Close Brothers

Annual Report 2005

Close Brothers

PROFILE

Close Brothers Group plc is an independent merchant banking group founded in the City of London over 125 years ago. The group's activities comprise asset management, corporate finance and market-making, together investment banking, and banking. Close Brothers is amongst the 200 largest companies by market capitalisation listed on the London Stock Exchange and employs some 2,400 people.

Close Brothers' strategy is to provide a diverse range of specialist financial services adding value for our clients as a result of our particular expertise. We are dedicated to developing continuity in our relationships with clients through excellent service, objective advice and uncompromising professionalism. Our aim is to deliver to our shareholders, over time, a consistent and increasing stream of profits and dividends.

Close Brothers' major shareholders are large financial investors including investment groups, insurance companies and pension funds. The group's directors, management and staff also have holdings directly, in share ownership, option and incentive schemes, and through minority interests in certain subsidiaries. In addition, nearly 3,000 private individuals hold shares directly in the group.

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

CONTENTS

Board Members' Biographies

Sir David Scholey, C.B.E. (70) #
Chairman
Previously chairman of the SG Warburg Group and is a senior adviser to UBS AG and a non-executive director of The Chubb Corporation. He retired from Anglo American plc and Vodafone Group plc during the year. Appointed a director in March 1999 and chairman in October 1999. Chairman of the Nomination and Governance Committee.

C.D. Keogh, M.B.A., Barrister, A.T.I.I. (52) + *
Chief Executive
Joined Close Brothers in May 1985 having previously been employed by Saudi International Bank and Arthur Andersen. Appointed a director in August 1995 and chief executive in November 2002.

M.J. Barley, A.C.I.B. (48) *
Chief executive of the asset financing division. Joined Close Brothers in June 1999 having previously been chief executive of Wagon Finance and an executive manager at Abbey National. Appointed to the management board in August 2003.

P.N. Buckley, C.A. (63) #
Chairman of Caledonia Investments plc. Other directorships include Offshore Logistics Inc. and Kerzner International Hotels Limited. Appointed a director in November 1995. His alternate is Michael Wyatt (68), a former director of Caledonia Investments plc.

R.S. Grainger, A.C.A. (45) *
Chief executive of the corporate finance division. Joined Close Brothers in May 1996 on its acquisition of Hill Samuel corporate finance, which he joined in April 1987 after qualifying with Price Waterhouse. Appointed to the management board in August 2003.

M.A. Hines, F.S.I. (56) + *
Joined Close Brothers in April 1993 on the acquisition of Winterflood Securities, of which he is chief executive. Appointed a director in March 2002. Previously with Bisgood Bishop.

S.R. Hodges, Barrister (51) + *
Joined Close Brothers in August 1985 having previously been employed by Hambros. Appointed a director in August 1995 with responsibility for the banking division. Appointed joint managing director in November 2002.

R.D. Kent, M.B.A., M.S.I. (58) #
Joined Close Brothers in 1974 and led the management buy-out in 1979. Managing director from August 1984 until October 2002 when he became a non-executive director and consultant. Non-executive chairman of Grosvenor Limited and Bradford & Bingley Group plc and non-executive director of Whitbread plc.

P.S.S. Macpherson, M.B.A. (57) #
Formerly a director of Flemings and executive deputy chairman of Misys. Chairman of Tribal Group plc and non-executive director of AXA UK PLC and Kleinwort Benson Private Bank Limited. Appointed a director in March 2003 and senior independent director in September 2004.

M.G.A. McLintock (44) #
Chief executive of M&G and a director of Prudential plc. Previously worked for Barings and Morgan Grenfell. Appointed a director in May 2001. Chairman of the Remuneration Committee.

D.G.J. Paterson, F.C.A. (61) #
Formerly a senior partner in the banking and capital markets division of PricewaterhouseCoopers. Non-executive director of Goldman Sachs International Bank. Appointed a director in July 2004. Chairman of the Audit and Compliance Committee.

D.C. Pusinelli, A.C.A. (49) + *
Having qualified with Coopers and Lybrand he joined the corporate finance division of Close Brothers in July 1986. Appointed a director in September 2002 with responsibility for corporate development.

J.S. Sieff (39) *
Chief executive of the asset management division. Joined Close Brothers in May 2003 having previously been employed by Old Mutual and HSBC. Appointed to the management board in July 2004.

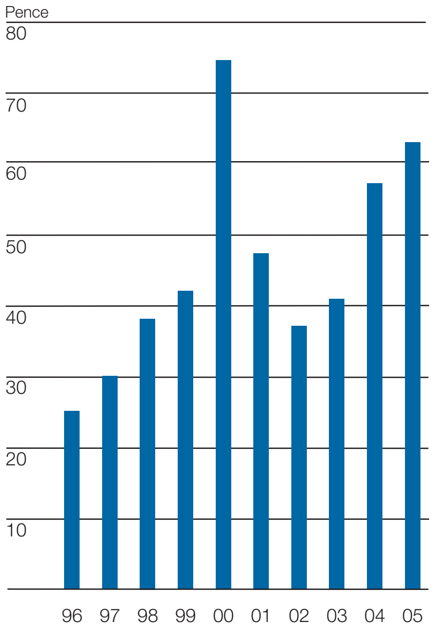
J.P. Williams (55) #
With Baring Asset Management until retirement in 2002. Non-executive director of J P Morgan Fleming America Investment Trust plc and The Pan Asian Special Opportunities Fund. Appointed a director in July 2004.

P.L. Winkworth, F.C.A., A.T.I.I., M.S.I. (57) + *
Employed by KPMG and Barings, before joining Close Brothers in 1977. Partner in the management buy-out of Close Brothers in 1979 and was appointed a director in August 1984 with responsibility for finance. Appointed joint managing director in November 2002.

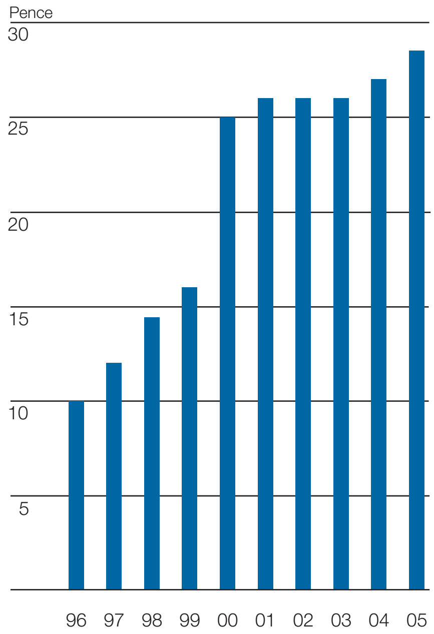
Secretary

R.D. Sellers, A.C.A.

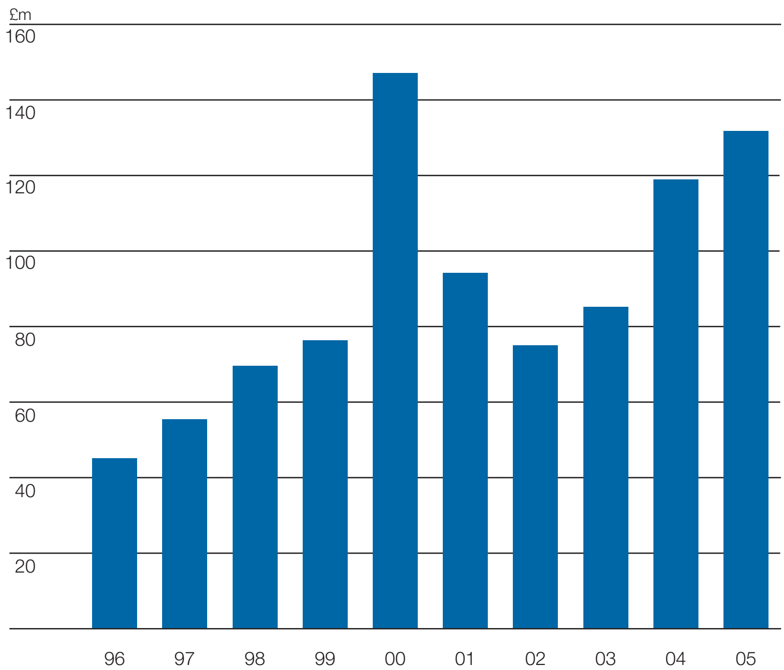
non-executive director + executive director * management board member



Earnings per share before goodwill amortisation



Dividends per share



Profit before goodwill amortisation and taxation

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.

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

FINANCIAL REVIEW

Overview

The spread of the group's operating income reflects the diversity of its activities. Net fee income increased by 21 per cent. and represented an increasing proportion of our operating income as we grew our asset management division.

	2004	2005
	%	%
Net interest income	33	31
Net fee income	40	43
Net dealing income	25	22
Other income	2	4

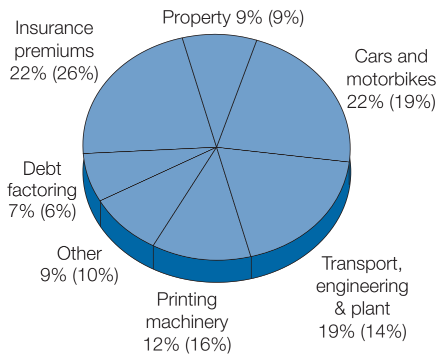
Expenses continued to be tightly controlled and our overall expenses/income ratio increased only modestly compared to last year.

	2004	2005
Operating income	£401m	£448m
Administrative expenses	£249m	£284m
Administrative expenses as % of operating income	62.0%	63.3%
Number of staff at year end	2,252	2,440

Staff numbers increased principally as a result of acquisitions.

Our customer loan book, including securitised receivables, increased by 11 per cent. during the year to £1.95 billion. It remained well spread, both by type of asset over which we took security and by number of loans.

Analysis of Group Loan Book by Asset Security
(2004 figures in brackets)



The loan book represented some 442,000 separate advances, only three of which exceeded £5 million, the largest being £12 million.

Impairment reviews of goodwill resulted in a reassessment of the carrying value in certain of our banking and asset management businesses. The total goodwill charge for the year was £23.1 million (2004 — £17.6 million).

The group remained well capitalised and soundly financed. The consolidated risk asset ratio at 20 per cent. (2004 — 21 per cent.) remained comfortably high.

Risk Management

Risk management is the process of identifying the principal business risks facing the group, establishing appropriate controls to manage those risks and ensuring that appropriate monitoring and reporting systems are in place. The group's process, which balances cost against risk within the constraints of the group's risk appetite, is consistent with the prudent management required of a large financial organisation.

