the group and/or its customers. |
| Funding and liquidity risks | The group requires access to funding and liquidity to support its client lending and meet its liabilities as they fall due. Access to funding has become more challenging since the banking crisis of 2008. Additional shocks to the banking system could lead to higher funding costs or reduced access to funding. |
| Credit risk | The group advances loans to a range of corporates, SMEs and individuals as well as placing surplus funding with other financial institutions. Inability to recover amounts lent or a failure of one of the group's counterparties would place the group at risk of a financial loss. |
| Regulation, legislation and tax | The group operates in a highly regulated environment. Changes in regulation and legislation or the basis of tax, particularly in the UK, could materially impact the group's performance. |
| Operational risk | The risk of loss or other material adverse impact resulting from inadequate or failed internal processes, people and systems or from external events. |
| Strategic risk | Reductions in earnings which may arise as a result of an ineffective strategy; the inability to execute the strategy successfully; or changes to the environment resulting in that strategy becoming invalid. |
| Market risk | The group's activities are potentially exposed to losses arising from equity or fixed income price movement and changes to foreign exchange or interest rates. |

Governance

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 2012 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 2012 includes a fair review of the information required by Disclosure and Transparency Rule 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the board

P.S.S. Macpherson
Chairman

P. Prebensen
Chief Executive

13 March 2012

Financial Statements

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 2012 for the six months ended 31 January 2012 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 18. We have read the other information contained in the Interim Report 2012 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

The Interim Report 2012 is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Report 2012 in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of financial statements included in this Interim Report 2012 has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the Interim Report 2012 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 2012 for the six months ended 31 January 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.



Deloitte LLP

Chartered Accountants and Statutory Auditor
London, United Kingdom

13 March 2012

Consolidated Income Statement for the six months ended 31 January 2012

| | | Six months ended 31 January | | Year ended 31 July 2011 |
|---|------|--------------------------------|--------------------------------|-------------------------------|
| | Note | 2012 Unaudited £ million | 2011 Unaudited £ million | Audited £ million |
| Continuing operations | | | | |
| Interest income | | 200.6 | 174.8 | 360.5 |
| Interest expense | | (70.0) | (62.7) | (129.6) |
| Net interest income | | 130.6 | 112.1 | 230.9 |
| Fee and commission income | | 81.4 | 86.0 | 175.9 |
| Fee and commission expense | | (9.9) | (8.6) | (19.2) |
| Gains less losses arising from dealing in securities | | 40.8 | 74.3 | 132.2 |
| Share of profit of associates | | 5.7 | 1.2 | 2.6 |
| Other income | | 13.2 | 10.0 | 26.1 |
| Non-interest income | | 131.2 | 162.9 | 317.6 |
| Operating income | | 261.8 | 275.0 | 548.5 |
| Administrative expenses | | (168.7) | (174.4) | (352.1) |
| Impairment losses on loans and advances | 9 | (29.9) | (37.2) | (65.2) |
| Total operating expenses before exceptional items, goodwill impairment and amortisation of intangible assets on acquisition | | (198.6) | (211.6) | (417.3) |
| Operating profit before exceptional items, goodwill impairment and amortisation of intangible assets on acquisition | | 63.2 | 63.4 | 131.2 |
| Exceptional items | 3 | 5.9 | (4.5) | (46.9) |
| Goodwill impairment | | – | – | (3.7) |
| Amortisation of intangible assets on acquisition | | (2.3) | (0.6) | (2.1) |
| Operating profit before tax | | 66.8 | 58.3 | 78.5 |
| Tax | 4 | (15.5) | (15.8) | (35.1) |
| Profit after tax from continuing operations | | 51.3 | 42.5 | 43.4 |
| Loss for the period from discontinued operations, net of tax | 5 | – | (27.4) | (27.6) |
| Profit for the period | | 51.3 | 15.1 | 15.8 |
| Profit attributable to non-controlling interests from continuing operations | | 0.8 | 0.2 | 0.7 |
| Profit attributable to non-controlling interests from discontinued operations | | – | 0.3 | 0.5 |
| Profit attributable to the shareholders of the company | | 50.5 | 14.6 | 14.6 |
| From continuing operations | | | | |
| Basic earnings per share | 7 | 34.8p | 29.4p | 29.6p |
| Diluted earnings per share | 7 | 34.3p | 28.6p | 29.0p |
| From continuing and discontinued operations | | | | |
| Basic earnings per share | 7 | 34.8p | 10.1p | 10.1p |
| Diluted earnings per share | 7 | 34.3p | 9.9p | 9.9p |
| Ordinary dividend per share | 8 | 14.0p | 13.5p | 26.5p |

Financial Statements

Consolidated Statement of Comprehensive Income

for the six months ended 31 January 2012

| | Six months ended 31 January | | Year ended 31 July 2011 |
|--|---|--------------------------------|-------------------------------|
| | 2012 Unaudited £ million | 2011 Unaudited £ million | Audited £ million |
| Profit for the period | 51.3 | 15.1 | 15.8 |
| Other comprehensive income from continuing operations | | | |
| Currency translation losses | (0.2) | (2.0) | (2.1) |
| (Losses)/gains on cash flow hedging | (0.2) | 2.9 | 0.6 |
| Other (losses)/gains | (0.4) | 0.5 | (0.7) |
| (Losses)/gains on financial instruments classified as available for sale: | | | |
| Gilts and government guaranteed debt | – | (1.4) | – |
| Floating rate notes | 6.1 | (3.0) | 2.8 |
| Equity shares | – | 1.2 | (0.2) |
| Transfer to income statement of realised currency translation gains | (5.9) | – | – |
| Other comprehensive income for the year, net of tax, from continuing operations | (0.6) | (1.8) | 0.4 |
| Other comprehensive income for the year, net of tax, from discontinued operations | – | 0.1 | – |
| Total comprehensive income for the period | 50.7 | 13.4 | 16.2 |
| Attributable to: | | | |
| Non-controlling interests | 0.8 | 0.5 | 1.2 |
| Shareholders | 49.9 | 12.9 | 15.0 |
| | 50.7 | 13.4 | 16.2 |

Financial Statements

Consolidated Balance Sheet

at 31 January 2012

| | | 31 January | | 31 July |
|---|------|--------------------------------|--------------------------------|------------------------------|
| | Note | 2012 Unaudited £ million | 2011 Unaudited £ million | 2011 Audited £ million |
| Assets | | | | |
| Cash and balances at central banks | | 488.7 | 672.0 | 594.5 |
| Settlement balances | | 493.8 | 713.5 | 551.1 |
| Loans and advances to banks | | 116.5 | 194.0 | 114.8 |
| Loans and advances to customers | 9 | 3,755.1 | 3,169.6 | 3,435.3 |
| Debt securities | 10 | 730.3 | 954.1 | 852.8 |
| Equity shares | 11 | 56.4 | 68.8 | 57.1 |
| Loans to money brokers against stock advanced | | 75.7 | 110.4 | 75.3 |
| Derivative financial instruments | | 47.0 | 10.6 | 45.2 |
| Investments in associates | | 28.6 | 72.2 | 33.4 |
| Intangible assets | | 138.2 | 111.1 | 133.1 |
| Property, plant and equipment | | 70.0 | 47.6 | 62.2 |
| Deferred tax assets | | 29.2 | 31.5 | 26.7 |
| Prepayments, accrued income and other assets | | 144.8 | 142.4 | 127.1 |
| Assets classified as held for sale | 5 | – | 190.3 | – |
| Total assets | | 6,174.3 | 6,488.1 | 6,108.6 |
| Liabilities | | | | |
| Settlement balances and short positions | 12 | 510.9 | 682.5 | 521.8 |
| Deposits by banks | 13 | 190.4 | 24.3 | 192.8 |
| Deposits by customers | 13 | 3,182.5 | 2,657.4 | 3,170.5 |
| Loans and overdrafts from banks | 13 | 361.4 | 827.0 | 502.6 |
| Debt securities in issue | 13 | 798.3 | 569.4 | 548.1 |
| Loans from money brokers against stock advanced | | 54.5 | 131.8 | 63.6 |
| Derivative financial instruments | | 42.2 | 9.2 | 45.3 |
| Accruals, deferred income and other liabilities | | 224.1 | 210.1 | 260.6 |
| Subordinated loan capital | | 75.0 | 75.0 | 75.0 |
| Liabilities classified as held for sale | 5 | – | 562.4 | – |
| Total liabilities | | 5,439.3 | 5,749.1 | 5,380.3 |
| Equity | | | | |
| Called up share capital | | 37.6 | 37.4 | 37.6 |
| Share premium account | | 283.2 | 276.1 | 283.0 |
| Profit and loss account | | 425.9 | 435.8 | 416.2 |
| Other reserves | | (14.5) | (13.1) | (10.4) |
| Total shareholders' equity | | 732.2 | 736.2 | 726.4 |
| Non-controlling interests in equity | | 2.8 | 2.8 | 1.9 |
| Total equity | | 735.0 | 739.0 | 728.3 |
| Total liabilities and equity | | 6,174.3 | 6,488.1 | 6,108.6 |

