



Close Brothers

Interim Report 2002



Close Brothers

DIRECTORS' STATEMENT

Profit and Dividend

The operating profit on ordinary activities before taxation and after deducting goodwill amortisation of £3.3 million for the six months ended 31st January, 2002 was £34.1 million.

Since our businesses are essentially non-seasonal it is relevant to compare each half year with the preceding period. The out-turn compares with profits before taxation of £33.4 million (after deducting goodwill amortisation of £2.9 million) in the previous half year to 31st July, 2001, a modest increase of 2 per cent.

However, compared to the half year to 31st January, 2001, which showed profits before taxation of £56.1 million (after deducting goodwill amortisation of £1.8 million), these results show a fall of 39 per cent. During that period, the profits of our Market-Making business, at £25.9 million, reflected the better stock market conditions at that time.

The directors have declared an interim dividend of 9p net per share, the same level as last year. This is payable on 17th April, 2002 to shareholders on the register at the close of business on 15th March, 2002.

Overall Business Review

These results are in line with our statement at the AGM on 30th October, 2001 when we expressed caution on the outlook for the year.

Compared to the second half of last year, our **Asset Management** division held up reasonably in the depressed equity markets, whilst our **Corporate Finance** division was, inevitably, affected by the very difficult general conditions in its marketplace. Our **Banking** division did well, with good volumes at decent margins and no deterioration in the percentage of bad debts. After the shock of 11th September, our **Market-Making** division recovered with the market and was helped by two good months in the Autumn.

The segmental analysis of our income and profits is shown below:

| | Operating income | | | Profit before taxation | | |
|-----------------------|------------------|------------------|-----------------|------------------------|------------------|-----------------|
| | First half 2002 | Second half 2001 | First half 2001 | First half 2002 | Second half 2001 | First half 2001 |
| £ million | | | | | | |
| Asset Management | 33.4 | 35.4 | 34.9 | 8.6 | 9.9 | 14.1 |
| Corporate Finance | 13.7 | 26.2 | 22.1 | 2.0 | 6.8 | 5.1 |
| Banking | 65.9 | 62.1 | 54.2 | 26.1 | 20.8 | 20.1 |
| Market-Making | 25.0 | 10.4 | 46.8 | 9.6 | 1.5 | 25.9 |
| Group | (0.8) | 0.8 | (0.2) | (8.9) | (2.7) | (7.3) |
| Total | 137.2 | 134.9 | 157.8 | 37.4 | 36.3 | 57.9 |
| Goodwill amortisation | | | | (3.3) | (2.9) | (1.8) |
| Total | | | | 34.1 | 33.4 | 56.1 |

The group expenses include some £1.5 million in respect of the reorganisation and redundancy costs of our corporate finance business. The divisional net assets have not changed materially during the first half year.



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Divisional Business Review

Asset Management

Despite a fall in the markets during the period, our Asset Management division increased its funds under management from £3,074 million to £3,321 million. £143 million of this increase was by acquisition, whilst the balance was from net new funds raised of £216 million less negative market movement of £112 million. The profits of the division at £8.6 million were down from £9.9 million in the previous half year, mainly because of the lower level of performance fees.

A substantial part of the division's revenues continues to arise in our offshore businesses; these performed well and were enhanced during the period by the acquisition of a small private client fund management business in Jersey.

Markets continue to mark time and the outlook for our second half is neutral.

Corporate Finance

Although our Corporate Finance division started the first half with a reasonable pipeline, this rapidly evaporated as a number of deals were cancelled or postponed following the events of 11th September.

In November, we embarked on a mainly voluntary redundancy programme to lower our costs, reducing our London-based staff by some 27 people and this programme coincided with changes in the management team. Whilst the results of our Paris and Frankfurt operations were both up against the comparable period last year, the overall figures for London were sharply down, even though we were busy on the restructuring side.

The net overall result was only a modest profit, but we are confident that the market position of our business remains good. We are now well placed to increase our share in a market which is still difficult but shows some signs of stirring into life.

Banking

Our Banking division was the largest contributor to our results in the period, with profits increasing by some 30 per cent. over the same period last year. All activities in this division performed well and, in particular, Close Premium Finance (formerly known as PROMPT) achieved record results and financed some £600 million of insurance premiums. In addition, Close Invoice Finance expanded its business by the acquisition of clients from Singer & Friedlander Factors, and both Warrior and Mortgage Intelligence moved forward into profit.