The group is exposed to a wide range of risks. These can be categorised as reputational, financial, operational and compliance risks and are inherent in many of our businesses. Since each of our main operations is managed separately and there is little or no integration of systems, management or customers, risk management is carried out by the local management of each business. This is overseen on a regular basis by senior group management supported by group control and is reviewed by the audit and compliance committee which reports to the board.

The board considers reputational risk to be the most significant risk in a business operating in the financial services sector. Awareness of the importance of the group's reputation underpins our control culture. This risk could crystallise as a result of a failure in our financial, operational or compliance controls.

Financial risk is mitigated by the group having a well established reporting structure for agreeing strategy, risk appetite, planning and budgets. Detailed monthly group management accounts are produced and variances and trends are closely monitored. Divisional heads report to the group board each month on the performance of, and key issues affecting, their division. Detailed budgets and three-year plans, which are based upon group strategy, are flexed to take account of potential adverse conditions and are subject to rigorous testing at divisional and board level.

Operational risk includes credit, market and liquidity risks as well as other risks specific to each of our businesses. There are clear reporting lines and defined areas of responsibility at board, divisional and business level. This structure is designed to ensure, amongst other things, that key issues and developments are escalated on a timely basis.

Credit risk is controlled by a number of local credit committees within centrally set limits of authority. For transactions above such limits, there is a group credit committee. As a general principle, the group avoids the risk of multiple exposure to one counterparty — for example, we do not normally lend to a corporate finance advisory client, nor does one lending subsidiary seek to lend to customers of another lending subsidiary. Our loan book is also generally well spread, short term, secured and with a low average loan size.

Market risk mainly relates to Winterflood Securities Limited ("WINS") and Close Brothers Seydler AG. The senior management of each is closely involved in its risk management process, which is also regularly monitored at group level. There are controls, supplemented by cash limits, on individual large and slow moving equity and fixed income positions. WINS also maintains real-time controls on the size and risk profile of its overall trading book and of individual books within this. The group's exposure to market price risk resulting from market-making is shown in note 28.

Each of our operations is responsible for its own liquidity within specified guidelines. Each is properly capitalised for its own business (normally comfortably above the regulatory minimum) and, where necessary, has appropriate borrowing facilities from the company, the bank or external lenders. The liquidity of each division is reviewed at its monthly board meeting and the group's liquidity is regularly reviewed by its board, assisted by treasury.

Our asset management division has a range of controls to support the quality of the investment process, including asset allocation and investment committees, in which its senior central management participates where appropriate. These are backed up by rigorous controls to safeguard clients' stock and money and regular review of investment performance.

Apart from operational risk inherent in any advisory business, our corporate finance division is exposed principally to reputational and underwriting risks. These are controlled and monitored by the risk committee in which senior management of both corporate finance and group participate. Underwriting risk is decided upon and monitored by a specific committee of the bank, which includes group directors who are not directly involved in corporate finance.

Our treasury operations do not trade actively in money market instruments since these are normally held to maturity. Nor do we trade speculatively in derivatives as a principal. Counterparties with whom we place deposits or whose certificates of deposit or floating rate notes we buy are monitored by the treasury committee which establishes specific limits. Interest rate mismatch policy is established by the treasury committee with mismatches being monitored daily.

We continue to be able to finance our customer loans and advances by capital and reserves, longer term deposits and committed facilities. At the year end the bank's committed facilities amounted to over £1.9 billion, of which £1.1 billion was drawn. We continued our long established policy of broadly matching interest rate liabilities whereby we swap variable rate financing into fixed rate, particularly in regard to our asset financing book. The group's funding position is reported to the board each month.

Returns from the group's capital and reserves are necessarily subject to interest rate fluctuations and as a matter of policy these are not hedged, as reflected in the interest rate repricing table shown in note 24. The capital position of each division is compared to regulatory capital requirements and reported to the board monthly.

We have minimal currency exposure, since most of our business is transacted in sterling. Non-sterling financing is funded by liabilities in the relevant currency or swapped into sterling to hedge currency exposure. Most of the group's activities are located in the British Isles. Since currency exposure resulting from our investment in overseas subsidiaries, although increased, is currently relatively small, the extent to which the group's consolidated balance sheet is affected by movements in exchange rates is minimal.

We have a central group control unit which comprises internal audit and group compliance, and also financial control and, where regulated, compliance functions at subsidiary level. This unit oversees and periodically examines the quality of the operational procedures of our separate businesses. The frequency of examination depends upon the perceived risk and prevailing issues within each operation. Our central group control unit reports to the audit and compliance committee and has unrestricted and direct access to the chairman of the board.

International Financial Reporting Standards

The company is required under European legislation to adopt International Financial Reporting Standards ("IFRS") for its consolidated accounts for the year ending 31st July, 2006.

A project working party was established by the company in 2003 to assess the impact of conversion from UK GAAP to IFRS and to prepare for the implementation of IFRS. This project team has been working in consultation with the external auditors and other technical advisers. Work is still in progress but at this stage we believe that the implementation of IFRS will overall have a slightly adverse, but not material, impact on the consolidated financial position and results of the group in the 2006 financial year, principally as a result of the requirement to expense some £4 million relating to share based awards.

However, IAS 27 may require the group to consolidate private equity investments which it manages on behalf of various funds where the principal investors are institutional third parties. If such consolidation is required the directors would also present a profit and loss account and balance sheet without such investments which would help our stakeholders and readers of our financial statements to understand better the underlying financial performance and position of the group.

Other areas of impact which we have identified and taken into account include:

- Loan impairment reviews (IAS 39);
- Restatement of income recognition policies (IAS 18 and IAS 39);
- Valuation and accounting of derivative instruments (IAS 39);
- Goodwill impairment reviews (IAS 36 and IFRS 3);
- Later recognition of proposed or declared dividends (IAS 10); and
- Consolidation of the defined benefit pension scheme (IAS 19).

The first consolidated financial statements to reflect the adoption of IFRS by the company will be the interim report for the six months ending 31st January, 2006. This will include comparative figures, adjusted where necessary in accordance with IFRS, together with the required restatement of the balance sheet as at 31st July, 2005.

OPERATIONAL REVIEW

Investment Banking

Our investment banking activity had another successful year building upon the forward momentum of 2004. Profit increased by 19 per cent. to £77.6 million, on top of last year's increase of 77 per cent. Market-making had a steady year, given two dull periods in the stock market, but finished on a high note as investor confidence returned.

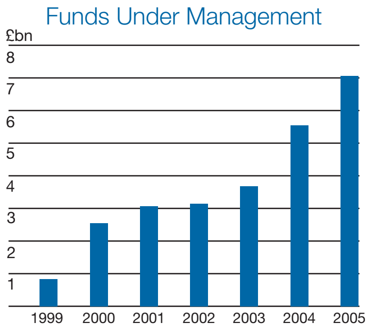
Corporate finance grew its revenues by some 18 per cent. Asset management again demonstrated great progress, with profit up 83 per cent.

Asset Management

The strong level of profitability at the interim stage was repeated in the second half to give a record year.

We have continued to strengthen our top management team and have made some important organisational changes in order to increase the effectiveness of the component businesses within the division.

Stock markets generally rose in the year and this had a beneficial effect on funds under management ("FUM") and income. At the very end of the year we acquired Escher, a small successful manager-of-managers business serving the pension fund industry, now renamed Close TEAMS. We plan to apply the skills within this business to expand our offering to other segments of the savings industry.



We ended the year with £7.1 billion of FUM, up 27 per cent. on the previous year and showing substantial increase since our acquisition of Rea Brothers Group in August 1999. Of this year's £1.6 billion increase, approximately one-third each came from Close TEAMS, market growth and net new funds raised as illustrated below. This was a creditable performance in a year when no private equity fund was launched.

	2004 £bn	**2005 £bn**
New funds raised	1.5	**1.2**
Withdrawals, maturities & realisations	(0.7)	**(0.8)**
Net new funds	0.8	**0.4**
Market effect	0.1	**0.6**
Acquisition	0.9	**0.6**
Total at start of year	3.7	**5.5**
Total at end of year	5.5	**7.1**

Private Clients (£2.7 billion)
The integration of Nelson and Close Wealth Management has gone well and the opportunity to extract value whilst improving the client proposition has provided a useful component of this year's profit increase. The enlarged business, now based in the North West, continues to attract new funds.

Our offshore British Isles businesses have seen the benefit of the integrated management structure that was introduced last year under the Close Private Bank banner. This resulted in an improvement in income and the redeployment of resources from back to front office as we strengthened our client offering.

Funds (£4.4 billion)
Our collective funds business made good progress during the year, with two of our key investment trusts increasing in size, the Finsbury Worldwide Pharmaceutical Trust and the Finsbury Growth & Income Trust, and substantial growth in our Enhanced Gilt Fund. The addition to this business of the award-winning Close TEAMS service further strengthens its offering and growth potential. Our technology funds business was given impetus by increased marketing resource.

The momentum in our property investment business has continued, with an increase in FUM of over 25 per cent. A deliberate shift in the structure of our property funds has increased the proportion of on-going management fees compared to fund formation fees resulting in a higher quality of earnings. Our reputation as a top-performing venture capital trust manager allowed us to attract a high share of the new funds coming into this market.

OLIM again produced record profits and expanded its top executive team. Close Fund Management had a record year, successfully launching a protected commodities fund and a geared European fund with protection. It also raised a second guaranteed hedge fund with Man Group. The Escalator range of funds continued to perform well.

Private equity enjoyed a record year, based in part upon attractive realisations which provided some gains both for our clients and ourselves, particularly in the first half. Our 20 year track record of investment performance provides a robust business platform.

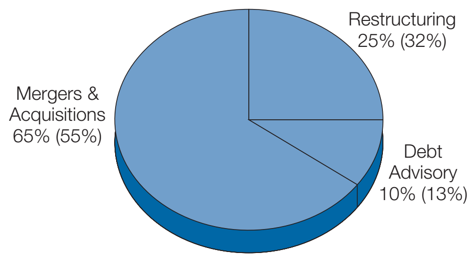
In the Cayman Islands we achieved another noticeable year of firm progress bolstered by the acquisition of a small trust administration business. Our Guernsey based fund service provider had an excellent year on the back of fresh client wins and the success of our clients themselves in attracting new funds.

With markets remaining confident, we have made a bright start to our new financial year.