Financial Statements

Consolidated Statement of Changes in Equity

for the six months ended 31 January 2012

| | Called up share capital £ million | Share premium account £ million | Profit and loss account £ million | Other reserves | | | | Total attributable to equity holders £ million | Non- controlling interests £ million | Total equity £ million |
|---|---|--|---|--|--------------------------------------|---|--|--|---|---------------------------|
| | | | | Available for sale movements reserve £ million | Share-based reserves £ million | Currency translation reserve £ million | Cash flow hedging reserve £ million | | | |
| At 1 August 2010 (audited) | 37.4 | 275.9 | 457.3 | (4.7) | (34.1) | 23.7 | (3.6) | 751.9 | 2.5 | 754.4 |
| Profit for the period | – | – | 14.6 | – | – | – | – | 14.6 | 0.5 | 15.1 |
| Other comprehensive income/(expense) for the period | – | – | 0.5 | (3.2) | – | (1.9) | 2.9 | (1.7) | – | (1.7) |
| Total comprehensive income/(expense) for the period | – | – | 15.1 | (3.2) | – | (1.9) | 2.9 | 12.9 | 0.5 | 13.4 |
| Exercise of options | – | 0.2 | – | – | – | – | – | 0.2 | – | 0.2 |
| Dividends paid | – | – | (36.4) | – | – | – | – | (36.4) | – | (36.4) |
| Shares purchased | – | – | – | – | (0.3) | – | – | (0.3) | – | (0.3) |
| Shares released | – | – | – | – | 5.0 | – | – | 5.0 | – | 5.0 |
| Other movements | – | – | (0.2) | – | 3.1 | – | – | 2.9 | (0.2) | 2.7 |
| At 31 January 2011 (unaudited) | 37.4 | 276.1 | 435.8 | (7.9) | (26.3) | 21.8 | (0.7) | 736.2 | 2.8 | 739.0 |
| Profit for the period | – | – | – | – | – | – | – | – | 0.7 | 0.7 |
| Other comprehensive (expense)/income for the period | – | – | (1.2) | 5.8 | – | (0.2) | (2.3) | 2.1 | – | 2.1 |
| Total comprehensive (expense)/income for the period | – | – | (1.2) | 5.8 | – | (0.2) | (2.3) | 2.1 | 0.7 | 2.8 |
| Exercise of options | – | (0.1) | – | – | – | – | – | (0.1) | – | (0.1) |
| Dividends paid | – | – | (19.3) | – | – | – | – | (19.3) | (0.4) | (19.7) |
| Shares purchased | – | – | – | – | – | – | – | – | – | – |
| Shares issued | 0.2 | 7.0 | – | – | – | – | – | 7.2 | – | 7.2 |
| Shares released | – | – | – | – | 1.4 | – | – | 1.4 | – | 1.4 |
| Other movements | – | – | 0.9 | (0.4) | 1.9 | (3.5) | – | (1.1) | (1.2) | (2.3) |
| At 31 July 2011 (audited) | 37.6 | 283.0 | 416.2 | (2.5) | (23.0) | 18.1 | (3.0) | 726.4 | 1.9 | 728.3 |
| Profit for the period | – | – | 50.5 | – | – | – | – | 50.5 | 0.8 | 51.3 |
| Other comprehensive (expense)/income for the period | – | – | (0.4) | 6.1 | – | (6.1) | (0.2) | (0.6) | – | (0.6) |
| Total comprehensive income/(expense) for the period | – | – | 50.1 | 6.1 | – | (6.1) | (0.2) | 49.9 | 0.8 | 50.7 |
| Exercise of options | – | 0.2 | – | – | – | – | – | 0.2 | – | 0.2 |
| Dividends paid | – | – | (38.1) | – | – | – | – | (38.1) | – | (38.1) |
| Shares purchased | – | – | – | – | (10.3) | – | – | (10.3) | – | (10.3) |
| Shares released | – | – | – | – | 5.8 | – | – | 5.8 | – | 5.8 |
| Other movements | – | – | (2.3) | – | 0.6 | – | – | (1.7) | 0.1 | (1.6) |
| At 31 January 2012 (unaudited) | 37.6 | 283.2 | 425.9 | 3.6 | (26.9) | 12.0 | (3.2) | 732.2 | 2.8 | 735.0 |

Financial Statements

Consolidated Cash Flow Statement

for the six months ended 31 January 2012

| | | Six months ended 31 January | | Year ended 31 July 2011 |
|--|-------|--------------------------------|--------------------------------|-------------------------------|
| | Note | 2012 Unaudited £ million | 2011 Unaudited £ million | Audited £ million |
| Net cash outflow from operating activities | 18(a) | (396.8) | (410.1) | (282.1) |
| Net cash inflow/(outflow) from investing activities | | | | |
| Dividends received from associates | | 2.6 | – | 2.5 |
| Purchase of: | | | | |
| Assets let under operating leases | | (14.7) | (7.6) | (26.8) |
| Property, plant and equipment | | (2.2) | (3.8) | (9.5) |
| Intangible assets | | (5.3) | (3.8) | (7.2) |
| Equity shares held for investment | | (0.3) | (0.5) | (0.5) |
| Subsidiaries | 18(b) | (4.1) | (16.0) | (39.0) |
| Sale of: | | | | |
| Property, plant and equipment | | 1.0 | 0.1 | 5.2 |
| Equity shares held for investment | | – | 9.0 | 20.7 |
| Subsidiaries and associate | 18(c) | 6.6 | – | (231.0) |
| | | (16.4) | (22.6) | (285.6) |
| Net cash outflow before financing | | (413.2) | (432.7) | (567.7) |
| Financing activities | | | | |
| Issue of ordinary share capital, net of transactions | 18(d) | 0.2 | 0.2 | 0.2 |
| Purchase of own shares for employee share award schemes | | (10.3) | (0.3) | (0.3) |
| Equity dividends paid | | (38.1) | (36.4) | (55.7) |
| Dividends paid to non-controlling interests | | – | (0.1) | (0.4) |
| Interest paid on subordinated loan capital | | (2.8) | (2.8) | (5.6) |
| Debt securities issued | | 250.0 | 350.0 | 329.5 |
| Net decrease in cash | | (214.2) | (122.1) | (300.0) |
| Cash and cash equivalents at beginning of period | | 983.2 | 1,283.2 | 1,283.2 |
| Cash and cash equivalents at end of period | 18(e) | 769.0 | 1,161.1 | 983.2 |

Financial Statements

The Notes

1. Basis of preparation and accounting policies

The interim financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union ("EU"). 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 used are consistent with those set out on pages 63 to 69 of the Annual Report 2011. The following standards and amendments were also effective for the current period, but the adoption of these did not have a material impact on these condensed consolidated interim financial statements:

- IFRS 7 "Disclosures – Transfers of Financial Assets" – Requires additional disclosures in respect of risk exposures arising from transferred financial assets;
- IAS 24 "Related Party Disclosures" – Amendments widen the scope of the definition of related parties;
- IFRS Interpretations Committee ("IFRIC") 14 "Prepayments of a Minimum Funding Requirement"; and
- IFRS Annual Improvements 2010.

