

Embargoed for release 7.00 am on Monday 4th March, 2002

**CLOSE BROTHERS GROUP plc**  
**The specialist merchant banking group**  
**INTERIM RESULTS 2002**

**HIGHLIGHTS**

	<b>31st January, 2002</b>	Six months ended 31st July, 2001	31st January, 2001
* Operating profit before taxation and goodwill amortisation	<b>£37.4m</b>	£36.3m	£57.9m
* Operating profit before taxation on ordinary activities	<b>£34.1m</b>	£33.5m	£56.1m
* Earnings per share (before amortisation of goodwill)	<b>18.6p</b>	18.5p	28.9p
* Interim dividend per share	<b>9.0p</b>	n/a	9.0p
* Shareholders' funds	<b>£419m</b>	£408m	£406m

- \* Profits at £34.1m are in line with our AGM statement and above the second half of last year.
- \* **Asset Management** profits held up reasonably with funds under management increasing.
- \* **Corporate Finance** results were sharply down, although Europe was up.
- \* **Banking** profits substantially up and no increase in bad debt levels.
- \* **Market-Making** recovered after 11<sup>th</sup> September and was helped by two good months in the Autumn.
- \* Rod Kent, Managing Director for over 28 years, is to stand down in October 2002. Colin Keogh will succeed him as Group Chief Executive, with Peter Winkworth and Stephen Hodges being appointed as Group Managing Directors.

Sir David Scholey, Chairman, commenting on the results said:

“Looking forward the immediate outlook for banking is good but for the other three divisions it continues to be unclear. We maintain our confidence in the longer term strength and progress of the group, whilst adopting a cautious stance for the next six months.”

Commenting on the management succession plans, he said:

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

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Webcast video interview with Rod Kent, Managing Director, Close Brothers Group plc at [www.closebrothers.co.uk](http://www.closebrothers.co.uk) or [www.cantos.com](http://www.cantos.com)

Notes to editor: CV of Colin Keogh attached.

## NOTES FOR EDITORS

### **COLIN KEOGH, M.B.A., Barrister, A.T.I.I.**

Colin Keogh (48) was born and brought up in South Africa. He was educated at St John's College in Johannesburg. In 1970 he came to England and took A levels at Eton College, following which he read law at Oxford and trained for the Bar in 1976. After a brief spell with Merrill Lynch, he spent four years on the tax side at Arthur Andersen and then studied for a MBA at INSEAD. From 1983 to 1985, he worked at Saudi International Bank before joining the Corporate Finance division of Close Brothers in 1985.

At Close Brothers he was promoted to run the Corporate Finance division, successfully overseeing the integration of the Hill Samuel team acquired in June 1996. Since 1998 he has been responsible for building the Asset Management division. He has been on the Board of Close Brothers Group since 1995.

## 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:

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

## DIRECTORS' STATEMENT

### 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:

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

## DIRECTORS' STATEMENT

### **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 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 by 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.

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Six months ended		Year ended	
	31st January, 2002 (Unaudited) £'000	31st July, 2001 (Unaudited) £'000	31st January, 2001 (Unaudited) (Restated) £'000	31st July, 2001 (Audited) £'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
<b>Operating profit on ordinary activities before taxation</b>	<b>34,070</b>	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
<b>Interim dividend per share (net)</b>	<b>9.0p</b>		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, 2002 (Unaudited) £'000	2001 (Unaudited) (Restated) £'000	31st July, 2001 (Audited) £'000
<b>Assets</b>			
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)
	<b>1,200,524</b>	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
<b>Total assets</b>	<b>2,932,908</b>	2,902,367	2,766,683
<b>Liabilities</b>			
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
<b>Total liabilities</b>	<b>2,513,612</b>	2,496,583	2,358,792
<b>Shareholders' funds</b>			
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
<b>Total equity shareholders' funds</b>	<b>419,296</b>	405,784	407,891
<b>Total liabilities and shareholders' funds</b>	<b>2,932,908</b>	2,902,367	2,766,683
<b>Memorandum items</b>			
Contingent liabilities - guarantees	4,847	14,317	3,555
Commitments - other	158,094	138,941	138,903

## CONSOLIDATED CASH FLOW STATEMENT

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

## THE NOTES

### 1. Consolidated cash flow statement

	Six months ended 31st January,		Year ended 31st July,
	2002 (Unaudited) £'000	2001 (Unaudited) £'000	2001 (Audited) £'000
<b>(a) Reconciliation of profit on ordinary activities before taxation to net cash (outflow)/inflow from operating activities</b>			
Operating profit on ordinary activities before taxation	34,070	56,095	89,496
(Increase)/decrease in:			
Interest receivable and prepaid expenses	(2,117)	(1,557)	(5,510)
Net settlement accounts	(29,433)	(5,005)	18,023
Net equity shares held for trading	9,658	3,214	18,441
Net debt securities held for trading	(6,524)	(5,058)	48
(Decrease)/increase in interest payable and accrued expenses	(9,473)	7,775	1,468
Depreciation and amortisation	6,814	5,027	11,532
Net cash inflow from trading activities	2,995	60,491	133,498
(Increase)/decrease in:			
Debt securities held for liquidity	(70,248)	(43,454)	4,552
Loans and advances to customers	(111,119)	(93,714)	(130,104)
Loans and advances to banks not repayable on demand	(7,508)	39,803	136,607
Other assets less other liabilities	29,241	21,828	(30,635)
Increase/(decrease) in:			
Deposits by banks	48,078	19,660	(11,739)
Customer accounts	6,190	(10,701)	77,767
Bank loans and overdrafts	(123,786)	46,819	43,271
Non-recourse borrowings	67,000	-	33,000
Debt securities - loan notes issued	100,000	-	(18,141)
Exchange adjustment	(17)	(95)	(13)
Net cash (outflow)/inflow from operating activities	(59,174)	40,637	238,063
<b>(b) Analysis of net cash outflow in respect of purchase of subsidiaries</b>			
Cash consideration of purchases	(648)	(20,780)	(73,217)
Net movement in cash balances	-	7,256	8,793
	(648)	(13,524)	(64,424)
<b>(c) Analysis of changes in financing</b>			
Share capital (including premium) and subordinated loan capital:			
Opening balance	324,245	270,940	270,940
Shares issued for cash	1,831	1,961	2,455
Shares issued other than for cash	-	5,200	5,850
Subordinated loan capital issued	-	-	45,000
Closing balance	326,076	278,101	324,245
<b>(d) Analysis of cash balances</b>			
		<b>Movement in the period £'000</b>	
Cash and balances at central banks	33	619	362
Loans and advances to banks repayable on demand	(102,212)	119,530	93,929
	(102,179)	120,149	94,291
			222,328

## 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.

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### 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.

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## 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