Corporate Finance
We further built on last year's strong performance with operating income up 18 per cent. at £42 million. Profit before tax was £10.1 million and, whilst up only 3 per cent. as reported, was some 17 per cent. higher ignoring a bad debt write-back last year. Firm progress in the UK was supported by improved performances in each of our European centres.

Our M&A group advised on 169 mandates across Europe, a 15 per cent. rise. As well as corporates, we also advised numerous private equity groups in what has been a private equity driven M&A market. Notable transactions this year included advising on the sale of Tootsies Restaurants to Urban Dining; 3i's merger of Shearings and Wallace Arnold to create Europe's largest coach holidays business; and the sale of iTouch, Europe's principal mobile content provider, to For.side.com of Japan.

Corporate Finance Practice Areas
(2004 figures in brackets)



Our restructuring group was recognised as Europe's leading adviser, collecting awards for adviser of the year from the highly regarded industry publications, "Acquisitions Monthly" and "International Financing Review". In the past twelve months we advised on 30 deals involving $100 billion of debt, including British Energy, Eurotunnel and Parmalat.

Our debt advisory team had a busy year, reflecting the highly liquid debt markets. It also saw increased demand for its services across Europe. It completed 12 deals and advised on debt facilities totalling nearly £2.5 billion. Notable clients included Alliance Medical and Regent Inns.

In order to strengthen and harmonise the Close Brothers name across Europe, we implemented a rebranding. Germany and France adopted the Close Brothers name and all other offices in our network adopted similar brand characteristics, to reflect both the strength of the network and also its ability to service clients internationally.

We start the new financial year with an encouraging pipeline.

Market-Making

After two years of strong growth, the profit of this division, at £35.7 million, was marginally lower than last year's £37.9 million. In the UK our business started on a quiet note and we also encountered a dull patch in the spring of 2005. However, in the latter months of the period, and into the new financial year, activity has picked up markedly.

Our electronic engine 'Winner' continues to develop both in terms of richness of functionality and of client reach. We have maintained our lead in services to the retail market place and have increased business with our UK and overseas institutional clients.

Our trading in blue chip stocks traded on the LSE's SETS platform has increased by over 48 per cent. in terms of value, as a wider range of clients take advantage of our execution expertise in this area. The LSE expanded its SETSmm platform to include the Small Cap Index in July 2005. WINS is the only market-maker to have registered in all such stocks and it continues to be a leading liquidity provider in this market segment.

2005 saw the tenth anniversary of the AIM market, which continued to experience significant growth, with some 500 issues raising £3.8 billion during our financial year. We are a leading market-maker in AIM stocks and we have benefited from an AIM market index which rose 22 per cent. during our trading year.

Our investment trust team made significant progress this year, securing a prominent market position in its secondary and primary markets. The corporate and broking contribution, in terms both of the range of transactions, which included three significant equity-based issues, and also of client coverage, with over 45 corporate broking engagements, improved markedly.

We continue to monitor EU regulatory developments and to plan for their impact. In particular, the Markets in Financial Instruments Directive may have a significant impact on the entire financial services industry when implemented.

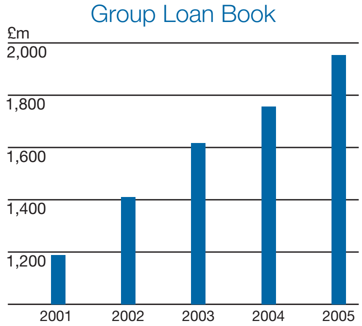
During the year we initiated two significant developments for the future. We acquired a securities trading business in Germany, now named Close Brothers Seydler, having invested alongside its management. This business has a number of leading specialist segments of the Frankfurt Stock Exchange and is performing well. We also supported the OFEX market, both by participation in their fundraising and by commencement of market-making in the whole of this market.

Our new financial period has got off to a solid start, significantly better than the same period last year.

Banking

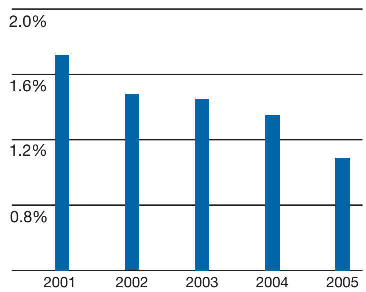
Our banking activity consists of our specialist financing and asset financing divisions together with our central treasury. The profit for this activity grew by 2 per cent. to £71.1 million and the loan book, including securitised receivables and loans in run off, rose to a new high of £1.95 billion, up 11 per cent. Customer deposits grew 8 per cent. to £1.82 billion, also a new high.

Group Loan Book



2005 was a year in which the benefits of our diversified model were well demonstrated, as overall growth was maintained despite insurance premium deflation and the burden of regulatory change in several of our businesses.

Bad Debt Charge as a Percentage of the Loan Book



Several activities grew healthily, and the further reduction in bad debts was particularly pleasing, with the charge for the year as a percentage of our average loan book falling from 1.4 per cent. last year to 1.1 per cent. The pre-tax operating returns on operating income and opening net assets were maintained at 38 per cent. and 31 per cent. respectively and underline the quality and spread of our diverse banking operations.

Specialist Financing

Our property finance business saw another year of good growth. Despite a more difficult housing market, the loan book increased by 17 per cent. to £177 million and there were no material non-performing loans at the year end. Our residential developer borrowers appreciate our specialised and consistent attitude to lending in this area.

Our insurance premium financing business had a challenging year with insurance premiums falling on average by some 10 per cent. in value. This had a direct impact on the size of its loan book, which by its nature is short term, and therefore on its income. However, this was mitigated to some extent by an increase of some 3 per cent. in the number of cases handled. The number of loans financed during the year exceeded 500,000 for the first time, and 5 million direct debit payments were processed, yet costs barely grew. Insurance is a cyclical business and premium financing remains an area in which we see good long term growth potential. However, in the short term we expect premium deflation to continue.

Our three credit management operations had an exciting year with aggregate profit growing by 25 per cent. Our UK debt factoring and invoice discounting company increased its loan book by 22 per cent. to £122 million. This was the first full year under new senior management, which has streamlined our operations and refocused our marketing. This resulted in an improved level of new business. Our German debt factoring business, which commenced trading only 18 months ago, reached monthly profitability and will make a positive contribution in the year ahead. This is an exciting development and its continued success will encourage us to look at new specialist overseas ventures, provided we can see the opportunity to build appropriate margins. Our credit management business, also under new senior management, had an excellent year and made a significantly increased contribution.

Our mortgage broking business had a difficult year as the market reacted to the twin challenges of regulation and a slowing housing market. Our response to regulation has been to establish ourselves as a quality principal network provider and our expectation is that there will be further consolidation in this sector from which we expect to benefit.

Asset Financing

Our asset financing division had another satisfactory year with the loan book exceeding £1.2 billion for the first time. Underlying loan book growth was in line with inflation and our business was boosted by two acquisitions which added £157 million to the book at the year end.

During the year considerable effort has been required to ensure that our businesses comply with new FSA regulations relating to the sale of general insurance products introduced from the beginning of 2005. The transition was managed successfully and the focus has now moved to the significant changes to the Consumer Credit Act and the introduction of IFRS.

Our commercial asset financing business made good progress and saw improved growth in the financing of plant and machinery and of commercial vehicles. Whilst the new print market remained tough throughout the year, this area represented less than 10 per cent. of all new lending in our commercial asset finance arena. We supplemented our organic development with the acquisition of a company based in Hull, now named Kingston Asset Finance.

Our motor finance business built on its recent achievements with the acquisition of a significant portfolio of motor loans. The motorcycle and light commercial vehicle markets remained buoyant during the year but the used car market became quieter during the second half, dented by lower consumer confidence.

The year for our military services unit saw the UK armed forces' continued commitment in Iraq and the consequent difficulties in communicating with customers. Although it achieved modest loan book growth we remain cautious about its future and have again reassessed the goodwill attributable to this business.

Close Finance (CI), operating in the domestic markets in Guernsey and Jersey, enjoyed another good year with the loan book growing by 24 per cent. Notwithstanding the limitations of scale of the island populations we still see a number of opportunities for further growth.

Treasury

Our treasury and funding operation had an excellent year. In the first half we obtained a strong new credit rating from Moody's which, together with our existing rating from Fitch, assisted us in establishing a new medium term note programme. This was well received by the market and we raised €500 million of three year committed funding mainly from new continental lenders. This programme will enable us to raise finance from a deep and liquid market more easily in future. Our customer deposit base continued to expand during the year and in particular we raised a growing amount of longer term deposits. We also diversified our investments in the money market with the purchase of a portfolio of high quality liquid floating rate notes.

Summary

Our solid and resilient banking activity had a year of low overall growth though this masked markedly different performances in its diversified businesses. Corporate finance and market-making both had a good year and have made a promising start to the new financial year. The benefits of our strategic focus on asset management are now showing through and there remains much to play for in this area.

Overall we remain in fine fettle.

C.D. Keogh
Chief Executive

The directors present their report and the audited financial statements for the year ended 31st July, 2005.

Principal Activities

Close Brothers Group plc is the parent company of a group of companies engaged in merchant banking operations. The principal subsidiary undertakings as at 31st July, 2005 and their principal activities are listed in note 29 to these financial statements. A detailed review of current and future developments is presented in the reports by the Chairman and Chief Executive.

Results and Dividends

The consolidated results for the year are shown on page 27. The directors recommend a final dividend for 2005 of 19.0p (2004 — 18.0p) on each ordinary share which, together with the interim dividend of 9.5p (2004 — 9.0p), makes a total distribution for the year of 28.5p (2004 — 27.0p) per share.

Statement of Responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group as at the end of the financial year and of the profit or loss of the company and the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether all applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and of the group and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control and for safeguarding the assets of the company and of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Share Capital

Details of changes in the company's ordinary share capital during the year are given in note 20 to these financial statements.

Substantial Interests

At 12th September, 2005 the following had notified the company that they were interested in 3 per cent. or more of the issued share capital of the company:

	Ordinary shares	%
Caledonia Investments plc	18,000,000	12.44
Prudential plc	14,509,997	10.03
Barclays PLC	5,307,993	3.67
Legal and General plc	5,097,856	3.52
Zurich Financial Services AG	5,063,932	3.50
Fidelity International Limited	4,598,600	3.18

Directors and Interests

(a) The present directors of the company, all of whom served throughout the year are set out on page 2. Messrs. A.H. Farley and P.S. Wilmot-Sitwell retired from the board on 28th October, 2004.