The following standards, amendments and interpretations have been issued by the IASB and IFRIC with effective dates, subject to EU endorsement in some cases, which do not impact on these financial statements:

- IAS 12 "Income taxes" – Effective for annual periods beginning on or after 1 January 2012;
- IAS 1 "Presentation of items in other comprehensive income" – Effective for annual periods beginning on or after 1 January 2013;
- IAS 19 "Employee benefits" – Effective for annual periods beginning on or after 1 January 2013;
- IFRS 13 "Fair value measurement" – Effective for annual periods beginning on or after 1 January 2013;
- IFRS 12 "Disclosure of interests in other entities" – Effective for annual periods beginning on or after 1 January 2013;
- IFRS 11 "Joint arrangements" – Effective for annual periods beginning on or after 1 January 2013;
- IFRS 10 "Consolidated financial statements" – Effective for annual periods beginning on or after 1 January 2013;
- IAS 28 "Investments in associates" – Effective for annual periods beginning on or after 1 January 2013;
- IAS 27 "Separate financial statements" – Effective for annual periods beginning on or after 1 January 2013; and
- IFRS 9 "Financial Instruments" – Effective for annual periods beginning on or after 1 January 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 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.

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 18.

The financial information for the year ended 31 July 2011 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 are determined by the Banking division's Treasury operation having regard to commercial demands. More than 90% of all of the group's activities, revenue and assets are located within the British Isles.

| | Banking £ million | Securities £ million | Asset Management £ million | Group £ million | Continuing operations £ million | Discontinued operations £ million | Total £ million |
|--|----------------------|-------------------------|----------------------------------|--------------------|---------------------------------------|---|--------------------|
| Summary Income Statement for the six months ended 31 January 2012 | | | | | | | |
| Net interest income/(expense) | 131.0 | (0.4) | (0.2) | 0.2 | 130.6 | – | 130.6 |
| Other income/(expense) | 45.5 | 52.0 | 34.1 | (0.4) | 131.2 | – | 131.2 |
| Operating income/(expense) before exceptional items | 176.5 | 51.6 | 33.9 | (0.2) | 261.8 | – | 261.8 |
| Administrative expenses | (77.5) | (37.3) | (36.2) | (8.6) | (159.6) | – | (159.6) |
| Depreciation and amortisation | (7.3) | (1.1) | (0.3) | (0.4) | (9.1) | – | (9.1) |
| Impairment losses on loans and advances | (29.9) | – | – | – | (29.9) | – | (29.9) |
| Total operating expenses before exceptional items | (114.7) | (38.4) | (36.5) | (9.0) | (198.6) | – | (198.6) |
| Adjusted operating profit/(loss)¹ | 61.8 | 13.2 | (2.6) | (9.2) | 63.2 | – | 63.2 |
| Exceptional items | – | 5.9 | – | – | 5.9 | – | 5.9 |
| Goodwill impairment | – | – | – | – | – | – | – |
| Amortisation of intangible assets on acquisition | (0.2) | – | (2.1) | – | (2.3) | – | (2.3) |
| Loss on disposal of discontinued operations | – | – | – | – | – | – | – |
| Operating profit/(loss) before tax | 61.6 | 19.1 | (4.7) | (9.2) | 66.8 | – | 66.8 |
| Tax | (16.2) | (2.1) | 1.6 | 1.2 | (15.5) | – | (15.5) |
| Non-controlling interests | (0.6) | – | – | (0.2) | (0.8) | – | (0.8) |
| Profit/(loss) after tax and non-controlling interests | 44.8 | 17.0 | (3.1) | (8.2) | 50.5 | – | 50.5 |

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

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The Notes

2. Segmental analysis continued

The following table provides further detail on group wide operating income:

| | Six months ended 31 January | | Year ended 31 July 2011 |
|--|--------------------------------|-------------------|-------------------------------|
| | 2012 £ million | 2011 £ million | £ million |
| Banking | | | |
| Retail | 71.7 | 63.2 | 128.8 |
| Commercial | 78.9 | 67.1 | 140.6 |
| Property | 22.1 | 21.1 | 42.9 |
| Treasury and other non-lending income | 3.8 | 7.3 | 13.7 |
| Securities | | | |
| Market-making and related activities | 51.6 | 86.7 | 158.7 |
| Asset Management | | | |
| Management fees on AuM | 31.7 | 26.8 | 57.3 |
| Other income | 2.2 | 2.9 | 6.5 |
| Group | (0.2) | (0.1) | – |
| Operating income before exceptional items (continuing operations) | 261.8 | 275.0 | 548.5 |
| Discontinued operations | – | 19.2 | 31.5 |
| Operating income before exceptional items | 261.8 | 294.2 | 580.0 |

| | Banking £ million | Securities £ million | Asset Management £ million | Group £ million | Total £ million |
|---|----------------------|-------------------------|----------------------------------|--------------------|--------------------|
| Summary Balance Sheet at 31 January 2012 | | | | | |
| Assets | | | | | |
| Cash and loans and advances to banks | 573.7 | 16.5 | 13.2 | 1.8 | 605.2 |
| Settlement balances, long trading positions and loans to money brokers | – | 649.1 | – | – | 649.1 |
| Loans and advances to customers | 3,755.1 | – | – | – | 3,755.1 |
| Non-trading debt securities | 688.4 | – | – | – | 688.4 |
| Investments in associates | – | 28.6 | – | – | 28.6 |
| Intangible assets | 38.3 | 28.9 | 70.9 | 0.1 | 138.2 |
| Other assets | 234.9 | 23.2 | 29.6 | 22.0 | 309.7 |
| Intercompany balances | 1.0 | (25.8) | – | 24.8 | – |
| Assets classified as held for sale | – | – | – | – | – |
| Total assets | 5,291.4 | 720.5 | 113.7 | 48.7 | 6,174.3 |
| Liabilities | | | | | |
| Settlement balances, short trading positions and loans from money brokers | – | 565.4 | – | – | 565.4 |
| Deposits by banks | 190.4 | – | – | – | 190.4 |
| Deposits by customers | 3,178.1 | 4.4 | – | – | 3,182.5 |
| Borrowings | 1,033.6 | 2.8 | – | 198.3 | 1,234.7 |
| Other liabilities | 181.0 | 28.5 | 42.1 | 14.7 | 266.3 |
| Intercompany balances | 247.7 | 31.0 | 37.9 | (316.6) | – |
| Liabilities classified as held for sale | – | – | – | – | – |
| Total liabilities | 4,830.8 | 632.1 | 80.0 | (103.6) | 5,439.3 |
| Equity | 460.6 | 88.4 | 33.7 | 152.3 | 735.0 |
| Total liabilities and equity | 5,291.4 | 720.5 | 113.7 | 48.7 | 6,174.3 |

