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CLOSE BROTHERS GROUP plc

The specialist merchant banking group

INTERIM RESULTS 2006
(under International Financial Reporting Standards)

| HIGHLIGHTS | Six months ended | | Year ended |
|---|-------------------------|----------------------|-------------------|
| | 31st January, | 31st January, | 31st July, |
| | 2006 | 2005 | 2005 |
| * Operating profit on ordinary activities before taxation | £76.5m | £64.2m | £111.8m |
| * Earnings per share | 36.0p | 30.8p | 49.8p |
| * Dividend per share | 10.5p | 9.5p | 28.5p |
| * Equity | £614m | £555m | £579m |
| * Profits up 19%. | | | |
| * Earnings per share up 17% | | | |
| * Dividend up 11%. | | | |
| * Investment Banking profits increased by 33%; group contribution 57%. <i>Asset Management</i> profits up 22%; growth continues; FUM up 26% to £7.7bn. <i>Corporate Finance</i> profits up 83%; higher contribution from M&A. <i>Securities</i> profits up 28%; £4m contribution from Close Brothers Seydler. | | | |
| * Banking profits increased by 7%. Margins broadly maintained and bad debts well contained. | | | |

Colin Keogh, Chief Executive, commenting on the results said:

“These are excellent results with strong growth performance from investment banking and better than expected growth in banking.

For our banking activity the second half has started well and we expect continued progress at a modest level. Our investment banking activity has made a strong start with general business confidence reasonably positive and securities markets continuing firm.”

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Webcast video interview with Colin Keogh, Chief Executive, Close Brothers Group plc at www.closebrothers.co.uk and www.cantos.com

KEY INTERIM RESULTS SIX MONTHS ENDED 31ST JANUARY, 2006
(Under International Financial Reporting Standards)

PROFIT BEFORE TAXATION

£76.5m + 19%

EARNINGS PER SHARE

36.0p + 17%

DIVIDEND PER SHARE

10.5p + 11%

RETURN ON CAPITAL*

26%

**Pre-tax annualised return on opening equity.*

DIRECTORS' STATEMENT

In September 2005 we said that our four divisions had made a good start to the new financial year. Further we expected modest continued progress in our banking activity and more positive progress in our investment banking activity. Our expectations proved well founded and are reflected in the excellent results for the first half of the year.

The operating profit on ordinary activities before taxation for the six months ended 31st January, 2006 was £76.5 million (2005 – £64.2 million), up 19 per cent. Earnings per share increased by 17 per cent. to 36.0p (2005 – 30.8p). The directors have declared an interim dividend of 10.5p (2005 – 9.5p) per share, an increase of 11 per cent. This is payable on 19th April, 2006 to shareholders on the register at the close of business on 17th March, 2006.

The financial statements for the period reflect for the first time the application of International Financial Reporting Standards. Comparative figures have been adjusted accordingly. The effect on our opening balance sheet (shown in note 3) was not material. Our interim profits now include a charge for share-based remuneration of £1.7 million (2005 – £0.8 million) but no charge for goodwill amortisation.

The table below shows the progress achieved in all divisions of the group.

| £million | Operating income | | Profit before taxation | |
|--------------------------|--------------------|------------------------|------------------------|------------------------|
| | First half 2005 | First half 2006 | First half 2005 | First half 2006 |
| Investment Banking | | | | |
| <i>Asset Management</i> | 57.3 | 62.0 | 15.3 | 18.6 |
| <i>Corporate Finance</i> | 21.5 | 30.5 | 4.8 | 8.8 |
| <i>Securities</i> | 44.6 | 62.5 | 17.0 | 21.8 |
| | <hr/> 123.4 | <hr/> 155.0 | <hr/> 37.1 | <hr/> 49.2 |
| Banking | 90.0 | 96.7 | 34.6 | 36.9 |
| Group | 1.4 | 0.9 | (7.5) | (9.6) |
| | <hr/> 214.8 | <hr/> 252.6 | <hr/> 64.2 | <hr/> 76.5 |

The divisional net assets have not changed materially during the first half.

Overall Business Review

Market conditions were generally favourable for our investment banking activity and its proportion of the group's operating profit increased to 57 per cent. (2005 – 52 per cent.). Market conditions were less favourable for our banking activity where profits nevertheless grew by 7 per cent.

Last year we made four acquisitions, in asset management, securities and banking. All of these have settled in well and Close Brothers Seydler, our new securities business in Germany, surpassed our expectations with pre-tax profits of £4.0 million.

In this period we have made no acquisitions but we supported a small fundraising by PLUS Markets Group plc, a new London equity market platform, in which we now have a 19 per cent. shareholding.

Our funds under management rose to £7.7 billion (up 26 per cent. on 2005 H1 and 8 per cent. on 2005 H2). Our banking loan book fell slightly to £1.9 billion, mainly reflecting the impact of the planned run-off in the motor book that we acquired last year.

We continued to exert tight control on costs with our expense income ratio at 63.7 per cent. (2005 – 63.8 per cent.).

DIRECTORS' STATEMENT

Asset Management

The growth in our asset management division continued with profits of £18.6 million some 22 per cent. ahead of the first half 2005. Funds under management ("FUM") grew by £600 million, reflecting positive market conditions (£400 million) and net new funds attracted (£200 million), to £7.7 billion.

Our private client businesses made further progress and FUM increased to £2.9 billion. Our onshore mass affluent business is enjoying good profit growth and putting in place its new marketing and sales strategy. Performance remains good. Our high net worth business is seeking to accelerate its future growth by looking to add new teams and funds as a spearhead for its development. Our offshore business continues to do well with recent innovative product launches driving further growth in profits, FUM and cash deposits.

Our funds business (FUM £4.8 billion) also had a good first half with progress on all fronts. Close TEAMS, acquired in July 2005, has continued to grow its client base. We have successfully launched more specialist property, VCT and structured products. Our private equity business has been active both in new investments and in realisations. Fund performance continues to be strong amongst most of our specialist funds.

Our asset management business remains well diversified both in terms of activity and funds managed. The table below shows the spread of our FUM. We see this diversity as a source of strength should the current strong run in global equity markets falter.

| | FUM |
|----------------|-------|
| Equities | 44% |
| Property | 18% |
| Fixed income | 18% |
| Private equity | 12% |
| Other | 8% |
| | <hr/> |
| | 100% |

Corporate Finance

The good pipeline at the start of the period combined with a buoyant and active market place produced an excellent result for the division, with profits of £8.8 million up by 83 per cent. M&A represented 72 per cent. of income with debt advisory and restructuring representing 8 per cent. and 20 per cent. respectively. A notable transaction was advising on the \$535 million sale of ERM Holdings, the largest all-environmental consultancy in the world. As several other significant deals were concluded towards the end of the period, the initial pipeline for the second half is lower than that for the first half. However, the M&A arena in Europe generally continues to be active and our offices in London, Frankfurt and Paris are encouragingly busy.