(b) The directors' interests in the share capital of the company are shown below:

	Ordinary shares	
	31st July, 2005	1st August, 2004
P.N. Buckley*	—	—
M.A. Hines	**23,037**	20,177
S.R. Hodges	**402,260**	402,260
R.D. Kent	**224,770**	224,770
C.D. Keogh	**318,751**	318,751
P.S.S. Macpherson	—	—
M.G.A. McLintock**	**4,440**	4,440
D.G.J. Paterson	**10,000**	—
D.C. Pusinelli	**227,391**	227,391
Sir David Scholey	**10,000**	10,000
J.P. Williams	**7,000**	7,000
P.L. Winkworth	**629,765**	629,765
M.G. Wyatt (alternate)	—	—

* Mr. P.N. Buckley is the chairman of Caledonia Investments plc, which had an interest in 18,000,000 ordinary shares of the company at 31st July, 2005 (1st August, 2004 — 18,000,000).

** Mr. M.G.A. McLintock is a director of Prudential plc, which had an interest in 14,516,823 ordinary shares of the company at 31st July, 2005 (1st August, 2004 — 14,890,839).

Details of the options to subscribe for shares held by the directors under the company's executive share option schemes, Long Term Incentive Plan and SAYE Scheme are given in the report of the board on directors' remuneration on pages 19 to 25. The beneficial interests of the directors in the share capital of the company have remained unchanged since 31st July, 2005.

(c) Mr. M.A. Hines is a director of and minority shareholder in Winterflood Securities Limited. At 31st July, 2005 he and his spouse were beneficially interested in 1,250 ordinary shares of that company (1st August, 2004 — 1,250).

(d) In accordance with the provisions of the Articles of Association, Messrs. P.N. Buckley (appointed November, 1995), R.D. Kent (appointed August, 1984), C.D. Keogh (appointed August, 1995) and M.A. Hines (appointed March, 2002) retire by rotation and, being eligible, offer themselves for re-election. Biographical details of these directors are given on page 2. Mr. M.G. Wyatt will retire from the board at the forthcoming Annual General Meeting.

Messrs. C.D. Keogh and M.A. Hines have service contracts which can be terminated upon twelve months' notice. Messrs. P.N. Buckley and R.D. Kent are non-executive directors and, as such, do not have service contracts. Mr. R.D. Kent has a consultancy agreement with the company which can be terminated upon not less than six months' notice. The chairman of the board confirms that following formal performance evaluation, the non-executive directors due to retire by rotation continue to be effective and to demonstrate commitment to the role including time for board and committee meetings and other duties.

(e) The company has established an employee benefit trust in which all employees of the group, including executive directors, are potential beneficiaries. The trust currently owns 985,221 shares in the company, all of which are conditionally earmarked for deferred share awards. The trust acquired these shares at an average cost of 384p per share compared to a market value of 757.5p per share at 31st July, 2005. Dividends have been waived on these shares.

Full details of directors' shareholdings and options to subscribe are open to inspection in the Register of Directors' Interests at the company's registered office.

Directors' Indemnity

The company's articles of association provide that every director and secretary of the company shall be indemnified by the company to the extent permissible under UK company law against any costs incurred by them in defending proceedings brought against them arising out of their positions as director or secretary in which they are acquitted or judgement is given in their favour or relief from liability for negligence, default, breach of duty or breach of trust is granted to them by the court.

Suppliers Payment Policy

All banking, market-making and investment transactions are settled in accordance with applicable terms and conditions of business agreed with the counterparty. Average creditor days for all other approved expenses is 24 (2004 — 24).

Special Business at the Annual General Meeting

(a) Authority to purchase own shares

At the last Annual General Meeting ("AGM") the company was given authority to make market purchases of up to approximately 15 per cent. of its issued share capital. This authority, which will expire at the conclusion of the AGM, has not been used by the directors.

Nevertheless the board considers it would be appropriate to renew the authority. Share purchases would only be made where the directors believed that they were in the best interests of the company and would enhance earnings per share, taking into account other available investment opportunities and the overall financial position of the group. Accordingly, a special resolution will be proposed at the AGM to authorise the company to purchase not more than 21,700,000 of its 25p ordinary shares, being approximately 15 per cent. of the issued share capital of the company.

The maximum price which may be paid will not be more than 5 per cent. above the average of the middle market quotations for the ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days before the purchase is made. The minimum price will be the par value. The directors would only begin to purchase shares after considering the criteria referred to above.

The authority will expire on whichever date is the earlier of the date eighteen months from the date the special resolution is passed and the date of the 2006 AGM. Details of shares purchased pursuant to the authority will be notified to the London Stock Exchange and to the Registrar of Companies and will be disclosed in the 2006 Annual Report.

(b) Directors' authority to allot shares

A resolution will be proposed at the AGM to grant the directors authority to allot unissued shares of the company up to a nominal amount of £12,056,000, which represents approximately one third of the issued share capital. Other than in respect of options in issue, the directors do not have any present intention to allot unissued shares pursuant to this authority. The authority, if granted, will last for a period of five years from the date of passing of the resolution.

(c) Waiver of pre-emption rights

It is proposed to renew, until the next AGM, the directors' flexibility to issue shares for cash other than strictly pro rata to existing shareholders.

This authority will be limited to a nominal amount of £1,808,000 which represents approximately 5 per cent. of the issued share capital. The directors intend to comply with the guidelines of the investment committees of the Association of British Insurers and the National Association of Pension Funds to the effect that no more than 7½ per cent. of the issued share capital should be allotted for cash on a non pre-emptive basis in any rolling three year period.

Auditors

A resolution to reappoint Deloitte & Touche LLP as the company's auditors will be proposed at the forthcoming AGM.

By order of the board

R.D. Sellers
Secretary

26th September, 2005

The board of the company ("the board") has reviewed its Corporate Governance practices and, together with relevant information contained in the Report of the Board on Directors' Remuneration on pages 19 to 25 and the Report of the Directors on pages 13 and 14, this statement explains how the company has applied the principles of good governance contained in Section 1 of the Combined Code on Corporate Governance published in July 2003 by the Financial Reporting Council ("the Combined Code") for the year ended 31st July, 2005.

Board Responsibilities

The board currently comprises five executive directors and seven non-executive directors, including the chairman. The senior independent director is Mr. P.S.S. Macpherson.

The board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties and meets regularly throughout the year (normally monthly) to deal with important aspects of the group's affairs, including setting and monitoring strategy, reviewing performance, ensuring adequate financial resources and reporting to shareholders. The chairman is responsible for the running of the board and the chief executive is responsible for the running of the company's business which ensures a clear division of responsibility at the head of the company. The management board, comprising solely senior executives of the group, assists the chief executive both in developing strategy and business objectives, and with the day to day management of the group. All directors have direct access to the advice and services of the company secretary and outside professional advisers as necessary, at the company's expense.

The board has appointed the following committees, whose members are all non-executive directors, with the following summarised terms of reference, details of which are available on the company's website:

Audit and Compliance Committee (Messrs. D.G.J. Paterson (chairman), P.N. Buckley, P.S.S. Macpherson and J.P. Williams).

In December 2004 the Bank and Non-Bank Audit and Compliance Committees were combined to form one committee whose terms of reference are to review the scope and findings of the internal and external auditors, to commission any additional investigation work, to review the adequacy of controls and procedures including reputational, financial, operational and compliance controls and risk management and to consider the form and content of published announcements and statutory accounts.

Remuneration Committee (Messrs. M.G.A. McLintock (chairman), P.N. Buckley and P.S.S. Macpherson).

To determine the remuneration of the executive directors and the senior executives of the group.

Nomination and Governance Committee (Sir David Scholey (chairman) and Messrs. P.N. Buckley, R.D. Kent and M.G.A. McLintock).

To consider the appointment or retirement of directors, to review proposed nominations and governance procedures and to make recommendations thereon to the board. Before an appointment is made the skills, knowledge and experience required for a particular appointment are evaluated and external advisers may be used to facilitate the search for suitable candidates. Other duties of the committee include regular reviews of the structure, size and composition of the board, consideration of the leadership needs of the group and succession planning, and assessment of the contribution of non-executive directors.

Board Evaluation

The board conducts a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. The non-executive directors meet once a year in the company of the chief executive and the chairman leads a formal review and discussion of the performance of the board and its committees. The performance of individual executive directors is formally assessed annually by the chief executive and reviewed with the non-executive directors. Non-executive directors' performance is assessed by the chairman, the senior independent director and the chief executive. The chairman's performance is reviewed by the non-executive directors, led by the senior independent director, having consulted with the executive directors. Following its annual performance review, the board concluded that each of its committees and each of its directors remained effective and committed to their role.

In addition, in respect of the audit and compliance committee, the board are satisfied that the chairman of that committee, Mr. D.G.J. Paterson, has recent and relevant financial experience.

Attendance at Meetings

The following table identifies the number of board and committee meetings held in the year to 31st July, 2005 and the attendance record of their members:

	Scheduled Board Meetings	Audit and Compliance Committee	Remuneration Committee	Nomination and Governance Committee
Number of meetings in the year	11	4	3	2
Executive:				
M.A. Hines	11	—	—	—
S.R. Hodges	11	—	—	—
C.D. Keogh	11	—	—	—
D.C. Pusinelli	11	—	—	—
P.L. Winkworth	9	—	—	—
Non-executive:				
P.N. Buckley	9	3	2	2
R.D. Kent	8	—	—	2
P.S.S. Macpherson	11	3	2	—
M.G.A. McLintock	9	—	3	2
D.G.J. Paterson	11	4	—	—
Sir David Scholey	10	—	—	2
J.P. Williams	11	4	—	—
M.G. Wyatt (alt.)	—	—	—	—

Independence of Non-executive Directors

The board is of the opinion that each non-executive director acts in an independent and objective manner. Within the terms of the Combined Code these directors were independent with the exception of Mr. R.D. Kent who was an executive director until 31st October, 2002. The board opinion was determined by considering for each non-executive director; whether he is independent in character and judgement; how he conducts himself in board meetings; whether he has any relationships or whether there are any circumstances which are likely to affect, or could appear to affect, his judgement; and whether he acts in the best interests of the company and all its shareholders at all times. Furthermore, in determining that Messrs. P.N. Buckley and M.G.A. McLintock are independent notwithstanding their directorships of Caledonia Investments plc (which owns approximately 12 per cent. of the company) and Prudential plc (which has an interest in approximately 10 per cent. of the company held across a range of its investment and managed funds) respectively, the board took into account that neither of them attends board meetings as appointee of those companies. Additionally, in respect of Mr. P.N. Buckley, who has served on the board for nine years, the board believes that it is essential that non-executive directors have the opportunity to acquire, over a number of years, the knowledge and experience of the business and the sectors within which the group operates.

