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Specialist merchant banking group

CLOSE BROTHERS GROUP plc

announces

results for the year to 31st July, 2005

HIGHLIGHTS

		2005	2004
*	Profit before taxation and goodwill amortisation	**£131.7m**	£118.9m
*	Earnings per share before goodwill amortisation	**63.1p**	57.3p
*	Profit before taxation	**£108.6m**	£101.3m
*	Earnings per share	**47.2p**	45.1p
*	Dividends per share	**28.5p**	27.0p
*	Shareholders' funds	**£540m**	£509m
*	Total assets	**£4.5bn**	£3.9bn

* **Overview** – 2005 was another successful year with improved results. Dividend up 1.5p.
* **Investment Banking** – Profit increased by 19 per cent. to £77.6 million.

    Asset Management – Record profit of £31.8 million. Funds under management grew to £7.1 billion.

    Corporate Finance – Profit £10.1 million reflects further progress in the UK supported by improved performances in Europe.

    Market-Making – After a quiet start activity picked up to produce profit of £35.7 million.

* **Banking** – In a year of consolidation the loan book increased by 11 per cent. earning profit of £71.1 million.

Colin Keogh, Chief Executive, said:

"2005 was another year of progress and growth.

We are heartened by the momentum in our asset management division and, provided the investment climate remains buoyant, we should also see further growth in our market-making and corporate finance divisions. Our expectation for our banking activity is for continued progress at a modest level.

All four divisions have made a good start to the new financial year and we view the future with confidence."

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

CLOSE BROTHERS GROUP plc
PRELIMINARY ANNOUNCEMENT OF AUDITED GROUP RESULTS
AND CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31ST JULY, 2005

The following is the full text of the preliminary announcement of results for the financial year ended 31st July, 2005. The financial information in relation to 31st July, 2005 has been extracted from the statutory accounts of the company, which have yet to be adopted by shareholders at general meeting and have yet to be filed with the Registrar of Companies.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	For the year ended 31st July, 2005			Year
	Ordinary activities before goodwill amortisation	**Goodwill amortisation**	**Total ordinary activities**	ended 31st July, 2004
	£'000	**£'000**	**£'000**	£'000
Interest receivable	**280,827**	-	**280,827**	240,348
Interest payable	**140,320**	-	**140,320**	106,757
Net interest income	**140,507**	-	**140,507**	133,591
Fees and commissions receivable	**230,019**	-	**230,019**	194,453
Fees and commissions payable	**(35,834)**	-	**(35,834)**	(34,072)
Net dealing income - market-making	**96,285**	-	**96,285**	99,983
Other operating income	**17,019**	-	**17,019**	7,227
Other income	**307,489**	-	**307,489**	267,591
Operating income	**447,996**	-	**447,996**	401,182
Administrative expenses	**283,763**	-	**283,763**	248,622
Depreciation	**12,145**	-	**12,145**	10,833
Provisions for bad and doubtful debts	**20,349**	-	**20,349**	22,781
Amortisation of goodwill	**-**	**23,120**	**23,120**	17,603
Operating expenses	**316,257**	**23,120**	**339,377**	299,839
Operating profit on ordinary activities before taxation	**131,739**	**(23,120)**	**108,619**	101,343
Taxation on profit on ordinary activities	**37,865**	-	**37,865**	33,925
Profit on ordinary activities after taxation	**93,874**	**(23,120)**	**70,754**	67,418
Minority interests - equity	**2,177**	-	**2,177**	2,209
Profit attributable to shareholders	**91,697**	**(23,120)**	**68,577**	65,209
Dividends:				
Interim dividend 9.5p per share (2004 - 9.0p)			**13,636**	12,875
Proposed final dividend 19.0p per share (2004 - 18.0p)			**27,301**	25,604
Total dividends 28.5p per share (2004 - 27.0p)			**40,937**	38,479
Retained profit for the year			**27,640**	26,730
Earnings per share before amortisation of goodwill			**63.1p**	57.3p
Earnings per share on profit attributable to shareholders			**47.2p**	45.1p
Diluted earnings per share			**47.0p**	45.0p

All income and profits are in respect of continuing operations.