Notwithstanding our cautious approach to lending in a period of economic slowdown, our principle of focusing mainly on the nature of the asset financed rather than the covenant of the borrower is standing us in good stead and our bad debt level has been contained below the levels of last year. The immediate outlook for this division continues to be good.

In the past six months our loan book grew by some 9 per cent. from £1.19 billion to £1.30 billion; a year ago it was £1.09 billion. The mix of assets that we finance has not changed significantly over the period:

| | 31st January, 2002 | 31st January, 2001 |
|----------------------------------|--------------------|--------------------|
| Insurance | 23% | 25% |
| Printing equipment | 20% | 20% |
| Cars | 18% | 15% |
| Property | 9% | 12% |
| Commercial vehicles and aircraft | 9% | 11% |
| Debt factoring | 6% | 6% |
| Armed services | 4% | 6% |
| Other | 11% | 5% |

Market-Making

For our Market-Making division the half year consisted of two distinct periods, with the majority of the profit being earned in the second. During the first, trading volumes continued at a comparatively low level with prices falling

DIRECTORS' STATEMENT

in the middle of September. However, in the second period, activity began to pick up as more confidence returned to the Stock Market.

Noteworthy events for our business were the increase in direct connections to WINNER (our automatic equity trading platform), the extension of dealing to include the FTSE-100 stocks, the continued development of Bondscape (our fixed interest trading platform), and the move to new City premises off Cannon Street.

The immediate outlook is unexciting.

Directors

As already announced, Brian Winterflood retired from the Board on 31st January, 2002 upon reaching his 65th birthday, but we will continue to benefit from his presence as non-executive chairman of our Market-Making division. Mike Hines, with David Macnamara as his alternate, was appointed to the Board today. They are the joint chief executives of our Market-Making division.

John Llewellyn-Lloyd stepped down as head of our Corporate Finance division on 31st December, 2001 by mutual agreement and retired from the Board. We thank him for his efforts and wish him well in his future career.

Management

Rod Kent has advised the Board that, after more than 28 years as the managing director of Close Brothers, he intends to pass on the chief executive responsibility at the conclusion of our next AGM on 31st October, 2002. In accepting this decision, the Board is mindful of his remarkable contribution to the creation and development of the present Close Brothers Group and of his understandable wish to modulate his business and personal interests. The Board is delighted that Rod Kent will continue as a non-executive director.

Rod Kent will be succeeded by Colin Keogh, who will be appointed chief executive on 31st October, 2002. Colin Keogh has been with Close Brothers since 1985, first heading the Corporate Finance division and, then, in 1998, becoming responsible for the Asset Management division, which he will continue to chair.

The Board will also appoint two group managing directors, namely Peter Winkworth and Stephen Hodges. Peter Winkworth, who has been with the group for over 25 years, will continue as chief financial officer and a director of the group's principal operating subsidiaries. Stephen Hodges, who has been with the group since 1985, will succeed Rod Kent as chairman of Close Brothers Limited, the banking arm, and continue to oversee our treasury and lending businesses.

On 1st January, 2002, Richard Grainger was appointed chief executive of our Corporate Finance division, with Stephen Aulsebrook joining Mark Wrightson as co-chairman of the division.

Close Brothers is fortunate in having depth of management, and the Board believes that these arrangements will make for a seamless handover to a strong management team to take the business on to its next phase of development.

Outlook

Looking forward we continue to believe that the outlook for our Banking division is good. For our other three divisions, which are more geared to the activity and direction of the Stock Market, the immediate outlook continues to be unclear. Overall we maintain our confidence in the longer-term strength and progress of the group, whilst adopting a cautious stance for the next six months.