Securities

Our securities division performed well with profits up 28 per cent. Our UK market-making business made a good start to the period and finished well following a lull in October when the stock market paused for breath. Operating profits were some 5 per cent. ahead of the corresponding period.

The number of stocks traded on the LSE's SETSmm platform increased as has the number of reported bargain levels. This is in part due to generally brisker activity and in part due to the multiple fills required to execute some order book transactions, but for us also by some pressure on margins. However, our investment trust team continued to contribute corporate and broking income and in the medium term we see potential from PLUS Markets' alternative trading platform, which continues to develop and now provides trading in some 600 LSE listed stocks below the top 350.

In Germany Close Brothers Seydler achieved revenues of £14.0 million and made excellent progress capitalising on increased trading volumes in its chosen sectors as well as benefiting from encouraging levels of activity as designated sponsor of some 100 companies. This business is dependent on market activity and represents an exciting strategic platform for growth in the longer term.

DIRECTORS' STATEMENT

Banking

The profits of our banking activity grew by 7 per cent. This was better than expected given the difficult new business environment for the insurance premium and motor finance sectors. There is surplus capital available in UK banking markets at present which has led to significant pricing pressure in a number of areas. Our policy has been to maintain our margins, in some cases at the expense of volume, and as a result our traditionally excellent overall margins were broadly maintained, delivering an annualised net return on the loan book of 3.9 per cent. Bad debts continued to be well contained and managed with the charge for impairment remaining at some 1 per cent. of average loans.

The asset classes financed continue to be well spread as shown by the table below:

| | 31st January, | |
|-------------------------------------|---------------|-------------|
| | 2005 | 2006 |
| Motor vehicles | 24% | 21% |
| Insurance premiums | 22% | 21% |
| Transport, engineering and plant | 16% | 20% |
| Printing machinery | 13% | 12% |
| Property | 9% | 10% |
| Healthcare and other assets | 10% | 8% |
| Invoice receivables | 6% | 8% |
| | <u>100%</u> | <u>100%</u> |

Our asset finance group achieved good progress in the transport, engineering and health sectors. As anticipated, the motor market experienced slower growth, lower fee income from insurance sales and some increase in repossessions and bad debts. Taken in the round the result of this group was satisfactory.

With insurance premium rates remaining soft, that element of our loan book declined, despite continued growth in the underlying number of borrowers. However, there are signs that premium deflation is easing and we continue to improve our systems and services to brokers. The property loan book grew without sacrificing margin and our three credit management businesses also did well.

We were particularly pleased that our debt factoring start-up in Germany moved into profit and traded ahead of budget. Our Treasury had a good half year in a flat interest rate environment.

Overall, our returns from banking remain highly attractive.

Directors

Sir David Scholey (age 70) has advised the board that he will be retiring at the conclusion of our next Annual General Meeting on 26th October, 2006.

The Nomination and Governance Committee considered whether Sir David's successor should be appointed from within or outside the present board. Having considered possible candidates in both categories, the Committee concluded, and the board concurred, that Rod Kent (age 58) should be invited to fill the post. In reaching its conclusion, the board acknowledged the fact that Mr. Kent's term as an executive officer of Close Brothers from 1974 to 2002 means that he would not meet the independence criteria of the Combined Code. Since October 2002, Mr. Kent has served as chairman or senior independent director of three significant companies, Bradford and Bingley plc, Grosvenor Limited and Whitbread Plc. During this time as a non-executive director of the company Mr. Kent has consistently shown independence of judgement.

The board attaches great importance to succession planning and continuity and believes that these are important factors behind Close Brothers' consistent long term success. Mr. Kent offers the unique combination of experience, continuity and knowledge of our rather particular business and the board considers his appointment to be in the best interests of the company and all its shareholders. Accordingly Sir David will be succeeded as chairman by Mr. Kent.

A number of the company's largest institutional shareholders have been consulted on this proposed appointment.

The board has also decided that Strone Macpherson, senior independent director, will be appointed deputy chairman at the same time.

DIRECTORS' STATEMENT

The board is in the process of selecting an additional independent non-executive director with the intention of making the appointment before the year end. Following these changes, the board will comprise, in addition to Mr. Kent as chairman, six non-executive directors and five executive directors.

Outlook

Our strategy remains sharply focussed and our fundamental business principles sound. We adhere to our long-proven diversified business model, with continued emphasis on the development of our asset management division.

For our banking activity the second half has started well and we expect continued progress at a modest level. Our investment banking activity has made a strong start with general business confidence reasonably positive and securities markets continuing firm.

6th March, 2006

CONSOLIDATED INCOME STATEMENT

| | Six months ended 31st January, 2006 (Unaudited) £'000 | 2005 (Unaudited) £'000 | Year ended 31st July, 2005 (Unaudited) £'000 |
|--|---|-------------------------------------|---|
| Interest and similar income | 143,880 | 138,192 | 282,841 |
| Interest expense and similar charges | (70,457) | (68,849) | (140,320) |
| Net interest income | 73,423 | 69,343 | 142,521 |
| Fees and commissions income | 136,095 | 102,966 | 228,055 |
| Fees and commissions expense | (21,508) | (16,280) | (36,396) |
| Gains less losses arising from dealing in securities | 59,334 | 48,138 | 96,285 |
| Other operating income | 5,245 | 10,603 | 17,019 |
| Other income | 179,166 | 145,427 | 304,963 |
| Operating income | 252,589 | 214,770 | 447,484 |
| Administrative expenses | 160,808 | 136,995 | 285,799 |
| Depreciation | 6,187 | 5,099 | 12,145 |
| Impairment losses on loans and advances | 9,080 | 8,509 | 20,044 |
| Total operating expenses | 176,075 | 150,603 | 317,988 |
| Operating profit on ordinary activities before impairment losses on goodwill and taxation | 76,514 | 64,167 | 129,496 |
| Impairment losses on goodwill | - | - | 17,735 |
| Operating profit on ordinary activities before taxation | 76,514 | 64,167 | 111,761 |
| Taxation | 22,091 | 18,436 | 37,152 |
| Profit on ordinary activities after taxation | 54,423 | 45,731 | 74,609 |
| Profit attributable to minority interests | 1,615 | 999 | 2,212 |
| Profit attributable to the shareholders of the company | 52,808 | 44,732 | 72,397 |
| <hr/> | | | |
| Basic earnings per share | 36.0p | 30.8p | 49.8p |
| Diluted earnings per share | 35.9p | 30.7p | 49.6p |
| Dividend per share | 10.5p | 9.5p | 28.5p |

All income and profits are in respect of continuing operations.