CONSOLIDATED BALANCE SHEET

At 31st July, 2005

	2005	2004
	£'000	£'000
Assets		
Cash and balances at central banks	**1,244**	844
Loans and advances to banks	**786,330**	733,029
Loans and advances to customers	**1,953,031**	1,757,074
Non-recourse borrowings	**(200,000)**	(250,000)
	1,753,031	1,507,074
Debt securities – long positions	**61,345**	54,521
Debt securities – other	**797,498**	777,509
Settlement accounts	**604,692**	366,213
Equity shares – long positions	**40,377**	34,714
Equity shares – investments	**26,730**	26,770
Intangible fixed assets – goodwill	**88,863**	98,628
Tangible fixed assets	**39,949**	32,855
Share of gross assets of joint ventures	**21,624**	21,855
Share of gross liabilities of joint ventures	**(20,914)**	(21,358)
	710	497
Other assets	**267,192**	197,824
Deferred taxation	**21,591**	14,377
Prepayments and accrued income	**49,600**	35,589
Total assets	**4,539,152**	3,880,444
Liabilities		
Deposits by banks	**108,101**	79,188
Customer accounts	**1,818,187**	1,681,152
Bank loans and overdrafts	**494,363**	621,360
Debt securities – loan notes issued	**367,130**	100,000
Debt securities – short positions	**49,628**	52,842
Settlement accounts	**561,173**	301,159
Equity shares – short positions	**20,424**	14,406
Other liabilities	**372,835**	313,254
Accruals and deferred income	**126,019**	106,208
Subordinated loan capital	**75,000**	96,937
Minority interests – equity	**5,971**	4,674
	3,998,831	3,371,180
Shareholders' funds		
Called up share capital	**36,168**	36,066
Share premium account	**252,210**	250,430
ESOP trust reserve	**(3,786)**	(3,962)
Profit and loss account	**255,729**	226,730
Total equity shareholders' funds	**540,321**	509,264
Total liabilities and shareholders' funds	**4,539,152**	3,880,444

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31st July, 2005	**2005**	2004
	£'000	£'000
Profit attributable to shareholders	**68,577**	65,209
Exchange adjustment	**1,264**	(1,554)
Total recognised gains	**69,841**	63,655

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st July, 2005	**2005**	2004
	£'000	£'000
Net cash inflow from operating activities	**521,521**	113,868
Returns on investments and servicing of finance		
Interest paid on subordinated loan capital	**(7,743)**	(7,834)
Dividends paid to minority interests	**(934)**	(1,419)
	(8,677)	(9,253)
Taxation paid	**(37,821)**	(32,184)
Capital expenditure and financial investment		
Purchase of assets let under operating leases	**(11,213)**	(8,620)
Purchase of tangible fixed assets	**(8,095)**	(9,993)
Sale of tangible fixed assets	**1,685**	630
Purchase of equity shares held for investment	**(7,523)**	(2,839)
Sale of equity shares held for investment	**19,091**	5,677
	(6,055)	(15,145)
Acquisitions and disposals		
Minority interests acquired for cash	**(5,134)**	(2,950)
Purchase of loan book	**(130,530)**	-
Purchase of subsidiaries	**(29,506)**	(11,772)
	(165,170)	(14,722)
Equity dividends paid	**(39,240)**	(37,357)
Net cash inflow before financing	**264,558**	5,207
Financing		
Issue of ordinary share capital including premium	**1,882**	966
Repayment of subordinated loan capital	**(21,937)**	-
Increase in cash	**244,503**	6,173

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

		2005	2004
		£'000	£'000
(a) Reconciliation of operating profit on ordinary activities before taxation to net cash inflow from operating activities			
Operating profit on ordinary activities before taxation		**108,619**	101,343
(Increase)/decrease in:			
Interest receivable and prepaid expenses		**(13,375)**	(8,376)
Net settlement accounts		**21,535**	8,773
Net equity shares held for trading		**3,904**	(15,294)
Net debt securities held for trading		**(10,038)**	4,952
Increase in interest payable and accrued expenses		**17,064**	9,559
Depreciation and amortisation		**35,265**	28,436
Net cash inflow from trading activities		**162,974**	129,393
(Increase)/decrease in:			
Other debt securities		**(11,483)**	(233,683)
Loans and advances to customers		**(195)**	(141,460)
Loans and advances to banks not repayable on demand		**190,802**	19,764
Other assets less other liabilities		**(22,821)**	10,067
Increase/(decrease) in:			
Deposits by banks		**28,913**	(28,684)
Customer accounts		**137,035**	279,670
Bank loans and overdrafts		**(180,834)**	3,801
Non-recourse borrowings		**(50,000)**	75,000
Debt securities – loan notes issued		**267,130**	-
Net cash inflow from operating activities		**521,521**	113,868
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries			
Cash consideration in respect of current year purchases		**(38,900)**	(9,563)
Loan stock redemptions and deferred consideration paid in respect of prior year purchases		**(791)**	(8,808)
Net movement in cash balances		**10,185**	6,599
		(29,506)	(11,772)
(c) Analysis of changes in financing			
Share capital (including premium) and subordinated loan capital:			
Opening balance		**383,433**	382,467
Shares issued for cash		**1,882**	966
Repayment of subordinated loan capital		**(21,937)**	-
Closing balance		**363,378**	383,433
(d) Analysis of cash balances	**Movement in the year £'000**		
Cash and balances at central banks	**400**	**1,244**	844
Loans and advances to banks repayable on demand	**244,103**	**380,638**	136,535
	244,503	**381,882**	137,379