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CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | Six months ended | | | Year ended |
|--|--------------------------------------|-----------------------------------|--|---------------------------------|
| | 31st January, 2002 (Unaudited) | 31st July, 2001 (Unaudited) | 31st January, 2001 (Unaudited) (Restated) | 31st July, 2001 (Audited) |
| | £'000 | £'000 | £'000 | £'000 |
| Interest receivable | 100,491 | 107,352 | 101,630 | 208,982 |
| Interest payable | (46,074) | (55,957) | (56,641) | (112,598) |
| Net interest income | 54,417 | 51,395 | 44,989 | 96,384 |
| Dividend income | 14 | 112 | 41 | 153 |
| Fees and commissions receivable | 69,945 | 83,351 | 70,402 | 153,753 |
| Fees and commissions payable | (13,398) | (13,161) | (8,381) | (21,542) |
| Net dealing income – market-making | 25,680 | 10,913 | 47,418 | 58,331 |
| Other operating income | 529 | 2,239 | 3,361 | 5,600 |
| Other income | 82,770 | 83,454 | 112,841 | 196,295 |
| Operating income | 137,187 | 134,849 | 157,830 | 292,679 |
| Administrative expenses | 87,245 | 84,438 | 89,294 | 173,732 |
| Depreciation | 3,489 | 3,661 | 3,200 | 6,861 |
| Provisions for bad and doubtful debts | 9,058 | 10,505 | 7,414 | 17,919 |
| Amortisation of goodwill | 3,325 | 2,844 | 1,827 | 4,671 |
| Total operating expenses | 103,117 | 101,448 | 101,735 | 203,183 |
| Operating profit on ordinary activities before taxation | 34,070 | 33,401 | 56,095 | 89,496 |
| Taxation on profit on ordinary activities | 11,060 | 10,829 | 17,810 | 28,639 |
| Profit on ordinary activities after taxation | 23,010 | 22,572 | 38,285 | 60,857 |
| Minority interests – equity | 1,258 | 394 | 1,360 | 1,754 |
| Profit attributable to shareholders | 21,752 | 22,178 | 36,925 | 59,103 |
| Interim dividend | 12,195 | | 12,121 | 35,048 |
| Retained profit | 9,557 | | 24,804 | 24,055 |
| Interim dividend per share (net) | 9.0p | | 9.0p | 26.0p |
| Earnings per share before amortisation of goodwill | 18.6p | 18.5p | 28.9p | 47.4p |
| Earnings per share on profit attributable to shareholders | 16.1p | 16.5p | 27.5p | 44.0p |
| Diluted earnings per share | 16.0p | 16.3p | 27.3p | 43.6p |

All income and profits are in respect of continuing operations. The comparative figures for the six months ended 31st January, 2001 have been restated as a result of the group adopting Financial Reporting Standard No. 19 on Deferred Taxation for the year ended 31st July, 2001.

CONSOLIDATED BALANCE SHEET

| | 31st January, | | 31st July, |
|--|------------------|---------------------------|------------------|
| | 2002 | 2001 | 2001 |
| | (Unaudited) | (Unaudited) (Restated) | (Audited) |
| | £'000 | £'000 | £'000 |
| Assets | | | |
| Cash and balances at central banks | 619 | 362 | 586 |
| Loans and advances to banks | 499,190 | 562,885 | 593,894 |
| Loans and advances to customers | 1,300,524 | 1,088,191 | 1,189,405 |
| Less:- non-recourse borrowings | (100,000) | – | (33,000) |
| | 1,200,524 | 1,088,191 | 1,156,405 |
| Debt securities – long positions | 44,365 | 31,935 | 35,764 |
| Debt securities – other | 552,184 | 529,942 | 481,936 |
| Settlement accounts | 271,957 | 355,212 | 147,750 |
| Equity shares – long positions | 27,821 | 54,943 | 33,413 |
| Loans to money brokers against stock advanced | 86,217 | 71,462 | 60,096 |
| Equity shares – investments | 26,974 | 28,414 | 27,957 |
| Intangible fixed assets – goodwill | 117,152 | 83,733 | 114,080 |
| Tangible fixed assets | 22,966 | 20,403 | 20,468 |
| Other assets | 46,683 | 38,442 | 58,964 |
| Deferred taxation | 10,276 | 12,121 | 11,507 |
| Prepayments and accrued income | 25,980 | 24,322 | 23,863 |
| Total assets | 2,932,908 | 2,902,367 | 2,766,683 |
| Liabilities | | | |
| Deposits by banks | 103,721 | 87,042 | 55,643 |
| Customer accounts | 1,150,345 | 1,055,687 | 1,144,155 |
| Bank loans and overdrafts | 483,843 | 610,190 | 607,629 |
| Debt securities – loan notes issued | 118,140 | 36,281 | 18,140 |
| Debt securities – short positions | 40,259 | 29,247 | 38,182 |
| Settlement accounts | 208,948 | 298,608 | 114,174 |
| Equity shares – short positions | 13,660 | 15,897 | 9,594 |
| Loans from money brokers against stock advanced | 90,438 | 47,174 | 28,646 |
| Other liabilities | 139,167 | 180,542 | 168,726 |
| Accruals and deferred income | 62,437 | 74,050 | 71,910 |
| Subordinated loan capital | 96,937 | 51,937 | 96,937 |
| Minority interests – equity | 5,717 | 9,928 | 5,056 |
| Total liabilities | 2,513,612 | 2,496,583 | 2,358,792 |
| Shareholders' funds | | | |
| Called up share capital | 34,187 | 34,008 | 34,055 |
| Share premium account | 194,952 | 192,156 | 193,253 |
| Profit and loss account | 190,157 | 179,620 | 180,583 |
| Total equity shareholders' funds | 419,296 | 405,784 | 407,891 |
| Total liabilities and shareholders' funds | 2,932,908 | 2,902,367 | 2,766,683 |
| Memorandum items | | | |
| Contingent liabilities – guarantees | 4,847 | 14,317 | 3,555 |
| Commitments – other | 158,094 | 138,941 | 138,903 |