2. Segmental analysis continued

| | Banking £ million | Securities £ million | Asset Management £ million | Group £ million | Continuing operations £ million | Discontinued operations £ million | Total £ million |
|---|----------------------|-------------------------|----------------------------------|--------------------|---------------------------------------|---|--------------------|
| Summary Income Statement for the six months ended 31 January 2011 | | | | | | | |
| Net interest income/(expense) | 112.2 | (0.4) | 0.2 | 0.1 | 112.1 | 3.1 | 115.2 |
| Other income/(expense) | 46.5 | 87.1 | 29.5 | (0.2) | 162.9 | 16.1 | 179.0 |
| Operating income/(expense) before exceptional items | 158.7 | 86.7 | 29.7 | (0.1) | 275.0 | 19.2 | 294.2 |
| Administrative expenses | (67.0) | (54.6) | (35.6) | (9.8) | (167.0) | (16.6) | (183.6) |
| Depreciation and amortisation | (5.9) | (1.0) | (0.1) | (0.4) | (7.4) | (0.7) | (8.1) |
| Impairment losses on loans and advances | (37.2) | – | – | – | (37.2) | – | (37.2) |
| Total operating expenses before exceptional items | (110.1) | (55.6) | (35.7) | (10.2) | (211.6) | (17.3) | (228.9) |
| Adjusted operating profit/(loss)¹ | 48.6 | 31.1 | (6.0) | (10.3) | 63.4 | 1.9 | 65.3 |
| Exceptional items | – | – | (4.5) | – | (4.5) | – | (4.5) |
| Goodwill impairment | – | – | – | – | – | (4.5) | (4.5) |
| Amortisation of intangible assets on acquisition | (0.2) | – | (0.4) | – | (0.6) | – | (0.6) |
| Loss on disposal of discontinued operations | – | – | – | – | – | (24.7) | (24.7) |
| Operating profit/(loss) before tax | 48.4 | 31.1 | (10.9) | (10.3) | 58.3 | (27.3) | 31.0 |
| Tax | (13.1) | (8.6) | 2.0 | 3.9 | (15.8) | (0.1) | (15.9) |
| Non-controlling interests | (0.2) | – | – | – | (0.2) | (0.3) | (0.5) |
| Profit/(loss) after tax and non-controlling interests | 35.1 | 22.5 | (8.9) | (6.4) | 42.3 | (27.7) | 14.6 |

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

| | Banking £ million | Securities £ million | Asset Management £ million | Group £ million | Total £ million |
|---|----------------------|-------------------------|----------------------------------|--------------------|--------------------|
| Summary Balance Sheet at 31 January 2011 | | | | | |
| Assets | | | | | |
| Cash and loans and advances to banks | 773.7 | 26.8 | 65.3 | 0.2 | 866.0 |
| Settlement balances, long trading positions and loans to money brokers | – | 915.6 | – | – | 915.6 |
| Loans and advances to customers | 3,169.6 | – | – | – | 3,169.6 |
| Non-trading debt securities | 901.7 | 2.1 | – | – | 903.8 |
| Investments in associates | – | 71.9 | 0.3 | – | 72.2 |
| Intangible assets | 29.6 | 29.1 | 52.3 | 0.1 | 111.1 |
| Other assets | 180.3 | 17.6 | 38.8 | 22.8 | 259.5 |
| Intercompany balances | (473.7) | (27.7) | 490.5 | 10.9 | – |
| Assets classified as held for sale | – | – | 190.3 | – | 190.3 |
| Total assets | 4,581.2 | 1,035.4 | 837.5 | 34.0 | 6,488.1 |
| Liabilities | | | | | |
| Settlement balances, short trading positions and loans from money brokers | – | 814.3 | – | – | 814.3 |
| Deposits by banks | 18.2 | – | 6.1 | – | 24.3 |
| Deposits by customers | 2,543.4 | 1.3 | 112.7 | – | 2,657.4 |
| Borrowings | 1,093.7 | 4.7 | – | 373.0 | 1,471.4 |
| Other liabilities | 120.9 | 48.9 | 36.9 | 12.6 | 219.3 |
| Intercompany balances | 415.4 | 72.1 | 32.0 | (519.5) | – |
| Liabilities classified as held for sale | – | – | 562.4 | – | 562.4 |
| Total liabilities | 4,191.6 | 941.3 | 750.1 | (133.9) | 5,749.1 |
| Equity | 389.6 | 94.1 | 87.4 | 167.9 | 739.0 |
| Total liabilities and equity | 4,581.2 | 1,035.4 | 837.5 | 34.0 | 6,488.1 |

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The Notes

2. Segmental analysis continued

| | Banking £ million | Securities £ million | Asset Management £ million | Group £ million | Continuing operations £ million | Discontinued operations £ million | Total £ million |
|--|----------------------|-------------------------|----------------------------------|--------------------|---------------------------------------|---|--------------------|
| Summary Income Statement for the year ended 31 July 2011 | | | | | | | |
| Net interest income/(expense) | 230.2 | (0.4) | 0.8 | 0.3 | 230.9 | 5.6 | 236.5 |
| Other income/(expense) | 95.8 | 159.1 | 63.0 | (0.3) | 317.6 | 25.9 | 343.5 |
| Operating income before exceptional items | 326.0 | 158.7 | 63.8 | – | 548.5 | 31.5 | 580.0 |
| Administrative expenses | (142.2) | (101.8) | (72.0) | (20.6) | (336.6) | (28.4) | (365.0) |
| Depreciation and amortisation | (12.3) | (2.1) | (0.4) | (0.7) | (15.5) | (1.1) | (16.6) |
| Impairment losses on loans and advances | (65.2) | – | – | – | (65.2) | – | (65.2) |
| Total operating expenses before exceptional items | (219.7) | (103.9) | (72.4) | (21.3) | (417.3) | (29.5) | (446.8) |
| Adjusted operating profit/(loss)¹ | 106.3 | 54.8 | (8.6) | (21.3) | 131.2 | 2.0 | 133.2 |
| Exceptional items | – | (36.0) | (15.4) | 4.5 | (46.9) | – | (46.9) |
| Goodwill impairment | – | – | (3.7) | – | (3.7) | (4.5) | (8.2) |
| Amortisation of intangible assets on acquisition | (0.6) | – | (1.5) | – | (2.1) | – | (2.1) |
| Loss on disposal of discontinued operations | – | – | – | – | – | (24.9) | (24.9) |
| Operating profit/(loss) before tax | 105.7 | 18.8 | (29.2) | (16.8) | 78.5 | (27.4) | 51.1 |
| Tax | (28.6) | (15.2) | 5.2 | 3.5 | (35.1) | (0.2) | (35.3) |
| Non-controlling interests | (0.7) | – | – | – | (0.7) | (0.5) | (1.2) |
| Profit/(loss) after tax and non-controlling interests | 76.4 | 3.6 | (24.0) | (13.3) | 42.7 | (28.1) | 14.6 |

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

| | Banking £ million | Securities £ million | Asset Management £ million | Group £ million | Total £ million |
|---|----------------------|-------------------------|----------------------------------|--------------------|--------------------|
| Summary Balance Sheet at 31 July 2011 | | | | | |
| Assets | | | | | |
| Cash and loans and advances to banks | 668.4 | 24.7 | 15.1 | 1.1 | 709.3 |
| Settlement balances, long trading positions and loans to money brokers | – | 706.9 | – | – | 706.9 |
| Loans and advances to customers | 3,435.3 | – | – | – | 3,435.3 |
| Non-trading debt securities | 810.2 | – | – | – | 810.2 |
| Investments in associates | – | 33.4 | – | – | 33.4 |
| Intangible assets | 41.1 | 26.3 | 65.5 | 0.2 | 133.1 |
| Other assets | 219.0 | 20.4 | 27.5 | 13.5 | 280.4 |
| Intercompany balances | 1.3 | (23.8) | 8.2 | 14.3 | – |
| Assets classified as held for sale | – | – | – | – | – |
| Total assets | 5,175.3 | 787.9 | 116.3 | 29.1 | 6,108.6 |
| Liabilities | | | | | |
| Settlement balances, short trading positions and loans from money brokers | – | 585.4 | – | – | 585.4 |
| Deposits by banks | 192.8 | – | – | – | 192.8 |
| Deposits by customers | 3,167.4 | 3.1 | – | – | 3,170.5 |
| Borrowings | 790.4 | 0.5 | 1.7 | 333.1 | 1,125.7 |
| Other liabilities | 171.5 | 66.8 | 51.3 | 16.3 | 305.9 |
| Intercompany balances | 405.7 | 35.3 | 25.2 | (466.2) | – |
| Liabilities classified as held for sale | – | – | – | – | – |
| Total liabilities | 4,727.8 | 691.1 | 78.2 | (116.8) | 5,380.3 |
| Equity | 447.5 | 96.8 | 38.1 | 145.9 | 728.3 |
| Total liabilities and equity | 5,175.3 | 787.9 | 116.3 | 29.1 | 6,108.6 |