THE NOTES

2. Basis of preparation

The financial information included in this announcement does not constitute the company's statutory accounts for the year ended 31st July, 2005, but is derived from those accounts on which the auditors have yet to sign their report. It has been prepared on the basis of the accounting policies set out in the 2004 statutory accounts.

The figures shown for the year ended 31st July, 2004 represent an abridged version of the statutory 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.

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3. Earnings per share

Earnings per share before amortisation of goodwill is based on profit of £91,697,000 (2004 - £82,812,000), being profit after taxation and minority interests but before goodwill amortisation, and on 145,348,000 (2004 - 144,459,000) 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. This earnings per share has been disclosed because, in the opinion of the directors, it reflects operational performance.

Earnings per share on profit attributable to shareholders is based on profit after taxation and minority interests of £68,577,000 (2004 - £65,209,000) and on the same number of shares as above.

Diluted earnings per share is based on this same profit after taxation and minority interests, but on 145,831,000 (2004 - 145,047,000) ordinary shares, being the weighted average number of shares in issue disclosed above, plus the weighted dilutive potential on ordinary shares of exercisable employee share options in issue during the year.

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4. Dividend

The final ordinary dividend of 19.0p per share is proposed to be paid on 1st November, 2005 to holders of ordinary shares on the register at the close of business on 7th October, 2005.

CHAIRMAN'S STATEMENT

RESULTS

The operating profit on ordinary activities before taxation and goodwill amortisation was £131.7 million compared to £118.9 million last year, an increase of 11 per cent., producing earnings per share of 63.1p compared to 57.3p, an increase of 10 per cent.

After deducting a charge for goodwill amortisation of £23.1 million (2004 - £17.6 million), the operating profit on ordinary activities before taxation was £108.6 million (2004 - £101.3 million) and earnings per share were 47.2p (2004 - 45.1p).

The board recommends a final dividend of 19p per share which, together with the interim dividend, makes a total dividend for the year of 28.5p per share (2004 - 27p) with pre-goodwill cover of 2.2 times (2004 - 2.1 times). This affirms our dividend growth whilst continuing to rebuild dividend cover.

OVERVIEW

2005 was another successful year with improved results being achieved in quite difficult conditions. Our investment banking activity posted profit growth of 19 per cent., on top of the 77 per cent. achieved in 2004. Our banking activity did well to show a small increase in profit in a challenging year.

The profit before taxation and goodwill amortisation once again reflected an impressive return on operating income, of 29 per cent. (2004 - 30 per cent.) and on opening shareholders' funds, of 26 per cent. (2004 - 25 per cent.).

The table below demonstrates the overall balance of our businesses. The growing proportion of our mix coming from the asset management division accords with our strategy and we expect this to continue in the future:

Analysis of Operating Profit
(before central costs)

	2003 %	2004 %	**2005 %**
Asset Management	8	13	**21**
Corporate Finance	5	7	**7**
Market-Making	24	28	**24**
Investment Banking	37	48	**52**
Banking	63	52	**48**
	100	100	**100**

The increasing momentum in our asset management division that we reported last year has continued. We have achieved much in the past twelve months resulting in a divisional profit improvement of 83 per cent. We have focused our operations on private clients and funds and we have completed the recruitment of our top management team. On the funds side, we have recently made the small but strategically important acquisition of Escher, a process-driven manager-of-managers business, now renamed Close TEAMS.