CONSOLIDATED BALANCE SHEET

| | 31st January, 2006 (Unaudited) £'000 | 2005 (Unaudited) £'000 | 31st July, 2005 (Unaudited) £'000 |
|---|---|------------------------------|--|
| Assets | | | |
| Cash and balances at central banks | 1,343 | 923 | 1,244 |
| Settlement accounts | 748,247 | 544,330 | 604,692 |
| Loans and advances to customers | 1,862,316 | 1,962,316 | 1,939,203 |
| Loans and advances to banks | 756,809 | 715,399 | 786,330 |
| Money market securities | 868,349 | 862,809 | 797,498 |
| Debt securities – long positions | 67,343 | 55,966 | 61,345 |
| Equity shares – long positions | 48,167 | 41,184 | 40,377 |
| Loans to money brokers against stock advanced | 172,954 | 139,222 | 158,553 |
| Investment securities | 39,323 | 25,315 | 27,384 |
| Intangible assets – goodwill | 97,926 | 104,815 | 95,711 |
| Intangible assets – other | 2,894 | 2,545 | 1,672 |
| Property, plant and equipment | 40,024 | 33,740 | 38,277 |
| Share of gross assets of joint ventures | 21,905 | 21,826 | 21,624 |
| Share of gross liabilities of joint ventures | (21,026) | (21,183) | (20,914) |
| Share of net assets of joint ventures | 879 | 643 | 710 |
| Other receivables | 94,416 | 77,897 | 108,949 |
| Deferred tax assets | 25,180 | 23,700 | 27,560 |
| Prepayments and accrued income | 67,787 | 62,009 | 64,398 |
| Derivative financial instruments | 2,057 | - | - |
| Total assets | 4,896,014 | 4,652,813 | 4,753,903 |
| Liabilities | | | |
| Settlement accounts | 670,564 | 479,931 | 561,173 |
| Deposits by customers | 1,872,967 | 1,752,796 | 1,818,187 |
| Deposits by banks | 189,626 | 124,588 | 108,101 |
| Debt securities – short positions | 58,247 | 45,415 | 49,628 |
| Equity shares – short positions | 25,479 | 19,857 | 20,424 |
| Loans from money brokers against stock advanced | 186,218 | 158,502 | 142,371 |
| Non-recourse borrowings | 200,000 | 250,000 | 200,000 |
| Loans and overdrafts from banks | 328,154 | 545,047 | 494,363 |
| Promissory notes and other debt securities in issue | 357,564 | 350,000 | 367,130 |
| Other liabilities | 180,432 | 143,115 | 182,817 |
| Current tax liabilities | 18,012 | 18,428 | 19,297 |
| Accruals and deferred income | 107,914 | 113,152 | 136,889 |
| Subordinated loan capital | 75,000 | 96,937 | 75,000 |
| Derivative financial instruments | 11,848 | - | - |
| Total liabilities | 4,282,025 | 4,097,768 | 4,175,380 |
| Equity | | | |
| Called up share capital | 36,488 | 36,135 | 36,168 |
| Share premium account | 257,393 | 251,642 | 252,210 |
| Profit and loss account | 303,197 | 260,948 | 279,183 |
| Other reserves | 9,648 | 1,359 | 5,092 |
| Minority interests | 7,263 | 4,961 | 5,870 |
| Total equity | 613,989 | 555,045 | 578,523 |
| Total liabilities and equity | 4,896,014 | 4,652,813 | 4,753,903 |

STATEMENT OF CHANGES IN EQUITY

| | Six months ended 31st January, 2006 (Unaudited) £'000 | | Year ended 31st July, 2005 (Unaudited) £'000 |
|--|--|----------------|--|
| Called up share capital | | | |
| Opening balance | 36,168 | 36,066 | 36,066 |
| Exercise of options | 320 | 69 | 102 |
| Closing balance | 36,488 | 36,135 | 36,168 |
| Share premium account | | | |
| Opening balance | 252,210 | 250,430 | 250,430 |
| Shares issued net of expenses | 5,183 | 1,212 | 1,780 |
| Closing balance | 257,393 | 251,642 | 252,210 |
| Profit and loss account | | | |
| Opening balance | 279,183 | 241,743 | 241,743 |
| Retained profit for the period | 52,808 | 44,732 | 72,397 |
| Dividends | (27,301) | (25,604) | (39,240) |
| IFRS adjustments at 1st August, 2005 | (1,589) | - | - |
| Movement on pension deficit | - | - | 4,188 |
| ESOP trust profit | 96 | 77 | 95 |
| Closing balance | 303,197 | 260,948 | 279,183 |
| Other reserves: | | | |
| ESOP trust reserve | | | |
| Opening balance | (3,786) | (3,962) | (3,962) |
| Shares (purchased)/ released at cost | (1,996) | 94 | 176 |
| Closing balance | (5,782) | (3,868) | (3,786) |
| Share-based payments reserve | | | |
| Opening balance | 7,614 | 4,285 | 4,285 |
| Charge to the income statement | 1,700 | 848 | 1,940 |
| Movement on deferred share awards | - | - | 1,389 |
| Closing balance | 9,314 | 5,133 | 7,614 |
| Exchange movements reserve | | | |
| Opening balance | 1,264 | - | - |
| Currency translation differences | (178) | 94 | 1,264 |
| Closing balance | 1,086 | 94 | 1,264 |
| Cash flow hedging reserve | | | |
| Opening balance under IFRS at 1st August, 2005 | (1,843) | | |
| Movement on derivatives | 987 | | |
| Closing balance | (856) | | |
| Available-for-sale reserve | | | |
| Opening balance under IFRS at 1st August, 2005 | 3,431 | | |
| Net gain on available-for-sale investments | 2,455 | | |
| Closing balance | 5,886 | | |
| Total other reserves | 9,648 | 1,359 | 5,092 |
| Minority interests | | | |
| Opening balance | 5,870 | 4,538 | 4,538 |
| Movement during the period | 1,393 | 423 | 1,332 |
| Closing balance | 7,263 | 4,961 | 5,870 |
| Total equity | 613,989 | 555,045 | 578,523 |