Internal Control

The board has overall responsibility for the group's system of internal control and for reviewing its effectiveness. The system of internal control is designed to ensure that the reputational, financial, operational and compliance risks taken by the company and its subsidiaries in the conduct of their business are identified and evaluated so that appropriate controls are put in place to manage those risks. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The system of internal control is supported by a well established organisational structure within the group, with clear levels of responsibility and delegation of authority and a strong control culture embedded in the day to day management of each operating company. Each operating company in the group regularly undertakes a review of, and reports to its board on, these controls and procedures, having due regard to its key risks. Where necessary, steps are taken to improve internal control and risk management further, following these reviews. The Financial Review Statement on pages 6 to 8 details these key risks and explains how they are controlled.

Group control, which is the central internal audit and compliance unit, regularly reviews the effectiveness of controls and procedures established in each company to manage key risks. The head of group control reports through the audit and compliance committee to the board, to which he has unrestricted access through the chairman.

The company has complied with the Turnbull Committee's guidance for directors. Identifying, evaluating and managing the group's significant risks is an ongoing process which is regularly reviewed by the board, and which has been in place for the year ended 31 July, 2005 and up to the date of the approval of these financial statements.

Auditors' Independence

The group employs two firms of auditors. Ernst & Young LLP are the auditors of Close Brothers Limited, the banking subsidiary, and its subsidiaries and of Close Brothers Seydler AG. Deloitte & Touche LLP are the auditors of the company and the remainder of the group.

In addition to their statutory audit responsibilities, the group will typically use the auditors for other work that they are well placed to undertake because of that role. This includes formalities relating to borrowings, shareholder and other circulars; regulatory, pension scheme and other ancillary audit work; work in respect of acquisitions and disposals; and tax compliance.

Several firms are considered for other work, including the auditors in some instances. In such cases due consideration is given to the impact of the assignment on the independence of the auditors and to their qualifications to carry out the role, including competitive tenders for larger assignments.

Having given consideration to the extra work undertaken by the auditors, and after review with the responsible partners in the two firms and the executive directors, the Audit and Compliance Committee is satisfied as to the independence of the statutory auditors.

Relations with Shareholders

The group has a programme of communication with shareholders through the interim and annual reports, the Annual General Meeting and regular webcasts. Shareholders are given the opportunity to participate by asking questions at the Annual General Meeting, or by submitting written questions in advance. The group's website at www.closebrothers.co.uk contains information on the group, including up to date relevant shareholder information, as well as information on the products and services it offers. Communication with the group's major institutional shareholders is undertaken by a programme of visits and presentations. Feedback from this programme is reported to the board to ensure it develops an understanding of the views of the major shareholders of the company.

Going Concern

The financial statements are prepared on a going concern basis as the directors are satisfied that, at the time of approving the financial statements, the group has the resources to continue in business for the foreseeable future.

Compliance with the Combined Code

The company has complied with Section 1 of the Combined Code throughout the year ended 31st July, 2005.

Introduction

In growing its business, Close Brothers recognises that it should take account of the needs of society and the environment, and maintain ethical standards. The group categorises its activities underpinning the management of these social, environmental and ethical issues under the three headings below. The board takes collective responsibility for Corporate Social Responsibility and the company secretary is responsible for overseeing implementation and reporting progress to the board. To support the achievement of higher standards of social, ethical and environmental performance, the group is a signatory to the UNEP Finance Initiative Global Compact. However, while these standards have been applied as part of the core culture of the group, it is recognised that they are not clearly articulated, and their effects are not always quantified. As such, two themes will underpin improvement of the group's Corporate Social Responsibility strategy:

Systems development — Significant progress is needed in the development of systems to allow the group to determine and disclose its performance against non-financial stakeholder expectations. The group is developing systems which will enable a robust, quantified disclosure against key social, ethical and environmental criteria in future years.

Distributing Good Practice — Whilst the group demonstrates good practice in areas such as environmental management, staff wellbeing and community engagement in many of its businesses, these initiatives are not uniformly adopted across the group. Extension of minimum requirements, sustainability management systems and good practice initiatives across the whole of the group is an objective for the next three years.

Staff Welfare

In recognising that the group's success is largely dependent on recruiting, retaining, and developing the best financial services professionals, it has developed the following key principles:

To maintain working conditions for employees and visitors, each business in the group has established procedures appropriate to their particular activities to monitor, maintain and improve health and safety standards. Health and safety committees are established, with staff representatives, to provide training and improve the working environment. To combat stress in the workplace staff need support in maintaining a positive work life balance. Measures to deliver this include ill health protection, four times salary life insurance cover, time away from work (including a minimum two week single leave period for all staff as part of holiday entitlement) and health screening including on-site cholesterol and blood pressure screening.

Group businesses are encouraged to develop their own staff consultation policies. These include regular meetings held between local management and employees to allow a free flow of information and ideas and to discuss decisions likely to affect their interests. Staff participate directly in the success of the business through the group's savings related share option scheme.

It is the group's policy to give appropriate consideration to applications for employment from disabled persons. For the purposes of training, career development and promotion, disabled staff, including any who become disabled in the course of their employment, are treated on equal terms with other staff.

Community Support and Charitable Donations

Charitable donations made during the year amounted to £323,000 (2004 — £46,000). We support the community by providing two types of charitable donation. We offer staff the opportunity to have their own charitable fundraising endeavours matched by the group. In addition to this, where significant humanitarian or environmental incidents occur, the group contributes to recognised charities aiming to combat the worst effects; for example over £100,000 was donated to the Tsunami Earthquake Appeal.

The Environment

The group has collected data on its significant environmental impacts in order to set targets which will be regularly monitored. The group has implemented processes to manage environmental risks so as to lower its greenhouse gas emissions and reduce, reuse and recycle, wherever possible, waste materials. Dialogue with, and support from, Business in the Environment, to whom the group subscribes, has assisted the group in improving its environmental performance, which is a key aim of the policy. The group has become a signatory to the Carbon Disclosure Project, which encourages businesses to disclose their climate change risks, opportunities and impacts. Our environmental policy is published on the group website.

Introduction

The Directors' Remuneration Report, having been approved by the board, is presented to shareholders in accordance with the reporting requirements of the Directors' Remuneration Report Regulations 2002. The group has complied with the provisions of the Combined Code relating to directors' remuneration throughout the year.

The Remuneration Committee

The Remuneration Committee ("the Committee") determines the remuneration and other terms and conditions of employment of the executive directors and senior executives of the group.

The Committee consists entirely of non-executive directors, namely Messrs. M.G.A. McLintock (chairman), P.N. Buckley and P.S.S. Macpherson. The group chairman, Sir David Scholey, and the group chief executive, Mr. C.D. Keogh, attend meetings by invitation.

The board regards all members of the Committee as independent as explained in the Corporate Governance Report on pages 15 to 17. Details of the number of meetings and each member's attendance are set out in the table on page 16.

When considered appropriate, advice is taken from external consultants on a range of matters, including comparative data and other matters relevant to the remuneration of senior executives. The terms of reference of the Committee comply with the Combined Code and are available on the company's website. Mr. R.D. Sellers, the company secretary, is the secretary of the Committee.

Remuneration Policy

The Committee aims to ensure that the senior executive remuneration arrangements are fair, competitive and motivating within the context of the financial sector. With this objective in mind, the remuneration policy (which is essentially unchanged from the policy in 2004) is based on a remuneration structure which:

- motivates executives in the short term whilst also linking remuneration to the long term performance of the group;
- aligns the interests of executive directors with those of shareholders through performance related awards reflecting the results of the group and, depending on amount, a proportion of such awards being deferred and satisfied in shares;
- is appropriate in comparison with remuneration arrangements of competitors and in relation to that of senior group employees who are not directors; and
- reflects group profit levels and rewards profit growth, with performance related awards forming a significant element of total compensation.

In determining directors' remuneration, consideration is given to matters specific to the company such as returns to shareholders, profit and earnings performance, both in absolute terms and measured against budget. The quality of profit and earnings performance is also considered (ie. in the context of market conditions and whether broadly based across all divisions or derived more narrowly) as well as the application of risk controls across the business. Other considerations are the experience and performance of individual directors, their areas of responsibility and remuneration levels throughout the group and comparable market remuneration data. Finally, consideration is taken of the proportion of profits accounted for by total executive directors' remuneration. The Committee considers that an effective remuneration policy needs to be sufficiently flexible and kept under review in order to take account of future changes in the company's business environment and in remuneration practice. Accordingly, the policy may be amended in future years.

Components of Remuneration

Basic salary and benefits

The policy is to provide basic salaries which, when taken with potential performance related awards and pension provision payments, are competitive relative to comparable companies. The majority of executive directors' remuneration is performance related and basic salaries will, as a general principle, only normally be reviewed every several years other than as circumstances require, for example in the case of a promotion or change in responsibility. The company also provides senior executives with healthcare, prolonged disability and life assurance cover, and a company car or payment in lieu.

Annual discretionary performance related awards

Annual performance related awards are at the discretion of the Committee, are not pensionable and are determined in the light of the factors set out above.

The Committee does not consider it appropriate to set an upper limit on these awards because of the cultures and remuneration practices within the group and in similar financial services businesses. The majority of any such award is set with regard to the overall financial performance of the group.

In line with the Committee's general principles, a proportion of a director's performance related award may be deferred and satisfied in ordinary shares of the company ("shares"). Performance related awards up to 100 per cent. of salary will be paid in cash without deferral. Awards in excess of 100 per cent. of salary will be paid half in cash without deferral and half in shares which vest after two years ("the Deferred Element"). The Deferred Element will be forfeited if the executive leaves employment in certain circumstances or is dismissed for cause before the relevant vesting date. The number of shares comprised in the Deferred Element will be determined by reference to the market value of a share shortly following the announcement of the company's results for the relevant financial year. Following vesting, these shares may be called for at any time up to the seventh anniversary of grant. When the shares are called for, the executive is entitled to the value of dividends in respect of the shares under the Deferred Element accumulated over the period of deferral.

In the case of Mr. M.A. Hines, chief executive of Winterflood Securities Limited ("WINS"), his performance related award is paid from a formula-based profit sharing pool for WINS and is thus directly linked to the performance of that business. Any deferred element is decided on a discretionary basis from year to year, is payable in cash and is deferred until September 2008.