3. Exceptional items

| | Six months ended 31 January | | Year ended 31 July 2011 |
|----------------------------------|--------------------------------|-------------------|-------------------------------|
| | 2012 £ million | 2011 £ million | £ million |
| Exceptional income | | | |
| Partial disposal of Mako | 5.9 | – | – |
| Investment gains | – | – | 4.5 |
| Exceptional expenses | | | |
| Impairment on investment in Mako | – | – | (36.0) |
| Restructuring costs | – | (4.5) | (15.4) |
| | 5.9 | (4.5) | (46.9) |

On 16 September 2011, the group announced the phased sale of its 49.9% investment in Mako to the Mako management team. As an adjusting post balance sheet event at 31 July 2011, the impairment on the investment in Mako reflects the present value of the expected proceeds of the sale agreement and future dividends, based on historical levels of profitability, discounted using a discount rate of 15%. The first phase of the sale completed on 31 October 2011 reducing the holding to 33.3%. The £5.9 million exceptional income reflects realised foreign exchange gains on partial disposal and the unwinding of the discount for the period.

For the year ended 31 July 2011 investment gains relate to the group's redemption of its investment in Pelagus Capital Fund Inc. and restructuring costs relate to the transformation of the Asset Management division including acquisition and disposal related expenses and severance payments.

The tax impact of the exceptional items is £nil (six months ended 31 January 2011: £nil; year ended 31 July 2011: credit of £1.2 million).

4. Tax expense

| | Six months ended 31 January | | Year ended 31 July 2011 |
|--|--------------------------------|-------------------|-------------------------------|
| | 2012 £ million | 2011 £ million | £ million |
| Tax recognised in the income statement | | | |
| Current tax: | | | |
| UK corporation tax | 20.4 | 16.2 | 38.7 |
| Foreign tax | (0.3) | 1.6 | 3.0 |
| Adjustments in respect of previous periods | (0.7) | – | (4.7) |
| | 19.4 | 17.8 | 37.0 |
| Deferred tax: | | | |
| Deferred tax credit for the current period | (4.9) | (2.0) | (5.5) |
| Adjustments in respect of previous periods | 1.0 | – | 3.6 |
| Tax charge | 15.5 | 15.8 | 35.1 |
| Tax recognised in equity | | | |
| Current tax relating to: | | | |
| Financial instruments classified as available for sale | 2.3 | (1.7) | 0.4 |
| Share-based transactions | (0.3) | (0.3) | (0.7) |
| Deferred tax relating to: | | | |
| Cash flow hedging | 0.1 | 1.1 | 0.6 |
| Financial instruments classified as available for sale | – | 0.3 | – |
| Share-based transactions | 0.5 | (0.3) | (0.3) |
| | 2.6 | (0.9) | – |

The effective tax rate for the period is 23.2% (six months ended 31 January 2011: 27.1%; year ended 31 July 2011: 44.7%), representing the best estimate of the annual effective tax rate expected for the full year, applied to the operating profit before tax for the six month period.

The effective tax rate for the period is lower than the UK corporation tax rate of 25.7% due to exceptional income in the period, which is non-taxable, and the inclusion of the share of profit of associate in the consolidated income statement on an after tax basis.

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5. Discontinued operations

There were no discontinued operations during the six months ended 31 January 2012.

On 1 June 2011, the group completed the sale of its UK offshore trust, fund administration, asset management and banking business, which was a part of the Asset Management division, to Kleinwort Benson Channel Islands Holdings Limited for cash consideration of £26.2 million. The loss on disposal was £25.8 million. At 31 January 2011, the assets, £190.3 million, and liabilities, £562.4 million, of this business were classified as held for sale.

On 1 June 2011, the group completed the sale of its Cayman Islands trust, fiduciary services, fund administration and banking business, which was a part of the Asset Management division, to Intertrust Group Holding SA for cash consideration of US\$30.0 million (£18.3 million). The profit on disposal was £0.9 million.

The UK offshore business and the Cayman Islands business 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:

| | Six months ended 31 January | | Year ended 31 July 2011 |
|---|--------------------------------|-------------------|-------------------------------|
| | 2012 £ million | 2011 £ million | £ million |
| Results of discontinued operations | | | |
| Operating income | – | 19.2 | 31.5 |
| Operating expenses | – | (17.3) | (29.5) |
| Goodwill impairment | – | (4.5) | (4.5) |
| Operating loss before tax | – | (2.6) | (2.5) |
| Tax | – | (0.1) | (0.2) |
| Loss after tax | – | (2.7) | (2.7) |
| Loss on disposal of discontinued operations, net of tax | – | (24.7) | (24.9) |
| Loss for the period from discontinued operations | – | (27.4) | (27.6) |

| | Six months ended 31 January | | Year ended 31 July 2011 |
|---|--------------------------------|-------------------|-------------------------------|
| | 2012 £ million | 2011 £ million | £ million |
| Cash flow from discontinued operations | | | |
| Net cash flow from operating activities | – | (18.8) | 4.0 |
| Net cash flow from investing activities | – | (0.9) | (1.9) |
| Net cash flow from financing activities | – | (0.1) | (0.4) |

6. Acquisitions

On 31 October 2011, the group acquired 100% of Scott-Moncrieff Wealth Management Limited, a Scottish Independent Financial Adviser with £278.0 million of client assets, for cash consideration of £4.1 million for the equity of the business and £0.6 million for cash on the balance sheet.

This acquisition is not regarded as material in the context of the group’s financial statements and therefore the information that would be required for material acquisitions by IFRS 3 has not been disclosed.

7. 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 2011 |
|---|--------------------------------|-------|-------------------------------|
| | 2012 | 2011 | |
| Earnings per share | | | |
| Continuing operations¹ | | | |
| Basic | 34.8p | 29.4p | 29.6p |
| Diluted | 34.3p | 28.6p | 29.0p |
| Adjusted basic ² | 31.9p | 32.9p | 64.8p |
| Adjusted diluted ² | 31.4p | 32.0p | 63.6p |
| Continuing and discontinued operations | | | |
| Basic | 34.8p | 10.1p | 10.1p |
| Diluted | 34.3p | 9.9p | 9.9p |

1 Excludes the effect of the UK offshore and Cayman Islands businesses which were disposed of in June 2011 and have been classified as discontinued operations.

2 Excludes discontinued operations, exceptional items, goodwill impairment, amortisation of intangible assets on acquisition and their tax effects.

| | Six months ended 31 January | | Year ended 31 July 2011 |
|--|--------------------------------|-------------------|-------------------------------|
| | 2012 £ million | 2011 £ million | £ million |
| Profit attributable to the shareholders | 50.5 | 14.6 | 14.6 |
| Loss for the period from discontinued operations including non-controlling interests | – | (27.7) | (28.1) |
| Profit attributable to the shareholders on continuing operations | 50.5 | 42.3 | 42.7 |
| Adjustments: | | | |
| Exceptional items | (5.9) | 4.5 | 46.9 |
| Goodwill impairment | – | – | 3.7 |
| Amortisation of intangible assets on acquisition | 2.3 | 0.6 | 2.1 |
| Tax effect of adjustments | (0.6) | – | (1.7) |
| Adjusted profit attributable to the shareholders on continuing operations | 46.3 | 47.4 | 93.7 |

| | Six months ended 31 January | | Year ended 31 July 2011 |
|---|--------------------------------|-----------------|-------------------------------|
| | 2012 million | 2011 million | million |
| Average number of shares | | | |
| Basic weighted | 145.3 | 144.0 | 144.5 |
| Effect of dilutive share options and awards | 2.0 | 3.9 | 2.9 |
| Diluted weighted | 147.3 | 147.9 | 147.4 |

The basic loss per share from discontinued operations is nil (six months ended 31 January 2011: loss of 19.2p; year ended 31 July 2011: loss of 19.4p) and the diluted loss per share from discontinued operations is nil (six months ended 31 January 2011: loss of 18.7p; year ended 31 July 2011: loss of 19.1p).