CONSOLIDATED CASH FLOW STATEMENT

| | | Six months ended 31st January, 2006 | 2005 | Year ended 31st July, 2005 |
|---|------|--|----------------------|----------------------------------|
| | Note | (Unaudited) £'000 | (Unaudited) £'000 | (Unaudited) £'000 |
| Net cash inflow from operating activities | 4(a) | 81,028 | 248,413 | 307,161 |
| Net cash outflow from investing activities: | | | | |
| Dividends paid to minority interests | | (25) | (512) | (934) |
| Purchase of assets let under operating leases | | (7,807) | (5,721) | (11,213) |
| Purchase of property, plant and equipment | | (3,318) | (2,738) | (6,920) |
| Sale of property, plant and equipment | | 2,361 | 1,180 | 1,685 |
| Purchase of intangible assets | | (1,472) | (272) | (1,175) |
| Purchase of equity shares held for investment | | (2,150) | (5,824) | (7,523) |
| Sale of equity shares held for investment | | 3,286 | 14,843 | 19,091 |
| Minority interests acquired for cash | | (2,403) | (2,622) | (5,134) |
| Purchase of loan book | | - | (130,530) | (130,530) |
| Purchase of subsidiaries | 4(b) | (736) | (16,623) | (29,506) |
| | | (12,264) | (148,819) | (172,159) |
| Net cash inflow before financing | | 68,764 | 99,594 | 135,002 |
| Financing activities: | | | | |
| Issue of ordinary share capital including premium | | 5,503 | 1,281 | 1,882 |
| Equity dividends paid | | (27,301) | (25,604) | (39,240) |
| Repayment of subordinated loan capital | | - | - | (21,937) |
| Interest paid on subordinated loan capital | | (3,058) | (3,938) | (7,743) |
| Net increase in cash | | 43,908 | 71,333 | 67,964 |

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 International Accounting Standard No. 7, 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. Accounting policies

(a) Adoption of International Financial Reporting Standards

The consolidated financial statements are prepared, for the first time, in accordance with all relevant International Financial Reporting Standards (“IFRS”) adopted for use in the European Union and therefore comply with Article 4 of EU Regulation. The date of transition to IFRS and the date of the opening IFRS balance sheet was 1st August, 2004. As allowed by IFRS 1, the group has not restated its comparative consolidated income statements and balance sheets to comply with IAS 32 and IAS 39.

(b) Accounting convention

The consolidated financial statements have been prepared under the historical cost convention, modified by the revaluation of available-for-sale financial assets, financial assets and liabilities held at fair value through profit or loss and all derivative contracts.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the holding company (Close Brothers Group plc) and entities (including certain special purpose entities and joint ventures) controlled by the group (its subsidiaries). Control exists where the group has the power to govern the financial and operating policies of the entity. All intra-group balances, transactions, income and expenses are eliminated on consolidation.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiaries acquired or disposed of in the period are included in the consolidated income statement from the date of acquisition or up to the date of disposal.

The consolidated income statement and consolidated balance sheet consolidate the financial statements of the company and all its subsidiaries, and account for associates using the equity method. As allowed by IFRS 1, the group has not restated business combinations that took place before 1st August, 2004.

(d) Net interest income

Interest on loans and advances made by the group, and fee income and expense and other direct costs relating to loan origination, restructuring or commitments are recognised in the income statement using the effective interest rate method. This method applies a rate that discounts estimated future cash payments or receipts to the net carrying amount of the financial instrument. When calculating the effective interest rate, the cash flows take into account all contractual terms of the financial instrument including transaction costs and all other premiums or discounts but not future credit losses.

Interest on impaired financial assets is recognised at the original effective interest rate applied to the carrying amount as reduced by an allowance for impairment.

(e) Fees and commissions net income

Where fees, that have not been included within the effective interest rate calculation as described in note 1(d), are earned on the execution of a significant act, such as fees arising from negotiating or arranging a transaction for a third party, they are recognised as revenue when that act has been completed. Fees and corresponding expenses in respect of other services are recognised in the income statement as the right to consideration or payment accrues through performance of services. To the extent that fees and commissions are recognised in advance of billing they are included as accrued income or expense.

(f) Gains less losses arising from dealing in securities

This includes the net gains arising from both buying and selling securities and from positions held in securities, including related interest income and dividends.

THE NOTES

1. Accounting policies *continued*

(g) Loans and advances

Loans and advances are recognised when cash is advanced to borrowers at cost including any transaction costs which are then amortised using the effective interest rate method as explained in note 1(d). Loans and advances are stated net of provisions for impairment losses.

Impairment provisions are made if there is objective evidence of impairment as a result of one or more events regarding a significant loan or portfolio of loans (“loans”) occurring after its initial recording and which has an impact that can be reliably estimated by management.

For loans that are not considered individually significant, the group adopts a formulaic approach which allocates a loss rate which is dependent on the overdue period. Loss rates are based on the discounted expected future cash flows from loans and are regularly benchmarked against actual outcomes to ensure they remain appropriate.

The amount of the loss is measured as the difference between the loan’s carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at original effective interest rate. As the loan or portfolio amortises over its life, so the impairment loss may amortise. All impairment losses are reviewed at least at each reporting date. If subsequently the amount of the loss decreases as a result of a new event, the outstanding impairment loss is correspondingly reversed.

(h) Finance leases, operating leases and instalment finance

A finance lease is a lease or hire purchase contract that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Finance leases are recognised as loans at an amount equal to the gross investment in the lease discounted at its implicit interest rate. Finance charges on finance leases are taken to income in proportion to the net funds invested.

Rental costs under other leases and hire purchase contracts are charged to the income statement in equal annual amounts over the period of the leases.

(i) Equity shares and debt securities

The long and short positions in equity shares and debt securities are classified as held for trading and represent the aggregate of trading positions in individual securities arising respectively from a net bought and net sold position. They are valued at the dealers’ bid and offer prices respectively at the close of business.

Other investments designated at inception under the fair value option are fair valued through profit or loss at mid market values if listed and at directors’ valuation if unlisted, with gains and losses being included directly in the income statement.

Investments with fixed or determinable payments which are held with the intention and ability to hold to maturity are classified as held-to-maturity. They are initially recognised at fair value including direct and incremental transaction costs and subsequently valued at amortised cost, using the effective interest rate method (as described in note 1(d)).

Investments classified as available-for-sale are recognised at fair value with changes being accounted for through equity. If such an asset is sold or there is objective evidence that it is impaired, the cumulative gains and losses recognised in equity are recycled to the income statement. Fair values are obtained from independent open market sources, discounted cash flow models based on market rates or option pricing models.

Equity shares held by the employee benefit trust are deducted in arriving at equity and realised surpluses and deficits are not taken to the income statement.

(j) Investments in subsidiaries

Investments in subsidiaries are stated at cost less provision for impairment in value.