Details of the performance related awards in respect of the year ended 31st July, 2005 are set out on page 23.

Long-term incentives

The group has for many years operated long-term performance related incentive arrangements. These include the 2004 Long Term Incentive Plan (the "2004 LTIP"), approved by shareholders in 2004, the 1995 Executive Share Option Scheme, approved by shareholders in 1995 ("the 1995 Scheme") and the Inland Revenue approved Savings Related Share Option Scheme ("the SAYE Scheme").

The first grant under the 2004 LTIP was made in October 2004 and further grants are expected to be made annually. No further grants will be made under the 1995 Scheme and the last grant to directors was made in September 2003. Grants under the SAYE Scheme are made annually and are expected to continue for the foreseeable future.

The 2004 LTIP is based on a conditional award of free shares subject to demanding performance conditions. Grants are restricted to a maximum of twice an individual's salary in any one year. Performance conditions for each award are determined by the Committee at the time of each grant. Performance is measured over a single period of three years with no re-testing.

The performance conditions under the 2004 LTIP grant are a range of earnings per share ("EPS") growth targets for two thirds of an award and relative Total Shareholder Return ("TSR") targets for the remaining one third. The Committee considers that this mix of targets provides an appropriate balance between rewarding improvements in the company's financial performance, while also recognising relative stock market performance. Performance criteria will be calculated by the Committee and independently verified by the auditors.

The EPS element of the award will only vest if EPS growth is at or above an average of retail price index ("RPI") +5 per cent. per annum over the period. 25 per cent. of this part of the award vests at the RPI +5 per cent. threshold, increasing on a straight-line basis up to 100 per cent. vesting when the average EPS growth is RPI +10 per cent. The EPS figure used will be earnings per share before exceptional items and write off of goodwill.

For the TSR element, performance is measured against a group of 25 companies drawn from the FTSE-350 Speciality and Other Financial Index and the FTSE-350 Banks Index. This part of the award will only vest if the company's TSR performance is at or above the median of the comparator group. 25 per cent. of this part of the award vests for median TSR performance, increasing on a straight line basis up to 100 per cent. vesting when the company's TSR performance is at the 20th percentile (ie. top fifth) of the comparator group.

Under the 1995 Scheme 50 per cent. of each grant of options has been subject to a performance condition requiring average EPS growth of RPI +4 per cent. per annum over any three-year period during the ten-year life of the option. The remaining 50 per cent. has been subject to the achievement of a performance condition requiring the company's EPS growth over any five-year period during the life of the option to be in the top 25 per cent. of FTSE-100 companies.

Executive directors are also entitled to participate in the SAYE Scheme on the same terms as other employees, under the terms of which options are granted for a fixed contract period of three or five years, usually at a discount of 20 per cent. to the mid-market price.

Pensions

Messrs. S.R. Hodges, C.D. Keogh and D.C. Pusinelli participate in the group's defined benefits scheme and in a group defined contribution scheme. Under the defined benefits scheme, which was closed to new entrants in August 1996, the normal pensionable age is 65, the pension at normal pensionable age is two-thirds of final pensionable salary subject to completion of 30 years' service and there is a 50 per cent. widow's pension on death. Pensionable salary has been set at their salary at 1st August, 2001 plus increases to reflect RPI to a maximum of 2 per cent. per annum. from 1st August, 2002.

Messrs. M.A. Hines and P.L. Winkworth participate in defined contribution pension schemes. Details of company contributions for these directors are set out in the table of directors' remuneration for the year ended 31st July, 2005 on page 23.

The following table summarises pension benefits for the directors who participated in the group's defined benefits scheme. The accrued pension is that which would be paid annually on retirement based on service to the end of the year. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. Participants in the defined benefits scheme have the option of paying additional voluntary contributions; neither such contributions nor the resulting benefits are included in the table below:

	Transfer value of accrued pension				Accrued pension	
	At 31st July, 2004 £'000	Director's contributions £'000	Change during the year £'000	**At 31st July, 2005 £'000**	Increase during the year £'000	**At 31st July, 2005 £'000**
S.R Hodges	902	15	239	**1,156**	8	**115**
C.D. Keogh	916	15	239	**1,170**	8	**115**
D.C. Pusinelli	650	13	176	**839**	5	**86**

The transfer values disclosed above represent potential liabilities of the pension scheme and do not necessarily represent a sum paid or payable to the individual director.

External Appointments

Any external appointments require board approval. No fees were earned from such appointments by any executive director. If they were, they would be taken into account in determining their remuneration.

Directors' Service Contracts

Executive directors' service contracts are terminable on twelve months' notice and do not contain a liquidated damages clause on termination. In the event of termination of a contract it is current policy to seek appropriate mitigation of loss by the director concerned and to ensure that any payment made is commensurate with legal obligations. The employer may at its discretion terminate the contract by making a payment in lieu of notice equal to the salary and benefits which the director would have received during his notice period. Executive directors' service contracts were entered into on the following dates:

M.A. Hines	27th August, 1999
S.R. Hodges	22nd January, 2001
C.D. Keogh	22nd January, 2001
D.C. Pusinelli	26th September, 2002
P.L. Winkworth	2nd August, 1984

Non-executive Directors

Non-executive directors are engaged under a letter of appointment for terms not exceeding three years, which are renewable by mutual agreement and terminable without notice. In respect of the services of Mr. P.N. Buckley as a non-executive director for the year ended 31st July, 2005, Caledonia Investments plc was paid £40,000, as disclosed in the remuneration table on page 23.

Remuneration of the chairman and all non-executive directors is set by the board in accordance with the Articles of Association (without the participation of the chairman and non-executive directors themselves) and from 1st August, 2004, was £160,000 per annum for the chairman and £40,000 per annum for each non-executive director. In addition the chairman of each of the audit and compliance committee, the nomination and governance committee and the remuneration committee receives an additional £5,000 per annum.

Retired Executive Directors' Remuneration

Mr. D.G. Hardisty, who retired as a director on 31st July, 2003, is retained by Close Asset Finance Limited, a subsidiary of the company, as a consultant for an annual fee of £125,000. Mr. Hardisty was chief executive of Close Asset Finance Limited until his retirement. The agreement is dated 31st July, 2003 and the initial period is four years after which it can be terminated by either party giving not less than six months' notice. Under the terms of this arrangement Mr. Hardisty will make himself available to provide advice and assistance in connection with reviewing potential business opportunities, particularly in Europe, as well as other matters for up to 35 working days per year.

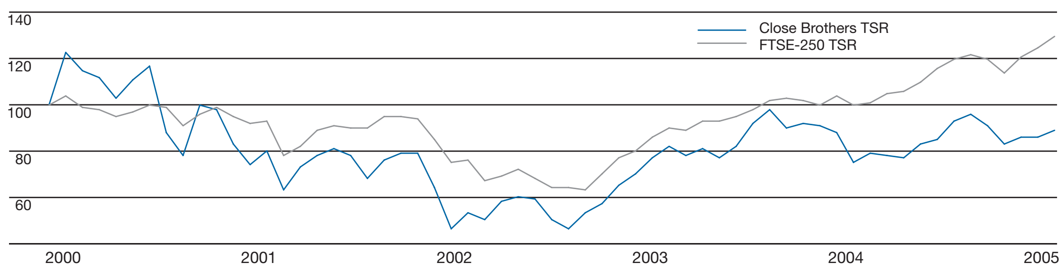
Mr. R.D. Kent, a non-executive director, who retired as an executive director on 31st October, 2002, is retained by the company as a consultant for an annual fee of £100,000. The agreement is dated 31st October, 2002 and can be terminated by either party giving to the other not less than six months' notice. Under the terms of this arrangement Mr. Kent will make himself available to provide advice and assistance in connection with reviewing potential acquisitions as well as other matters for up to 25 working days per year.

Mr. D.J. Macnamara, who ceased to be an alternate director on 31st July, 2003 and who retired as Joint Chief Executive of WINS in 2004, received a deferred bonus of £200,000 on 15th July, 2005. Mr. D.J. Macnamara no longer has any contractual commitment with or to the group.

Mr. B.M. Winterflood, who retired as a director on 31st January, 2002, is non-executive chairman of WINS for which he receives an annual fee of £75,000 and benefits of £25,000.

Total Shareholder Return

The graph below shows a comparison of TSR for the company's shares for the five years ended 31st July, 2005 against the TSR for the companies comprising the FTSE-250 Index. TSR has been calculated assuming that all dividends are reinvested on their ex-dividend date. The index has been selected because the company has been a constituent of the index throughout the period.



Source: Thomson Datastream

Audit

The following sections regarding directors' remuneration, deferred share awards, LTIP awards and share option entitlements, in addition to the table summarising pension benefits for the directors who participated in the defined benefits scheme on page 21, are required to be, and have been, audited by the company's auditors, Deloitte & Touche LLP.

Directors' Remuneration

The following table shows the remuneration of each director for the year ended 31st July, 2005 (with a prior year comparative total):

	Salaries and fees	Benefits	Performance related awards in respect of the current year: Current	Performance related awards in respect of the current year: Deferred*	Total 2005	Total 2004	Company pension contributions 2005	Company pension contributions 2004
Executive:	£'000	£'000	£'000	£'000	**£'000**	£'000	**£'000**	£'000
M.A. Hines	188	21	959	200	**1,368**	1,529	**77**	77
S.R. Hodges	350	16	725	375	**1,466**	1,357	**109**	85
C.D. Keogh	400	26	888	487	**1,801**	1,650	**122**	94
D.C. Pusinelli	315	14	558	242	**1,129**	938	**97**	69
P.L. Winkworth	350	21	725	375	**1,471**	1,371	**88**	88
Non-executive:								
P.N. Buckley	40	—	—	—	**40**	40	**—**	—
R.D. Kent	140	—	—	—	**140**	140	**—**	—
P.S.S Macpherson	40	—	—	—	**40**	40	**—**	—
M.G.A. McLintock	45	—	—	—	**45**	41	**—**	—
D.G.J. Paterson	44	—	—	—	**44**	—	**—**	—
Sir David Scholey	165	—	—	—	**165**	165	**—**	—
J.P. Williams	40	—	—	—	**40**	—	**—**	—
M.G. Wyatt (alt.)	—	—	—	—	**—**	—	**—**	—
Former directors:								
A.H. Farley	12	—	—	—	**12**	50	**—**	—
P.S. Wilmot-Sitwell	10	—	—	—	**10**	44	**—**	—
	2,139	98	3,855	1,679	**7,771**	7,365	**493**	413

* Deferred performance related awards will be satisfied in shares at a future date as detailed in the table below, except for the award to Mr. M.A. Hines, which is payable in cash in September 2008 together with accrued notional interest (at base rate) thereon; this entitlement will lapse if he leaves employment in certain circumstances prior to September 2008.