Adjusted basic earnings per share on a continuing and discontinued basis was 31.9p (six months ended 31 January 2011: 34.0p; year ended 31 July 2011: 65.7p), based on adjusted profit attributable to shareholders on continuing and discontinued operations of £46.3 million (six months ended 31 January 2011: £48.9 million; year ended 31 July 2011: £95.0 million).

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8. Dividends

| | Six months ended 31 January | | Year ended 31 July 2011 |
|---|--------------------------------|-------------------|-------------------------------|
| | 2012 £ million | 2011 £ million | 2011 £ million |
| For each ordinary share | | | |
| Interim dividend for previous financial year paid in April 2011: 13.5p | – | – | 19.3 |
| Final dividend for previous financial year paid in November 2011: 26.5p (2010: 25.5p) | 38.1 | 36.4 | 36.4 |
| | 38.1 | 36.4 | 55.7 |

An interim dividend relating to the six months ended 31 January 2012 of 14.0p, amounting to an estimated £20.1 million, is declared. This interim dividend, which is due to be paid on 25 April 2012, is not reflected in these financial statements.

9. Loans and advances to customers

| | 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 provision £ million | Total £ million |
|---------------------------|------------------------|-------------------------------------|--|--|---|---|--------------------------------------|--------------------|
| At 31 January 2012 | 28.7 | 1,063.9 | 1,291.4 | 696.2 | 736.6 | 16.8 | (78.5) | 3,755.1 |
| At 31 January 2011 | 33.0 | 970.1 | 1,108.8 | 526.8 | 610.7 | 11.4 | (91.2) | 3,169.6 |
| At 31 July 2011 | 32.7 | 1,060.7 | 1,143.7 | 620.8 | 658.3 | 12.8 | (93.7) | 3,435.3 |

| | 31 January | | 31 July 2011 |
|---|-------------------|-------------------|-------------------|
| | 2012 £ million | 2011 £ million | 2011 £ million |
| Impairment provisions on loans and advances to customers | | | |
| Opening balance | 93.7 | 87.1 | 87.1 |
| Charge for the period | 29.9 | 37.2 | 65.2 |
| Amounts written off net of recoveries | (45.1) | (33.1) | (58.6) |
| Impairment provisions | 78.5 | 91.2 | 93.7 |

At 31 January 2012, gross impaired loans were £254.7 million (31 January 2011: £294.5 million; 31 July 2011: £314.1 million) and equate to 7% (31 January 2011: 9%; 31 July 2011: 9%) of the gross loan book before provisions. The majority of the group's lending is secured and therefore the gross impaired loans quoted do not reflect the expected loss.

10. Debt securities

| | Held for trading £ million | Held to maturity £ million | Available for sale £ million | Loans and receivables £ million | Total £ million |
|---|----------------------------------|----------------------------------|------------------------------------|---------------------------------------|--------------------|
| Long trading positions in debt securities | 41.9 | – | – | – | 41.9 |
| Certificates of deposit | – | – | – | 174.5 | 174.5 |
| Floating rate notes | – | – | 287.8 | – | 287.8 |
| Gilts and government guaranteed debt | – | – | 226.1 | – | 226.1 |
| At 31 January 2012 | 41.9 | – | 513.9 | 174.5 | 730.3 |

| | Held for trading £ million | Held to maturity £ million | Available for sale £ million | Loans and receivables £ million | Total £ million |
|---|----------------------------------|----------------------------------|------------------------------------|---------------------------------------|--------------------|
| Long trading positions in debt securities | 50.3 | – | – | – | 50.3 |
| Certificates of deposit | – | – | – | 177.0 | 177.0 |
| Floating rate notes | – | 2.1 | 444.1 | – | 446.2 |
| Gilts and government guaranteed debt | – | – | 280.6 | – | 280.6 |
| At 31 January 2011 | 50.3 | 2.1 | 724.7 | 177.0 | 954.1 |

10. Debt securities continued

| | Held for trading £ million | Held to maturity £ million | Available for sale £ million | Loans and receivables £ million | Total £ million |
|---|-------------------------------|-------------------------------|---------------------------------|------------------------------------|--------------------|
| Long trading positions in debt securities | 42.6 | – | – | – | 42.6 |
| Certificates of deposit | – | – | – | 284.5 | 284.5 |
| Floating rate notes | – | – | 296.9 | – | 296.9 |
| Gilts and government guaranteed debt | – | – | 228.8 | – | 228.8 |
| At 31 July 2011 | 42.6 | – | 525.7 | 284.5 | 852.8 |

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

| | 31 January 2012 | | 31 January 2011 | | 31 July 2011 | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Book value £ million | Fair value £ million | Book value £ million | Fair value £ million | Book value £ million | Fair value £ million |
| Certificates of deposit classified as loans and receivables | 174.5 | 174.6 | 177.0 | 176.8 | 284.5 | 284.6 |
| Floating rate notes held to maturity | – | – | 2.1 | 2.1 | – | – |
| | 174.5 | 174.6 | 179.1 | 178.9 | 284.5 | 284.6 |

Movements on the book value of gilts and government guaranteed debt and floating rate notes (“FRNs”) held during the period comprise:

| | Gilts and government guaranteed debt | | Floating rate notes | | Total £ million |
|---|--------------------------------------|-------------------------------|---------------------------------|-------------------------------|--------------------|
| | Available for sale £ million | Held to maturity £ million | Available for sale £ million | Held to maturity £ million | |
| At 1 August 2010 | 285.6 | 615.4 | 9.0 | – | 910.0 |
| Additions | 37.4 | – | – | – | 37.4 |
| Disposals | – | (115.1) | – | – | (115.1) |
| Redemptions at maturity | – | (55.0) | – | – | (55.0) |
| Currency translation differences | – | 2.9 | 0.1 | – | 3.0 |
| Changes in fair value of financial instruments classified as available for sale | (5.0) | (4.1) | – | – | (9.1) |
| Transfers to held for sale assets | (37.4) | – | (7.0) | – | (44.4) |
| At 31 January 2011 | 280.6 | 444.1 | 2.1 | – | 726.8 |
| Additions | 7.6 | – | – | – | 7.6 |
| Disposals | (7.6) | (158.9) | (2.1) | – | (168.6) |
| Redemptions at maturity | (50.2) | – | – | – | (50.2) |
| Currency translation differences | – | 1.7 | – | – | 1.7 |
| Changes in fair value of financial instruments classified as available for sale | (1.6) | 10.0 | – | – | 8.4 |
| Transfers to held for sale assets | – | – | – | – | – |
| At 31 July 2011 | 228.8 | 296.9 | – | – | 525.7 |
| Additions | – | – | – | – | – |
| Disposals | – | (12.6) | – | – | (12.6) |
| Redemptions at maturity | – | – | – | – | – |
| Currency translation differences | – | (3.5) | – | – | (3.5) |
| Changes in fair value of financial instruments classified as available for sale | (2.7) | 7.0 | – | – | 4.3 |
| Transfers to held for sale assets | – | – | – | – | – |
| At 31 January 2012 | 226.1 | 287.8 | – | – | 513.9 |

In respect of the FRNs, £187.3 million (31 January 2011: £147.8 million; 31 July 2011: £166.1 million) were due to mature within one year and £19.8 million (31 January 2011: £26.5 million; 31 July 2011: £20.9 million) have been issued by corporates with the remainder issued by banks and building societies.