(k) Depreciation

Property, plant and equipment, including freehold investment properties held for long term investment, and intangible assets other than goodwill, are stated at cost less accumulated depreciation or amortisation and less provisions for impairment, if any. The provision for depreciation or amortisation on these assets is calculated to write off their cost over their estimated useful lives by equal annual instalments as follows:

| | |
|--------------------------------------|------------------------------|
| Fixtures, fittings and equipment | 10%-33% |
| Motor vehicles | 25% |
| Freehold and long leasehold property | 2.5% |
| Short leasehold property | over the length of the lease |
| Intangible assets – other | 10%-25% |

No depreciation is provided in respect of freehold land, which is stated at cost.

THE NOTES

1. Accounting policies *continued*

(l) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the closing rates of exchange at the balance sheet date. Foreign currency transactions are translated into sterling at the average rates of exchange over the year and exchange differences arising in these cases are taken to the income statement.

The balance sheets of subsidiaries denominated in foreign currencies are translated into sterling at the closing rates of exchange at the balance sheet date, exchange differences being taken to the exchange movements reserve.

As allowed by IFRS 1, cumulative foreign exchange differences up to 31st July, 2004 have not been recognised in the exchange movements reserve.

(m) Deferred taxation

Deferred taxation is provided in full on temporary timing differences, at the rates of taxation expected to apply when these differences crystallise, arising from their carrying amounts in the financial statements. Deferred taxation assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which temporary differences can be set.

(n) Intangible assets – goodwill

Goodwill arising on the acquisition of business assets before 1st August, 1998, representing the excess of the purchase consideration over the fair value ascribed to the net tangible assets has been written off to reserves. From that date such goodwill arising has been capitalised as an intangible asset and amortised, in equal annual instalments, unless there has been impairment, over its estimated useful life of up to 20 years. From 1st August, 2004, amortisation of goodwill has ceased and the net book value of goodwill is subject to impairment review at least annually.

(o) Pensions

Contributions to defined contribution schemes are charged in the income statement when they become payable.

For the group's one defined benefit scheme, which was closed to new entrants in 1996 and involved at 31st July, 2005 fewer than 110 active and deferred members, scheme liabilities are measured on an actuarial basis using the projected credit method and discounted at a rate that reflects the current rate of return on a high quality corporate bond of equivalent term and currency to the scheme liabilities. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the income statement over the members' expected average remaining working lives.

(p) Share-based payments

The group has for many years operated long term incentive arrangements. These include the 2004 Long Term Incentive Plan, the 1995 Executive Share Option Scheme and the Inland Revenue approved Savings Related Share Option Scheme, together "Incentive Schemes". The group has applied IFRS 2 "Share-based Payment" to all grants of equity instruments under these Incentive Schemes after 7th November, 2002.

The expense for these Incentive Schemes is measured by reference to the fair value of the shares or share options granted on the date of grant. Such fair values are determined using option pricing models which take into account the exercise price of the option, the current share price, the risk free interest rate, the expected volatility of the company's share price over the life of the option/award and other relevant factors. Vesting conditions are not taken into account when measuring fair value, but are reflected by adjusting the number of equity instruments included in the measurement of the transaction such that the amount recognised reflects the number that actually vest. The fair value is expensed in the income statement on a straight line basis over the vesting period.

THE NOTES

1. Accounting policies *continued*

(q) Derivative financial instruments (“derivatives”) and hedge accounting

Derivatives are used only to minimise the impact of interest and currency rate changes to financial assets and liabilities and therefore meet the IAS 39 criteria for hedge accounting. They are carried on the balance sheet at fair value which is obtained from quoted market prices in active markets, including recent market transactions, and discounted cash flow models.

On acquisition, a derivative is designated as a hedge and the group formally documents the relationship between the derivative and the hedged item. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedge derivative is highly effective in offsetting changes in fair values or cash flows of hedged items. If a hedge is deemed ineffective, the amount of the ineffectiveness (taking into account the timing of the expected cash flows where relevant) is recorded in the income statement.

For fair value hedges, changes in the fair value are recognised in the income statement, together with changes in the fair value of the hedged item.

For cash flow hedges, the fair value gain or loss associated with the effective proportion of the cash flow hedge is recognised initially directly in equity and recycled to the income statement in the period when the hedged item will affect profit or loss.

THE NOTES

2. Consolidated Income Statement reconciliation

The tables below compare the consolidated income statements now reported under IFRS with those previously reported under UK Generally Accepted Accounting Practice (“UK GAAP”):

| | UK GAAP | | Adjustments | | IFRS | |
|--|--|---|--|---|--|---|
| | Six months ended 31st January, Note 5 2005 £'000 | Year ended 31st July, 2005 £'000 | Six months ended 31st January, 2005 £'000 | Year ended 31st July, 2005 £'000 | Six months ended 31st January, 2005 £'000 | Year ended 31st July, 2005 £'000 |
| Interest and similar income | (i) 137,410 | 280,827 | 782 | 2,014 | 138,192 | 282,841 |
| Interest expense and similar charges | (68,849) | (140,320) | – | – | (68,849) | (140,320) |
| Net interest income | 68,561 | 140,507 | 782 | 2,014 | 69,343 | 142,521 |
| Fees and commissions income | (i) 103,847 | 230,019 | (881) | (1,964) | 102,966 | 228,055 |
| Fees and commissions expense | (i) (16,020) | (35,834) | (260) | (562) | (16,280) | (36,396) |
| Gains less losses arising from dealing in securities | 48,138 | 96,285 | – | – | 48,138 | 96,285 |
| Other operating income | 10,603 | 17,019 | – | – | 10,603 | 17,019 |
| Other income | 146,568 | 307,489 | (1,141) | (2,526) | 145,427 | 304,963 |
| Operating income | 215,129 | 447,996 | (359) | (512) | 214,770 | 447,484 |
| Administrative expenses | (ii) 136,155 | 283,763 | 840 | 2,036 | 136,995 | 285,799 |
| Depreciation | 5,099 | 12,145 | – | – | 5,099 | 12,145 |
| Impairment losses on loans and advances | (i) 8,804 | 20,349 | (295) | (305) | 8,509 | 20,044 |
| Total operating expenses | 150,058 | 316,257 | 545 | 1,731 | 150,603 | 317,988 |
| Operating profit on ordinary activities before goodwill and taxation | 65,071 | 131,739 | (904) | (2,243) | 64,167 | 129,496 |
| Impairment losses on goodwill | (iii) 4,160 | 23,120 | (4,160) | (5,385) | – | 17,735 |
| Operating profit on ordinary activities before taxation | 60,911 | 108,619 | 3,256 | 3,142 | 64,167 | 111,761 |
| Taxation | (iv) 18,740 | 37,865 | (304) | (713) | 18,436 | 37,152 |
| Profit on ordinary activities after taxation | 42,171 | 70,754 | 3,560 | 3,855 | 45,731 | 74,609 |
| Profit attributable to minority interests | (v) 982 | 2,177 | 17 | 35 | 999 | 2,212 |
| Profit attributable to the shareholders of the company | 41,189 | 68,577 | 3,543 | 3,820 | 44,732 | 72,397 |
| Reconciliation of operating profit on ordinary activities before taxation | | | | | | |
| Profit before goodwill and taxation previously reported under UK GAAP | | | | | 65,071 | 131,739 |
| Income and expense recognition adjustments | | | | | (128) | (303) |
| Pension scheme adjustments | | | | | 72 | – |
| Share-based awards | | | | | (848) | (1,940) |
| Profit before goodwill and taxation under IFRS | | | | | 64,167 | 129,496 |
| Goodwill | | | | | (4,160) | (23,120) |
| - UK GAAP | | | | | | |
| - IFRS adjustments | | | | | 4,160 | 5,385 |
| Taxation | | | | | (18,740) | (37,865) |
| - UK GAAP | | | | | | |
| - IFRS adjustments | | | | | 304 | 713 |
| Minority interests | | | | | (982) | (2,177) |
| - UK GAAP | | | | | | |
| - IFRS adjustments | | | | | (17) | (35) |
| Profit attributable to the shareholders of the company under IFRS | | | | | 44,732 | 72,397 |