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CONSOLIDATED CASH FLOW STATEMENT

| | Six months ended 31st January, | | Year ended 31st July, |
|--|-----------------------------------|-------------|--------------------------|
| | 2002 | 2001 | 2001 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | £'000 | £'000 | £'000 |
| Net cash (outflow)/inflow from operating activities (Note 1(a)) | (59,174) | 40,637 | 238,063 |
| Returns on investments and servicing of finance: Dividends paid to minorities | (133) | (1,307) | (1,703) |
| Taxation: UK corporation taxation paid | (13,828) | (17,510) | (47,608) |
| Capital expenditure and financial investment: Purchase of tangible fixed assets | (7,729) | (3,210) | (8,243) |
| Sale of tangible fixed assets | 1,666 | 537 | 2,073 |
| Purchase of equity shares held for investment | (3,500) | (9,173) | (14,885) |
| Sale of equity shares held for investment | 3,381 | 1,651 | 5,655 |
| | (6,182) | (10,195) | (15,400) |
| Acquisitions and disposals: Minority interests acquired for cash | (1,118) | (6,374) | (22,537) |
| Purchase of subsidiaries (Note 1(b)) | (648) | (13,524) | (64,424) |
| | (1,766) | (19,898) | (86,961) |
| Equity dividends paid | (22,927) | (22,697) | (34,818) |
| Net cash (outflow)/inflow before financing | (104,010) | (30,970) | 51,573 |
| Financing: Issue of ordinary share capital including premium | 1,831 | 1,961 | 2,455 |
| Issue of subordinated loan capital | – | – | 45,000 |
| (Decrease)/increase in cash | (102,179) | (29,009) | 99,028 |

In the directors' view, cash is an integral part of the operating activities of the group, since it is a bank's stock in trade. Nevertheless, as required by Financial Reporting Standard No. 1 (Revised), cash is not treated as cash flow from operating activities but is required to be shown separately in accordance with the format above.



Close Brothers

THE NOTES

2. Basis of preparation

The interim accounts, which are unaudited, have been prepared on the basis of the accounting policies set out in the 2001 group accounts. The figures shown for the full year ended 31st July, 2001 represent an abridged version of the full accounts of Close Brothers Group plc for that year, which have been filed with the Registrar of Companies and on which the auditors have given an unqualified report. The financial information contained in this interim report does not constitute the group's statutory accounts within the meaning of Section 240 of the Companies Act 1985.

3. Earnings per share

The calculation of earnings per share on profit attributable to shareholders is based on profit after taxation and minority interests of £21,752,000 (2001 – £36,925,000) and on 135,154,000 (2001 – 134,079,000) ordinary shares, being the weighted average number of shares in issue during the period excluding those held by the employee benefit trust.

The diluted earnings per share is based on the same profit after taxation and minority interests disclosed above, and on 136,265,000 (2001 – 135,087,000) ordinary shares, being the weighted average number of shares in issue also disclosed above, plus the weighted number of shares resulting from the dilutive potential of exercisable employee share options in issue.

INTERIM REVIEW REPORT

Interim Review Report to Close Brothers Group plc

Introduction

We have been instructed by the company to review the financial information for the six months ended 31st January, 2002 which comprises the profit and loss account, the balance sheet, the cash flow statement and related notes 1 to 3. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom auditing standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31st January, 2002.

Deloitte & Touche

Chartered Accountants

Hill House, 1 Little New Street, London EC4A 3TR
4th March, 2002

Copies of this statement are available at the Registered Office of Close Brothers Group plc, 10 Crown Place, London EC2A 4FT.