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11. Equity shares

| | 31 January | | 31 July 2011 |
|--|-------------------|-------------------|--------------|
| | 2012 £ million | 2011 £ million | £ million |
| Equity shares classified as held for trading | 37.7 | 41.4 | 37.9 |
| Other equity shares | 18.7 | 27.4 | 19.2 |
| | 56.4 | 68.8 | 57.1 |

Movements on 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 2010 | 22.7 | 5.7 | 28.4 |
| Additions | – | 0.5 | 0.5 |
| Disposals | – | (1.7) | (1.7) |
| Currency translation differences | 0.5 | – | 0.5 |
| Changes in fair value of: | | | |
| Equity shares classified as available for sale | 0.7 | – | 0.7 |
| Unlisted equity shares held at fair value | – | 0.7 | 0.7 |
| Transfers to held for sale assets | (1.7) | – | (1.7) |
| At 31 January 2011 | 22.2 | 5.2 | 27.4 |
| Additions | – | – | – |
| Disposals | (9.2) | (2.8) | (12.0) |
| Currency translation differences | 0.1 | – | 0.1 |
| Changes in fair value of: | | | |
| Equity shares classified as available for sale | 1.3 | – | 1.3 |
| Unlisted equity shares held at fair value | – | 2.4 | 2.4 |
| Transfers to held for sale assets | – | – | – |
| At 31 July 2011 | 14.4 | 4.8 | 19.2 |
| Additions | 0.3 | – | 0.3 |
| Disposals | – | – | – |
| Currency translation differences | (0.7) | – | (0.7) |
| Changes in fair value of: | | | |
| Equity shares classified as available for sale | (0.1) | – | (0.1) |
| Unlisted equity shares held at fair value | – | – | – |
| Transfers to held for sale assets | – | – | – |
| At 31 January 2012 | 13.9 | 4.8 | 18.7 |

12. Settlement balances and short positions

| | 31 January | | 31 July 2011 |
|-----------------------------------|-------------------|-------------------|--------------|
| | 2012 £ million | 2011 £ million | £ million |
| Settlement balances | 457.4 | 587.1 | 477.8 |
| Short positions held for trading: | | | |
| Debt securities | 35.5 | 79.2 | 30.4 |
| Equity shares | 18.0 | 16.2 | 13.6 |
| | 53.5 | 95.4 | 44.0 |
| | 510.9 | 682.5 | 521.8 |

13. Financial liabilities

| | 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 | 66.2 | 24.7 | 97.7 | 1.8 | – | – | 190.4 |
| Deposits by customers | 236.6 | 719.1 | 1,234.9 | 534.0 | 455.1 | 2.8 | 3,182.5 |
| Loans and overdrafts from banks | 16.7 | 21.9 | 19.2 | 303.6 | – | – | 361.4 |
| Debt securities in issue | – | 350.0 | – | 250.0 | – | 198.3 | 798.3 |

| | | | | | | | |
|---------------------------|--------------|----------------|----------------|----------------|--------------|--------------|----------------|
| At 31 January 2012 | 319.5 | 1,115.7 | 1,351.8 | 1,089.4 | 455.1 | 201.1 | 4,532.6 |
|---------------------------|--------------|----------------|----------------|----------------|--------------|--------------|----------------|

| | 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 | 14.3 | 9.0 | 1.0 | – | – | – | 24.3 |
| Deposits by customers | 578.7 | 870.2 | 816.1 | 346.3 | 43.3 | 2.8 | 2,657.4 |
| Loans and overdrafts from banks | 13.9 | 29.6 | 392.5 | 41.4 | 349.6 | – | 827.0 |
| Debt securities in issue | – | – | 350.0 | – | 21.4 | 198.0 | 569.4 |

| | | | | | | | |
|---------------------------|--------------|--------------|----------------|--------------|--------------|--------------|----------------|
| At 31 January 2011 | 606.9 | 908.8 | 1,559.6 | 387.7 | 414.3 | 200.8 | 4,078.1 |
|---------------------------|--------------|--------------|----------------|--------------|--------------|--------------|----------------|

| | 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 | 54.2 | 25.9 | 110.9 | 1.8 | – | – | 192.8 |
| Deposits by customers | 385.3 | 825.9 | 942.4 | 558.7 | 455.4 | 2.8 | 3,170.5 |
| Loans and overdrafts from banks | 31.0 | 241.9 | 61.4 | 149.4 | 18.9 | – | 502.6 |
| Debt securities in issue | – | – | 350.0 | – | – | 198.1 | 548.1 |

| | | | | | | | |
|------------------------|--------------|----------------|----------------|--------------|--------------|--------------|----------------|
| At 31 July 2011 | 470.5 | 1,093.7 | 1,464.7 | 709.9 | 474.3 | 200.9 | 4,414.0 |
|------------------------|--------------|----------------|----------------|--------------|--------------|--------------|----------------|

Of the debt securities in issue, £198.3 million mature on 10 February 2017.

The group has a repurchase agreement whereby FRNs to the value of £125.9 million (31 January 2011: £360.4 million; 31 July 2011: £249.5 million) have been lent in exchange for cash of £104.5 million (31 January 2011: £304.0 million; 31 July 2011: £205.1 million) which has been included within loans and overdrafts from banks. These FRNs remain on the group's consolidated balance sheet as the group retains the risks and rewards of ownership. Residual maturities of the repurchase agreement are as follows:

| | 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 |
|---------------------------|------------------------|-------------------------------------|--|--|---|---|--------------------|
| At 31 January 2012 | – | 21.9 | 19.2 | 63.4 | – | – | 104.5 |
| At 31 January 2011 | – | 29.6 | 167.5 | 41.4 | 65.5 | – | 304.0 |
| At 31 July 2011 | – | 56.8 | 61.0 | 69.1 | 18.2 | – | 205.1 |

The group has securitised without recourse and restrictions £842.4 million (31 January 2011: £495.1 million; 31 July 2011: £495.0 million) of its insurance premium and motor loan receivables in return for debt securities in issue of £600.0 million (31 January 2011: £350.0 million; 31 July 2011: £350.0 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.

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14. Capital

The group's individual entities and the group as a whole complied with all of the externally imposed capital requirements to which they are subject for the year ended 31 July 2011 and the periods to 31 January 2011 and 31 January 2012. The table below summarises the composition of regulatory capital and Pillar 1 risk weighted assets as at those financial period ends.

| | 31 January | | 31 July |
|---|----------------|----------------|----------------|
| | 2012 | 2011 | 2011 |
| | £ million | £ million | £ million |
| Core tier 1 capital | | | |
| Called up share capital | 37.6 | 37.4 | 37.6 |
| Share premium account | 283.2 | 276.1 | 283.0 |
| Retained earnings and other reserves | 453.1 | 470.3 | 448.9 |
| Non-controlling interests | 2.8 | 2.8 | 1.9 |
| Deductions from core tier 1 capital | | | |
| Intangible assets | (138.2) | (111.1) | (133.1) |
| Goodwill in associates | (10.0) | (49.3) | (12.2) |
| Investment in own shares | (42.1) | (39.0) | (37.6) |
| Core tier 1 capital after deductions | 586.4 | 587.2 | 588.5 |
| Tier 2 capital | | | |
| Subordinated debt | 75.0 | 75.0 | 75.0 |
| Unrealised gains on available for sale equity shares | 7.0 | 8.8 | 7.0 |
| Tier 2 capital | 82.0 | 83.8 | 82.0 |
| Deductions from total of tier 1 and tier 2 capital | | | |
| Participation in a non-financial undertaking | (0.8) | (1.5) | (1.3) |
| Other regulatory adjustments | (0.6) | (0.3) | (0.1) |
| Total regulatory capital | 667.0 | 669.2 | 669.1 |
| Risk weighted assets (notional) | | | |
| Credit and counterparty risk | 3,798.6 | 3,372.8 | 3,513.7 |
| Operational risk ¹ | 807.7 | 971.9 | 831.6 |
| Market risk ¹ | 161.9 | 152.4 | 147.7 |
| | 4,768.2 | 4,497.1 | 4,493.0 |
| Core tier 1 capital ratio | 12.3% | 13.1% | 13.1% |
| Total capital ratio | 14.0% | 14.9% | 14.9% |

¹ Operational and market risk include a notional adjustment at 8% in order to determine notional risk weighted assets.