THE NOTES

3. Consolidated Balance Sheet reconciliation

The tables below compare the consolidated balance sheets now reported under IFRS with those previously reported under UK GAAP:

| | UK GAAP | | Adjustments | | IFRS | | |
|---|-------------------|-----------------------------|--------------------------|-----------------------------|--------------------------|-----------------------------|--------------------------|
| | Note 5 | 31st January, 2005 £'000 | 31st July, 2005 £'000 | 31st January, 2005 £'000 | 31st July, 2005 £'000 | 31st January, 2005 £'000 | 31st July, 2005 £'000 |
| Assets | | | | | | | |
| Cash and balances at central banks | | 923 | 1,244 | - | - | 923 | 1,244 |
| Settlement accounts | | 544,330 | 604,692 | - | - | 544,330 | 604,692 |
| Loans and advances to customers | (i) | 1,978,149 | 1,953,031 | (15,833) | (13,828) | 1,962,316 | 1,939,203 |
| Loans and advances to banks | | 715,399 | 786,330 | - | - | 715,399 | 786,330 |
| Money market securities | | 862,809 | 797,498 | - | - | 862,809 | 797,498 |
| Debt securities – long positions | | 55,966 | 61,345 | - | - | 55,966 | 61,345 |
| Equity shares – long positions | | 41,184 | 40,377 | - | - | 41,184 | 40,377 |
| Loans to money brokers against stock advanced | | 139,222 | 158,553 | - | - | 139,222 | 158,553 |
| Investment securities | (vi) | 24,661 | 26,730 | 654 | 654 | 25,315 | 27,384 |
| Intangible assets – goodwill | (iii) | 97,566 | 88,863 | 7,249 | 6,848 | 104,815 | 95,711 |
| Intangible assets – other | (vii) | - | - | 2,545 | 1,672 | 2,545 | 1,672 |
| Property, plant and equipment | (vii) | 36,285 | 39,949 | (2,545) | (1,672) | 33,740 | 38,277 |
| Share of gross assets of joint ventures | | 21,826 | 21,624 | - | - | 21,826 | 21,624 |
| Share of gross liabilities of joint ventures | | (21,183) | (20,914) | - | - | (21,183) | (20,914) |
| Share of net assets of joint ventures | | 643 | 710 | - | - | 643 | 710 |
| Other receivables | (i) and (vi) | 78,067 | 108,639 | (170) | 310 | 77,897 | 108,949 |
| Deferred tax assets | (iv) | 18,140 | 21,591 | 5,560 | 5,969 | 23,700 | 27,560 |
| Prepayments and accrued income | (i) | 46,860 | 49,600 | 15,149 | 14,798 | 62,009 | 64,398 |
| Total assets | | 4,640,204 | 4,739,152 | 12,609 | 14,751 | 4,652,813 | 4,753,903 |
| Liabilities | | | | | | | |
| Settlement accounts | | 479,931 | 561,173 | - | - | 479,931 | 561,173 |
| Deposits by customers | | 1,752,796 | 1,818,187 | - | - | 1,752,796 | 1,818,187 |
| Deposits by banks | | 124,588 | 108,101 | - | - | 124,588 | 108,101 |
| Debt securities – short positions | | 45,415 | 49,628 | - | - | 45,415 | 49,628 |
| Equity shares – short positions | | 19,857 | 20,424 | - | - | 19,857 | 20,424 |
| Loans from money brokers against stock advanced | | 158,502 | 142,371 | - | - | 158,502 | 142,371 |
| Non-recourse borrowings | | 250,000 | 200,000 | - | - | 250,000 | 200,000 |
| Loans and overdrafts from banks | | 545,047 | 494,363 | - | - | 545,047 | 494,363 |
| Promissory notes and other debt securities in issue | | 350,000 | 367,130 | - | - | 350,000 | 367,130 |
| Other liabilities | (i), (ix) and (x) | 153,525 | 211,167 | (10,410) | (28,350) | 143,115 | 182,817 |
| Current tax liabilities | | 18,428 | 19,297 | - | - | 18,428 | 19,297 |
| Accruals and deferred income | (i) | 101,735 | 126,019 | 11,417 | 10,870 | 113,152 | 136,889 |
| Subordinated loan capital | | 96,937 | 75,000 | - | - | 96,937 | 75,000 |
| | | 4,096,761 | 4,192,860 | 1,007 | (17,480) | 4,097,768 | 4,175,380 |
| Equity | | | | | | | |
| Called up share capital | | 36,135 | 36,168 | - | - | 36,135 | 36,168 |
| Share premium account | | 251,642 | 252,210 | - | - | 251,642 | 252,210 |
| Profit and loss account (see below) | | 254,454 | 255,729 | 6,494 | 23,454 | 260,948 | 279,183 |
| ESOP trust reserve | | (3,868) | (3,786) | - | - | (3,868) | (3,786) |
| Share-based payments reserve | (ii) | - | - | 5,133 | 7,614 | 5,133 | 7,614 |
| Exchange movements reserve | (viii) | - | - | 94 | 1,264 | 94 | 1,264 |
| Minority interests | (v) | 5,080 | 5,971 | (119) | (101) | 4,961 | 5,870 |
| Total equity | | 543,443 | 546,292 | 11,602 | 32,231 | 555,045 | 578,523 |
| Total liabilities and equity | | 4,640,204 | 4,739,152 | 12,609 | 14,751 | 4,652,813 | 4,753,903 |