Directors' Deferred Share Awards

Grant year	Held at 1st August, 2004	Number of shares Granted[1]	**Held at 31st July, 2005**	Vesting date
S.R. Hodges				
2000	21,887	—	**21,887**	Aug 2002
2001	13,576	—	**13,576**	Aug 2003
2003	40,000	—	**40,000**	Sep 2004[2]
2004	46,841	—	**46,841**	Sep 2006
2005	—	46,239	**46,239**	Sep 2007
Total	122,304	46,239	**168,543**	
C.D. Keogh				
2000	21,887	—	**21,887**	Aug 2002
2003	52,000	—	**52,000**	Sep 2004[2]
2004	62,100	—	**62,100**	Sep 2006
2005	—	60,110	**60,110**	Sep 2007
Total	135,987	60,110	**196,097**	
D.C. Pusinelli				
2000	4,864	—	**4,864**	Aug 2002
2004	26,614	—	**26,614**	Sep 2006
2005	—	29,901	**29,901**	Sep 2007
Total	31,478	29,901	**61,379**	
P.L. Winkworth				
2003	40,000	—	**40,000**	Sep 2004[2]
2004	46,132	—	**46,132**	Sep 2006
2005	—	46,239	**46,239**	Sep 2007
Total	86,132	46,239	**132,371**	

1 The deferred share award forms part of the annual performance related award and consists of the right for an executive to call for shares in the company from the employee benefit trust, at nil cost, together with a cash amount representing accrued notional dividends thereon. If the executive leaves employment in certain circumstances prior to 1st August immediately preceding the vesting date those entitlements will lapse. Following vesting, these shares may be called for at any time up to the seventh anniversary of grant. The value of the share award at the grant date is charged to the group's profit and loss account in the year to which the award relates.

2 50 per cent. of the grant vests on the vesting date and the balance one year later.

Directors' LTIP Awards

Grant year	Held at 1st August, 2004	Number of shares granted[1]	Held at 31st July, 2005	Vesting date[2]
2005				
M.A. Hines	—	28,735	28,735	28th Oct 2007
S.R. Hodges	—	96,398	96,398	28th Oct 2007
C.D. Keogh	—	114,942	114,942	28th Oct 2007
D.C. Pusinelli	—	73,754	73,754	28th Oct 2007
P.L. Winkworth	—	99,233	99,233	28th Oct 2007
	—	413,062	413,062	

1 The LTIP awards were granted on 28th October, 2004 when the market price was 654p per share. They are subject to performance criteria as described in the section of this report headed "Long-term incentives" on page 20.
2 Those LTIP awards which satisfy the performance criteria may be called within twelve months following the vesting date, after which they will lapse.

Directors' Share Option Entitlements

Unexercised options over ordinary shares held by directors under the 1995 Scheme and SAYE Scheme were as follows:

Grant year	Held at 1st August, 2004	Number of options granted/(exercised)	Held at 31st July, 2005	Exercise price	Earliest exercise date	Expiry date
M.A. Hines						
1999 SAYE	2,860	(2,860)[1]	—	590.0p	1st Dec 2004	31st May 2005
1999	17,500	—	17,500	779.5p	3rd Nov 2002	2nd Nov 2009
1999	17,500	—	17,500	779.5p	3rd Nov 2004	2nd Nov 2009
2000	22,200	—	22,200	1125.0p	23rd Oct 2003	22nd Oct 2010
2000	22,200	—	22,200	1125.0p	23rd Oct 2005	22nd Oct 2010
2001	12,500	—	12,500	560.0p	26th Sep 2004	25th Sep 2011
2001	12,500	—	12,500	560.0p	26th Sep 2006	25th Sep 2011
2002	7,500	—	7,500	450.0p	8th Oct 2005	7th Oct 2012
2002	7,500	—	7,500	450.0p	8th Oct 2007	7th Oct 2012
2003	25,000	—	25,000	732.5p	7th Oct 2006	6th Oct 2013
2003	25,000	—	25,000	732.5p	7th Oct 2008	6th Oct 2013
Total	172,260	(2,860)	169,400			
S.R. Hodges						
1996	50,000	—	50,000	330.0p	6th Nov 2001	5th Nov 2006
1997	22,500	—	22,500	482.5p	30th Oct 2000	29th Oct 2007
1997	22,500	—	22,500	482.5p	30th Oct 2002	29th Oct 2007
1998	42,500	—	42,500	417.5p	7th Oct 2001	6th Oct 2008
1998	42,500	—	42,500	417.5p	7th Oct 2003	6th Oct 2008
1999	37,500	—	37,500	779.5p	3rd Nov 2002	2nd Nov 2009
1999	37,500	—	37,500	779.5p	3rd Nov 2004	2nd Nov 2009
2000	26,665	—	26,665	1125.0p	23rd Oct 2003	22nd Oct 2010
2000	26,665	—	26,665	1125.0p	23rd Oct 2005	22nd Oct 2010
2001	35,000	—	35,000	560.0p	26th Sep 2004	25th Sep 2011
2001	35,000	—	35,000	560.0p	26th Sep 2006	25th Sep 2011
2002	45,000	—	45,000	450.0p	8th Oct 2005	7th Oct 2012
2002	45,000	—	45,000	450.0p	8th Oct 2007	7th Oct 2012
2002 SAYE	2,416	—	2,416	391.0p	1st Dec 2005	31st May 2006
2003	55,000	—	55,000	732.5p	7th Oct 2006	6th Oct 2013
2003	55,000	—	55,000	732.5p	7th Oct 2008	6th Oct 2013
Total	580,746	—	580,746			
R.D. Kent						
1997	75,000	—	75,000	482.5p	30th Oct 2002	29th Oct 2007
1998	55,000	—	55,000	417.5p	7th Oct 2001	6th Oct 2008
1998	55,000	—	55,000	417.5p	7th Oct 2003	6th Oct 2008
1999	50,000	—	50,000	779.5p	3rd Nov 2002	2nd Nov 2009
1999	50,000	—	50,000	779.5p	3rd Nov 2004	2nd Nov 2009
2000	33,330	—	33,330	1125.0p	23rd Oct 2003	22nd Oct 2010
2000	33,330	—	33,330	1125.0p	23rd Oct 2005	22nd Oct 2010
2001	37,500	—	37,500	560.0p	26th Sep 2004	25th Sep 2011
2001	37,500	—	37,500	560.0p	26th Sep 2006	25th Sep 2011
2002 SAYE	2,416	—	2,416	391.0p	1st Dec 2005	31st May 2006
Total	429,076	—	429,076			

1 The market price upon exercise was 714p per share.

Directors' Share Option Entitlements *continued*

Grant year		Held at 1st August, 2004	Number of options granted/(exercised)	Held at 31st July, 2005	Exercise price	Earliest exercise date	Expiry date
C.D. Keogh							
1996		35,000	—	35,000	330.0p	6th Nov 1999	5th Nov 2006
1996		35,000	—	35,000	330.0p	6th Nov 2001	5th Nov 2006
1997		17,500	—	17,500	482.5p	30th Oct 2000	29th Oct 2007
1997		17,500	—	17,500	482.5p	30th Oct 2002	29th Oct 2007
1998		42,500	—	42,500	417.5p	7th Oct 2001	6th Oct 2008
1998		42,500	—	42,500	417.5p	7th Oct 2003	6th Oct 2008
1999		37,500	—	37,500	779.5p	3rd Nov 2002	2nd Nov 2009
1999		37,500	—	37,500	779.5p	3rd Nov 2004	2nd Nov 2009
2000		26,665	—	26,665	1125.0p	23rd Oct 2003	22nd Oct 2010
2000		26,665	—	26,665	1125.0p	23rd Oct 2005	22nd Oct 2010
2001		35,000	—	35,000	560.0p	26th Sep 2004	25th Sep 2011
2001		35,000	—	35,000	560.0p	26th Sep 2006	25th Sep 2011
2002		56,250	—	56,250	450.0p	8th Oct 2005	7th Oct 2012
2002		56,250	—	56,250	450.0p	8th Oct 2007	7th Oct 2012
2002	SAYE	3,360	—	3,360	391.0p	1st Dec 2007	31st May 2008
2003		60,000	—	60,000	732.5p	7th Oct 2006	6th Oct 2013
2003		60,000	—	60,000	732.5p	7th Oct 2008	6th Oct 2013
2003	SAYE	540	—	540	586.0p	1st Dec 2008	31st May 2009
Total		624,730	—	624,730			
D.C. Pusinelli							
1996		20,000	—	20,000	330.0p	6th Nov 1999	5th Nov 2006
1996		20,000	—	20,000	330.0p	6th Nov 2001	5th Nov 2006
1997		12,500	—	12,500	482.5p	30th Oct 2000	29th Oct 2007
1997		12,500	—	12,500	482.5p	30th Oct 2002	29th Oct 2007
1998		15,000	—	15,000	417.5p	7th Oct 2001	6th Oct 2008
1998		15,000	—	15,000	417.5p	7th Oct 2003	6th Oct 2008
1999		30,000	—	30,000	779.5p	3rd Nov 2002	2nd Nov 2009
1999		30,000	—	30,000	779.5p	3rd Nov 2004	2nd Nov 2009
2000		15,550	—	15,550	1125.0p	23rd Oct 2003	22nd Oct 2010
2000		15,550	—	15,550	1125.0p	23rd Oct 2005	22nd Oct 2010
2001		15,000	—	15,000	560.0p	26th Sep 2004	25th Sep 2011
2001		15,000	—	15,000	560.0p	26th Sep 2006	25th Sep 2011
2002		22,500	—	22,500	450.0p	8th Oct 2005	7th Oct 2012
2002		22,500	—	22,500	450.0p	8th Oct 2007	7th Oct 2012
2002	SAYE	4,200	—	4,200	391.0p	1st Dec 2007	31st May 2008
2003		42,500	—	42,500	732.5p	7th Oct 2006	6th Oct 2013
2003		42,500	—	42,500	732.5p	7th Oct 2008	6th Oct 2013
Total		350,300	—	350,300			
P.L. Winkworth							
1997		70,000	—	70,000	482.5p	30th Oct 2000	29th Oct 2007
1997		70,000	—	70,000	482.5p	30th Oct 2002	29th Oct 2007
1998		50,000	—	50,000	417.5p	7th Oct 2001	6th Oct 2008
1998		50,000	—	50,000	417.5p	7th Oct 2003	6th Oct 2008
1999		45,000	—	45,000	779.5p	3rd Nov 2002	2nd Nov 2009
1999		45,000	—	45,000	779.5p	3rd Nov 2004	2nd Nov 2009
2000		30,000	—	30,000	1125.0p	23rd Oct 2003	22nd Oct 2010
2000		30,000	—	30,000	1125.0p	23rd Oct 2005	22nd Oct 2010
2001		37,500	—	37,500	560.0p	26th Sep 2004	25th Sep 2011
2001		37,500	—	37,500	560.0p	26th Sep 2006	25th Sep 2011
2002		45,000	—	45,000	450.0p	8th Oct 2005	7th Oct 2012
2002		45,000	—	45,000	450.0p	8th Oct 2007	7th Oct 2012
2002	SAYE	2,416	—	2,416	391.0p	1st Dec 2005	31st May 2006
2003		55,000	—	55,000	732.5p	7th Oct 2006	6th Oct 2013
2003		55,000	—	55,000	732.5p	7th Oct 2008	6th Oct 2013
Total		667,416	—	667,416			

All of the non-SAYE options are subject to EPS performance criteria as outlined on page 21 in the section of this report headed "Long-term incentives".