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

| | 31 January | | 31 July |
|--|--------------|--------------|--------------|
| | 2012 | 2011 | 2011 |
| | £ million | £ million | £ million |
| Equity | 735.0 | 739.0 | 728.3 |
| Regulatory deductions from equity: | | | |
| Intangible assets | (138.2) | (111.1) | (133.1) |
| Goodwill in associates | (10.0) | (49.3) | (12.2) |
| Other reserves not recognised for core tier 1 capital: | | | |
| Cash flow hedging reserve | 3.2 | 0.7 | 3.0 |
| Available for sale movements reserve | (3.6) | 7.9 | 2.5 |
| Core tier 1 capital after deductions | 586.4 | 587.2 | 588.5 |

15. Contingent liabilities

Financial Services Compensation Scheme

As disclosed in note 29 of the Annual Report 2011, the group is exposed to the Financial Services Compensation Scheme ("FSCS") which provides compensation to customers of financial institutions in the event that an institution is unable, or is likely to be unable, to pay claims against it. In order to meet its obligations to the depositors of a number of failed institutions, the FSCS borrowed amounts from HM Treasury on an interest only basis. While it is anticipated that these borrowings will be repaid wholly or substantially from the realisation of the assets of the failed institutions, the FSCS will recoup any shortfalls from additional levies to FSCS participants. At the date of this Interim Report it is not possible to estimate with any certainty the amount or timing of any such additional levies the group may be required to pay in respect of failed institutions. The group continues to accrue for its share of levies that have been raised by the FSCS.

16. Related party transactions

Related party transactions, including salary and benefits provided to directors and key management, were not material to the financial position or performance of the group during the period. There were no changes to the type and nature of the related party transactions disclosed in the Annual Report 2011 that could have a material effect on the financial position and performance of the group in the six months to 31 January 2012.

17. Sovereign and banking sector exposure

The group has limited exposure outside the UK. However, given increased market and regulatory focus on such exposures, particularly in relation to Greece, Ireland, Italy, Portugal and Spain, the group considers it appropriate to provide the following disclosure.

The group has no sovereign exposures to any of the countries listed above. It has exposure through its holding of debt securities issued by Irish banks as follows:

| | 31 January | | 31 July 2011 £ million |
|---------------------|-------------------|-------------------|------------------------------|
| | 2012 £ million | 2011 £ million | |
| Floating rate notes | 94.4 | 95.1 | 94.6 |

The FRNs are issued by Allied Irish Bank and Bank of Ireland and have a remaining maturity of under 12 months. As available for sale debt securities, the FRNs are marked to market against equity and had a carrying value of £92.9 million at 31 January 2012 (31 January 2011: £79.0 million; 31 July 2011: £86.0 million). In February 2012 £71.0 million of these FRNs matured and were repaid in full.

In addition, the group has loans and advances to customers in Ireland and Spain. These relate to loans in the group's Retail and Commercial businesses and are issued with the same lending criteria and security as applied within the UK.

| | 31 January | | 31 July 2011 £ million |
|--|-------------------|-------------------|------------------------------|
| | 2012 £ million | 2011 £ million | |
| Loans and advances to customers | | | |
| Ireland | 82.5 | 49.9 | 75.7 |
| Spain | 3.0 | 2.6 | 3.4 |
| | 85.5 | 52.5 | 79.1 |

The group has no other material exposure to these economies.

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18. Consolidated cash flow statement reconciliation

| | Six months ended 31 January | | Year ended 31 July |
|---|--------------------------------|----------------|-----------------------|
| | 2012 | 2011 | 2011 |
| | £ million | £ million | £ million |
| (a) Reconciliation of operating profit before tax to net cash inflow from operating activities | | | |
| Operating profit on ordinary activities before tax on continuing operations | 66.8 | 58.3 | 78.5 |
| Operating loss on ordinary activities before tax on discontinued operations | – | (27.3) | (27.4) |
| Tax paid | (24.8) | (19.3) | (33.3) |
| (Increase)/decrease in: | | | |
| Interest receivable and prepaid expenses | (8.7) | (0.3) | (4.8) |
| Net settlement balances and trading positions | 47.3 | (60.5) | (47.6) |
| Net money broker loans against stock advanced | (9.5) | 74.7 | 41.6 |
| (Decrease)/increase in: | | | |
| Interest payable and accrued expenses | (3.5) | (16.0) | (4.2) |
| Impairment on investment in Mako | – | – | 36.0 |
| Depreciation, amortisation and goodwill impairment | 11.4 | 8.1 | 21.3 |
| Net cash inflow from trading activities | 79.0 | 17.7 | 60.1 |
| (Increase)/decrease in: | | | |
| Loans and advances to banks not repayable on demand | (0.1) | (12.0) | (10.5) |
| Loans and advances to customers | (319.8) | (273.1) | (539.2) |
| Floating rate notes held to maturity | – | (0.1) | 9.0 |
| Floating rate notes classified as available for sale | 12.6 | 171.3 | 329.0 |
| Debt securities held for liquidity | – | (32.4) | 20.4 |
| Other assets less other liabilities | (36.9) | (3.6) | 32.1 |
| (Decrease)/increase in: | | | |
| Deposits by banks | (2.4) | (18.5) | 155.3 |
| Deposits by customers | 12.0 | 91.2 | 338.4 |
| Loans and overdrafts from banks | (141.2) | (350.6) | (676.7) |
| Net cash outflow from operating activities | (396.8) | (410.1) | (282.1) |
| (b) Analysis of net cash outflow in respect of the purchase of subsidiaries | | | |
| Cash consideration in respect of current year purchases | (4.1) | (14.7) | (39.2) |
| Loan stock redemptions and deferred consideration paid in respect of prior year purchases | (1.0) | (1.3) | (3.1) |
| Net movement in cash balances | 1.0 | – | 3.3 |
| | (4.1) | (16.0) | (39.0) |
| (c) Analysis of net cash inflow/(outflow) in respect of the sale of subsidiaries and associate | | | |
| Cash consideration received | 7.3 | – | 44.5 |
| Cash and cash equivalents disposed of | (0.7) | – | (275.5) |
| | 6.6 | – | (231.0) |
| (d) Analysis of changes in financing | | | |
| Share capital (including premium) and subordinated loan capital: | | | |
| Opening balance | 395.6 | 388.3 | 388.3 |
| Shares issued for cash | 0.2 | 0.2 | 0.2 |
| Shares issued on acquisition | – | – | 7.1 |
| Closing balance | 395.8 | 388.5 | 395.6 |
| (e) Analysis of cash and cash equivalents¹ | | | |
| Cash and balances at central banks | 485.3 | 668.9 | 590.8 |
| Loans and advances to banks repayable on demand | 109.2 | 208.4 | 107.9 |
| Certificates of deposit | 174.5 | 283.8 | 284.5 |
| | 769.0 | 1,161.1 | 983.2 |

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

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. 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 and other securities of the company. Past performance cannot be relied upon as a guide to future performance and persons needing advice should consult an independent financial adviser. Statements in this 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.

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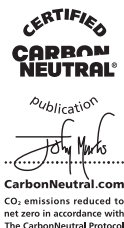
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