THE NOTES

3. Consolidated Balance Sheet reconciliation *continued*

| Profit and loss account reconciliation | Note 5 | 31st January, 2005 £'000 | 31st July, 2005 £'000 |
|---|--------|--------------------------------|-----------------------------|
| Profit and loss account reserve previously reported under UK GAAP | | 254,454 | 255,729 |
| Income recognition adjustments | (i) | (12,951) | (13,358) |
| Expense recognition adjustments | (i) | 968 | 1,200 |
| Recognising share-based awards | (ii) | (1,644) | (2,736) |
| Goodwill adjustments | (iii) | 5,611 | 6,836 |
| Taxation effect of above items | (iv) | 5,513 | 5,922 |
| Minority interest effect of above items | (v) | 119 | 101 |
| Moving exchange adjustments to exchange movements reserve | (viii) | (94) | (1,264) |
| Recognising pension deficit | (ix) | (4,664) | (548) |
| Dividend recognition adjustments | (x) | 13,636 | 27,301 |
| | | 6,494 | 23,454 |
| Profit and loss account reserve reported under IFRS | | 260,948 | 279,183 |

4. Consolidated Cash Flow Statement reconciliation

The tables below compare the consolidated cash flow statements now reported under IFRS with those previously reported under UK GAAP:

| | UK GAAP | | Adjustments | | IFRS | |
|---|---|--|---|--|---|--|
| | Six months ended 31st January, 2005 £'000 | Year ended 31st July, 2005 £'000 | Six months ended 31st January, 2005 £'000 | Year ended 31st July, 2005 £'000 | Six months ended 31st January, 2005 £'000 | Year ended 31st July, 2005 £'000 |
| Net cash inflow from operating activities | 324,208 | 483,700 | (92,300) | (193,044) | 248,413 | 307,161 |
| Net cash outflow from investing activities: | | | | | | |
| Dividends paid to minority interests | (512) | (934) | - | - | (512) | (934) |
| Purchase of assets let under operating leases | (5,721) | (11,213) | - | - | (5,721) | (11,213) |
| Purchase of property, plant and equipment | (3,010) | (8,095) | 272 | 1,175 | (2,738) | (6,920) |
| Sale of property, plant and equipment | 1,180 | 1,685 | - | - | 1,180 | 1,685 |
| Purchase of intangible assets | - | - | (272) | (1,175) | (272) | (1,175) |
| Purchase of equity shares held for investment | (5,824) | (7,523) | - | - | (5,824) | (7,523) |
| Sale of equity shares held for investment | 14,843 | 19,091 | - | - | 14,843 | 19,091 |
| Minority interests acquired for cash | (2,622) | (5,134) | - | - | (2,622) | (5,134) |
| Purchase of loan book | (130,530) | (130,530) | - | - | (130,530) | (130,530) |
| Purchase of subsidiaries | (16,623) | (29,506) | - | - | (16,623) | (29,506) |
| | (148,819) | (172,159) | - | - | (148,819) | (172,159) |
| Net cash inflow before financing | 175,389 | 311,541 | (92,300) | (193,044) | 99,594 | 135,002 |
| Financing activities: | | | | | | |
| Issue of ordinary share capital including premium | 1,281 | 1,882 | - | - | 1,281 | 1,882 |
| Equity dividends paid | (25,604) | (39,240) | - | - | (25,604) | (39,240) |
| Repayment of subordinated loan capital | - | (21,937) | - | - | - | (21,937) |
| Interest paid on subordinated loan capital | (3,938) | (7,743) | - | - | (3,938) | (7,743) |
| Net increase in cash | 147,128 | 244,503 | (92,300) | (193,044) | 71,333 | 67,964 |

THE NOTES

4. Consolidated Cash Flow Statement reconciliation *continued*

| | UK GAAP | | Adjustments | | IFRS | | |
|--|--|-------------------------------------|--|-------------------------------------|--|--------------------------|-------------------------------------|
| | Six months ended 31st January, 2005 £'000 | Year ended 31st July, 2005 £'000 | Six months ended 31st January, 2005 £'000 | Year ended 31st July, 2005 £'000 | Six months ended 31st January, 2006 £'000 | Year ended 2005 £'000 | Year ended 31st July, 2005 £'000 |
| a) Reconciliation of operating profit on ordinary activities before tax to net cash inflow from operating activities | | | | | | | |
| Operating profit on ordinary activities before tax | 60,911 | 108,619 | 3,256 | 3,142 | 76,514 | 64,167 | 111,761 |
| (Increase)/decrease in: | | | | | | | |
| Interest receivable and prepaid expenses | (11,196) | (13,375) | (9,327) | (8,976) | (3,389) | (20,523) | (22,351) |
| Net settlement accounts | 655 | 21,535 | – | – | (34,164) | 655 | 21,535 |
| Net equity shares held for trading | (1,019) | 3,904 | – | – | (2,735) | (1,019) | 3,904 |
| Net debt securities held for trading | (8,872) | (10,038) | – | – | 2,621 | (8,872) | (10,038) |
| Increase in interest payable and accrued expenses | (4,601) | 17,064 | 9,249 | 8,701 | (28,975) | 4,648 | 25,765 |
| Depreciation and goodwill impairment losses | 9,259 | 35,265 | (4,160) | (5,385) | 6,187 | 5,099 | 29,880 |
| Net cash inflow from trading activities | 45,137 | 162,974 | (982) | (2,518) | 16,059 | 44,155 | 160,456 |
| (Increase)/decrease in: | | | | | | | |
| Debt securities held for liquidity | (85,300) | (11,483) | 85,300 | 10,065 | (253) | – | (1,418) |
| Loans and advances to customers | (25,065) | (195) | 25 | (155) | 76,887 | (25,040) | (350) |
| Loans and advances to banks not repayable on demand | 164,679 | 190,802 | (161,095) | (186,604) | 2,732 | 3,584 | 4,198 |
| Other assets less other liabilities | 9,242 | (22,821) | 957 | 2,673 | 44,108 | 10,199 | (20,148) |
| Increase/(decrease) in: | | | | | | | |
| Deposits by banks | 45,400 | 28,913 | – | – | 81,525 | 45,400 | 28,913 |
| Deposits by customers | 71,644 | 137,035 | – | – | 54,780 | 71,644 | 137,035 |
| Loans and overdrafts from banks | (130,098) | (180,834) | – | – | (166,209) | (130,098) | (180,834) |
| Non-recourse borrowings | – | (50,000) | – | – | – | – | (50,000) |
| Promissory notes and other debt securities in issue | 250,000 | 267,130 | – | – | (9,566) | 250,000 | 267,130 |
| Taxation paid | (21,431) | (37,821) | – | – | (19,035) | (21,431) | (37,821) |
| Net cash inflow from operating activities | 324,208 | 483,700 | (75,795) | (176,539) | 81,028 | 248,413 | 307,161 |
| b) Analysis of net cash outflow in respect of the purchase of subsidiaries | | | | | | | |
| Cash consideration in respect of current year purchases | (16,204) | (38,900) | – | – | – | (16,204) | (38,900) |
| Loan stock redemptions and deferred consideration paid in respect of prior year purchases | (419) | (791) | – | – | (736) | (419) | (791) |
| Net movement in cash balances | – | 10,185 | – | – | – | – | 10,185 |
| | (16,623) | (29,506) | – | – | (736) | (16,623) | (29,506) |
| c) Analysis of changes in financing | | | | | | | |
| Share capital (including premium) and subordinated loan capital: | | | | | | | |
| Opening balance | 383,433 | 383,433 | – | – | 363,378 | 383,433 | 383,433 |
| Shares issued for cash | 1,281 | 1,882 | – | – | 5,503 | 1,281 | 1,882 |
| Repayment of subordinated loan capital | – | (21,937) | – | – | – | – | (21,937) |
| Closing balance | 384,714 | 363,378 | – | – | 368,881 | 384,714 | 363,378 |
| d) Analysis of cash balances | | | | | | | |
| Cash and balances at central banks | 923 | 1,244 | – | – | 99 | 923 | 1,244 |
| Loans and advances to banks repayable on demand | 283,584 | 380,638 | 1,286,529 | 1,185,785 | 188,677 | 1,610,232 | 1,566,423 |
| | 284,507 | 381,882 | 1,286,529 | 1,185,785 | 188,776 | 1,611,575 | 1,567,667 |