An important event during the year for our market-making division was the purchase of Seydler for an initial €25 million (£17 million), approximately net asset value. This business has some 75 staff, most of whom are located in Frankfurt, and provides an interesting entry to a potentially growing market.

On the banking side, we acquired a motor vehicle loan book for the benefit of running it off and a commercial asset finance business.

TRADING

Investment Banking

Asset Management

The division achieved another year of significant growth with record pre-tax profit of £31.8 million compared to £17.4 million last year. The pre-tax operating margin was 27 per cent. and funds under management grew from £5.5 billion to £7.1 billion.

Our private client business has some £2.7 billion of investment funds under management. It also administers some £5.2 billion of trust assets and has £0.7 billion of deposits offshore.

Our private banking operations in Jersey, Guernsey and Isle of Man now have a single management structure. This group, together with our mass affluent business, Close Wealth Management, and our onshore bespoke business for high net worth individuals, form the building blocks of our private client business. Each of the three key units in this group made progress during the year and are working closely together.

Our funds business has some £4.4 billion of funds under management. During the year collective funds, property funds, private equity and fund administration all performed well.

The future for this division looks bright.

CHAIRMAN'S STATEMENT

Corporate Finance

With operating income up 18 per cent., the pre-tax profit of this division was £10.1 million and the operating profit margin was 24 per cent.

The emphasis of our business is on the M&A, restructuring and debt advisory markets. In all these we had a good start and finish to our year, but a rather dull patch in the middle. Our early pipeline for 2006 is encouraging.

Our French and German interests, now operating solely under the Close Brothers brand, enjoyed some improvement in local market conditions. Our partners in Spain and Italy also made progress.

Market-Making

In addition to Winterflood Securities ("WINS") this division now includes the renamed Close Brothers Seydler, which made a small yet encouraging profit contribution in the three months since acquisition. However, the vast majority of the profit in the period was earned by WINS. Although pre-tax profit for the division was down somewhat, from £37.9 million to £35.7 million, WINS' pre-tax operating profit margin at 37 per cent. remained fairly steady.

In our financial year we experienced two quiet trading periods, at the start of the year (August/September 2004) and during the second half (April/May 2005). In the remainder of the year, trading was satisfactory, so that overall there was no material difference between the first and second halves.

For the whole of the year (unlike the previous year) the SETSmm trading system was operating for some 200 stocks below the top 100. Whilst this led to some margin reduction, it was not material in the context of the whole of WINS' diverse business. Contribution from developments made in earlier years more than filled this space, including some healthy fee income from our specialist investment trust team.

Our new financial year has got off to a solid start, significantly better than last year, as the market's mood continues to be positive.

Banking

As expected our banking activity had a year of consolidation in which the loan book increased by 11 per cent. but profits increased only marginally.

The pre-tax profit was £71.1 million compared to £69.7 million in 2004. We again achieved a commendable pre-tax return on operating income (38 per cent.) and on opening shareholders' funds (31 per cent.). These solid financial statistics demonstrate the effectiveness of our particular lending model.

With relatively full employment and low interest rates in the UK, and a calm if unexciting environment for small businesses, conditions have been benign for bad debts. During the year our charge to profit and loss account expressed as a percentage of average gross loans fell to 1.1 per cent. from 1.4 per cent.

For the year overall a strong performance in some sectors, namely credit management, property, and transport and engineering, helped by the improving bad debt ratio, more than offset the impact of the costs and associated loss of income resulting from regulatory change and the continuing deflation of commercial insurance premiums.

On the funding side, we continue our proven strategy of being able to fund our entire loan book without recourse to short term deposits. In November 2004, we raised €500 million of three-year finance under a medium term note programme. This funding was achieved at an attractive margin and from a range of continental institutions, most of which were new providers of finance to the group.

The new year has started well but will be influenced by the continuing effects of regulatory change and insurance premium deflation.

OUTLOOK

The General Election changed neither the political landscape nor the economic policies in the UK. With consumer debt remaining high, Government expenditure continuing to rise, and the price of oil recently reaching record levels, the UK economic outlook remains somewhat unsettled.

Our expectation for our banking activity is for continued progress at a modest level. Our view of our investment banking activity is more positive. We are heartened by the momentum in our asset management division and, provided the investment climate remains buoyant, we should also see further growth in our market-making and corporate finance divisions.

All four divisions have made a good start to the new financial year and we view the future with confidence.

Sir David Scholey
Chairman