THE NOTES

5. Comparison of the consolidated income statements, balance sheets and cash flow statements as now reported under IFRS with those previously reported under UK GAAP

- (i) The effective interest rate method has now been applied to loans and advances. Accordingly certain interest, fees and commissions are now spread over the life of the loan, as are impairment losses.
 - (ii) Share-based awards are now accrued in the balance sheet and expensed in the income statement on a straight line basis over the vesting period.
 - (iii) Goodwill is now subject to impairment testing, rather than to annual amortisation, and negative goodwill is no longer capitalised.
 - (iv) Many of the adjustments referred to in this note have related tax effects, nearly all of which are deferred.
 - (v) Minority interests are recognised as equity rather than as a liability. Some of the adjustments to the profit and loss account and opening reserves have related minority interest effects.
 - (vi) Some investments previously classified as "other receivables" have been reclassified as "investment securities" and valued at fair value rather than cost.
 - (vii) Certain property, plant and equipment previously classified as "tangible assets" are now classified as "intangible assets – other".
 - (viii) Exchange adjustments are recognised through the exchange movements reserve rather than the profit and loss account.
 - (ix) The defined benefit pension scheme deficit is now recognised in equity.
 - (x) Dividends are now recognised in equity in the period in which they are declared rather than in the period in which earnings are generated to cover the dividend.
-

6. Earnings per share

Basic earnings per share on profit attributable to shareholders of the company is based on profit after taxation and minority interests of £52,808,000 (2005 – £44,732,000) and on 146,523,000 (2005 – 145,162,000) ordinary shares, being the weighted average number of shares in issue and contingently issuable during the year excluding those held by the employee benefit trust.

Diluted earnings per share is based on this same profit after taxation and minority interests, but on 146,969,000 (2005 – 145,600,000) ordinary shares, being the weighted average number of shares in issue disclosed above, plus the weighted dilutive potential on ordinary shares of exercisable employee options in issue during the year.

7. Basis of preparation

The financial information for the year ended 31st July, 2005 has been derived from audited UK GAAP information adjusted for the impact of IFRS and is therefore unaudited. The financial information for the period ended 31st January, 2005 has been derived from unaudited UK GAAP information adjusted for the impact of IFRS. The interim information, together with the comparative information contained in this report for the year ended 31st July, 2005 does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. However, the information has been reviewed by the company's auditors, Deloitte & Touche LLP, and their report appears at the end of the interim financial report. The UK GAAP statutory accounts for the year ended 31st July, 2005 have also been reported on by Deloitte & Touche LLP and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

INDEPENDENT REVIEW REPORT

Independent Review Report to Close Brothers Group plc

Introduction

We have been instructed by the company to review the financial information, which comprises the consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of equity and related notes 1 to 7, for the six months ended 31st January, 2006. 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.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report or for the conclusions we have formed.

Directors' responsibilities

The interim report, 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 and the requirements of International Accounting Standard ("IAS") 34 which requires that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual financial statements except where any changes, and the reasons for them, are disclosed.

The next annual financial statements of the company will be prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted for use in the European Union. Accordingly, the interim report has been prepared in accordance with IAS 34 "Interim Financial Reporting" and the requirements of IFRS 1 "First Time Adoption of IFRS" relevant to interim reports. The accounting policies are consistent with those that the directors intend to use in the annual financial statements. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with IFRSs as adopted for use in the European Union. This is because the directors have anticipated that certain standards, which have yet to be formally adopted for use in the European Union, will be adopted in time to be applicable to the next annual financial statements.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 Review of Interim Financial Information 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 International Standards on Auditing (UK and Ireland) 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, 2006.

Deloitte & Touche LLP

Chartered Accountants

London

6th March, 2006

ADDITIONAL INFORMATION

Board of Directors

Chairman

Sir David Scholey ²

Executive Directors

Michael Hines

Stephen Hodges

Colin Keogh

David Pusinelli

Peter Winkworth

Non-Executive Directors

Strone Macpherson ^{1,2,3} – Senior Independent Director

Peter Buckley ^{1,3}

Rod Kent

Michael McLintock ^{2,3}

Douglas Paterson ^{1,2}

James Williams ^{1,2}

1. Member of the Audit and Compliance Committee.

2. Member of the Nomination and Governance Committee.

3. Member of the Remuneration Committee.

Board of Management

Colin Keogh – Chief Executive

Stephen Hodges – Managing Director

Peter Winkworth – Managing Director

Michael Barley

Richard Grainger

Michael Hines

David Pusinelli

Jonathan Sieff

Company Secretary

Robin Sellers

Auditors

Deloitte & Touche LLP

Stonecutter Court

1 Stonecutter Street

London EC4A 4TR

Financial Advisers

UBS Investment Bank

1 Finsbury Avenue

London EC2M 2PP

Solicitors

Freshfields Bruckhaus Deringer

65 Fleet Street

London EC4Y 1HS

Registrars

Capita Registrars

The Registry

34 Beckenham Road

Beckenham

Kent BR3 4TU

Telephone: 0870 162 3100

Fax: 020 8639 2342

Website: www.capitaregistrars.com

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