The mid market price of the company's shares on 31st July, 2005 was 757.5p and the range during the year was 632p to 852p.

On behalf of the board

M.G.A. McLintock
Chairman of the Committee

26th September, 2005

REPORT OF THE AUDITORS

Independent Auditors' Report to the Members of Close Brothers Group plc

We have audited the financial statements of Close Brothers Group plc for the year ended 31st July, 2005 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses and the related notes 1 to 39. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We also report to you if, in our opinion, the company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the July 2003 Financial Reporting Council Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report described as having been audited.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31st July, 2005 and of the profit of the group for the year then ended and the financial statements and that part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

26th September, 2005

Neither an audit nor a review provides assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

	Note	For the year ended 31st July, 2005 Ordinary activities before goodwill amortisation	Goodwill amortisation	Total ordinary activities	Year ended 31st July, 2004
		£'000	£'000	£'000	£'000
Interest receivable	5	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	2	283,763	—	283,763	248,622
Depreciation	12	12,145	—	12,145	10,833
Provisions for bad and doubtful debts	9	20,349	—	20,349	22,781
Amortisation of goodwill	30	—	23,120	23,120	17,603
Operating expenses		316,257	23,120	339,377	299,839
Operating profit on ordinary activities before taxation	5	131,739	(23,120)	108,619	101,343
Taxation on profit on ordinary activities	6	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	21			27,640	26,730
Earnings per share before amortisation of goodwill	36			63.1p	57.3p
Earnings per share on profit attributable to shareholders	36			47.2p	45.1p
Diluted earnings per share	36			47.0p	45.0p

All income and profits are in respect of continuing operations.

Close Brothers

CONSOLIDATED BALANCE SHEET

At 31st July, 2005	Note	2005	2004
		£'000	£'000
Assets			
Cash and balances at central banks		1,244	844
Loans and advances to banks	7	786,330	733,029
Loans and advances to customers		1,953,031	1,757,074
Non-recourse borrowings		(200,000)	(250,000)
	8	1,753,031	1,507,074
Debt securities — long positions		61,345	54,521
Debt securities — other	10	797,498	777,509
Settlement accounts		604,692	366,213
Equity shares — long positions		40,377	34,714
Equity shares — investments	11	26,730	26,770
Intangible fixed assets — goodwill	30	88,863	98,628
Tangible fixed assets	12	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)
	31	710	497
Other assets	17	267,192	197,824
Deferred taxation	18	21,591	14,377
Prepayments and accrued income		49,600	35,589
Total assets		4,539,152	3,880,444
Liabilities			
Deposits by banks	13	108,101	79,188
Customer accounts	14	1,818,187	1,681,152
Bank loans and overdrafts	15	494,363	621,360
Debt securities — loan notes issued	16	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	17	372,835	313,254
Accruals and deferred income		126,019	106,208
Subordinated loan capital	19	75,000	96,937
Minority interests — equity		5,971	4,674
		3,998,831	3,371,180
Shareholders' funds			
Called up share capital	20	36,168	36,066
Share premium account	21	252,210	250,430
ESOP trust reserve	21	(3,786)	(3,962)
Profit and loss account	21	255,729	226,730
Total equity shareholders' funds		540,321	509,264
Total liabilities and shareholders' funds		4,539,152	3,880,444
Memorandum items			
Contingent liabilities — guarantees	22	9,793	5,889
Commitments — other	23	229,197	194,284

Approved by the Board of Directors on 26th September, 2005 and signed on its behalf by:

Sir David Scholey
C.D. Keogh — *Directors*
P.L. Winkworth

At 31st July, 2005	Note	2005	2004
		£'000	£'000
Fixed assets			
Tangible fixed assets	12	3,277	3,610
Investments in subsidiaries	29	324,115	324,115
Equity shares	11	54	145
		327,446	327,870
Current assets: Debtors	32	133,450	114,247
Creditors: Amounts falling due within one year	33	63,441	62,210
Net current assets		70,009	52,037
Total assets less current liabilities		397,455	379,907
Creditors: Amounts falling due after more than one year	34	27,072	27,072
Net assets		370,383	352,835
Capital and reserves			
Share capital	20	36,168	36,066
Share premium account	21	252,210	250,430
ESOP trust reserve	21	(3,786)	(3,962)
Profit and loss account	21	85,791	70,301
Total equity shareholders' funds		370,383	352,835

Approved by the Board of Directors on 26th September, 2005 and signed on its behalf by:

Sir David Scholey	
C.D. Keogh	*Directors*
P.L. Winkworth	

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	Note	2005	2004
		£'000	£'000
Net cash inflow from operating activities	37(a)	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	37(b)	(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	37(c)	1,882	966
Repayment of subordinated loan capital	37(c)	(21,937)	—
Increase in cash	37(d)	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.

1. Accounting policies

(a) Format of financial statements

The group financial statements are prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking groups and those of the company in accordance with Section 226 of, and Schedule 4 to, the Companies Act 1985. The financial statements are prepared in accordance with applicable accounting standards and with Statements of Recommended Practice issued by the British Bankers' Association and the Finance and Leasing Association.

(b) Accounting convention

The financial statements have been prepared under the historical cost convention, modified by the revaluation of equity shares and debt securities.

(c) Fees and commissions receivable

Fees in respect of services are recognised as the right to consideration accrues through performance of services for clients. To the extent that fees and commissions are recognised in advance of the client being billed they are included as accrued income.

(d) Net dealing income

Net dealing income includes the net profit arising from both buying and selling securities and from positions held in securities.

(e) Loans and advances

Loans and advances are stated net of provisions against doubtful debts which are made on the basis of regular review by management. The provision raised is an estimate of the amount needed to reduce the carrying value of the asset to its expected net realisable value and takes into account management's assessment of a combination of factors including each portfolio structure, characteristics of individual cases, past and expected credit losses and business and economic conditions.

(f) Finance leases, operating leases and instalment finance

Finance leases are recognised as loans and are valued at the minimum lease payments receivable less finance charges.

Finance charges on both hire purchase obligations and leases are taken to income in proportion to the net funds invested after deducting, where applicable, a fixed percentage in respect of set-up costs.

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the leases.

(g) Equity shares and debt securities

The long and short positions in equity shares and debt securities held for trading purposes 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 on the balance sheet date.

Debt securities held for liquidity and investment purposes are included in the balance sheet at cost, net of provision for any material decline in market value. Equity shares held for investment purposes are included in the balance sheet at mid market values if listed and at directors' valuation if unlisted.

In accordance with UITF Abstract 38 on Accounting for ESOP Trusts, equity shares held by the employee benefit trust are deducted in arriving at shareholders' funds. Realised surpluses and deficits are not taken to the profit and loss account.

(h) Investments in subsidiaries

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

(i) Depreciation

Tangible fixed assets, including freehold investment properties held for long term investment, are held at cost less provision for impairment in value. The provision for depreciation on tangible fixed 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

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

(j) Foreign currencies

Foreign currency deposits and advances are translated into sterling at the rates of exchange ruling at the balance sheet date. Foreign currency income and expenses are translated into sterling at the average rates of exchange over the year and translation differences are taken to the profit and loss account. Exchange differences arising from the translation of the balance sheets of subsidiaries denominated in foreign currencies are taken to reserves through the statement of total recognised gains and losses.

(k) Deferred taxation

Deferred taxation is provided in full on material timing differences, at the rates of taxation expected to apply when these differences crystallise, arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred taxation assets are recognised to the extent they are more likely than not to be recovered. Deferred taxation balances are not discounted.

(l) Goodwill

Before 1st August, 1998, goodwill arising on the acquisition of business assets, representing the excess of the purchase consideration over the fair value ascribed to the net tangible assets, was written off to reserves. From 1st August, 1998, as required by Financial Reporting Standard No. 10, such goodwill arising has been capitalised in intangible assets and is amortised, in equal annual instalments, unless there is impairment, over its estimated useful life of up to 20 years.

(m) Pensions

The cost of providing pensions is charged to the profit and loss account so as to spread the cost for those employees in the defined benefits scheme over their expected service lives. Contributions within defined contribution schemes are charged to the profit and loss account as they become payable in accordance with the rules of the schemes.

2. Administrative expenses

	2005	2004
	£'000	£'000
Staff costs:		
Wages and salaries	160,495	141,118
Social security costs	18,793	16,922
Other pension costs	10,003	7,591
	189,291	165,631
Other administrative expenses	94,472	82,991
	283,763	248,622

3. Information regarding directors

	2005	2004
	£'000	£'000
Directors' emoluments:		
Salaries	1,977	1,814
Fees	162	234
Other benefits	98	98
Performance related awards in respect of the current year		
— Current	3,855	3,740
— Deferred	1,679	1,479
	7,771	7,365
Gains upon exercise of options	4	3
Company pension contributions	493	413
	8,268	7,781

The remuneration of individual directors is shown in the report of the board on directors' remuneration on pages 19 to 25.

4. Segmental Analysis

	Operating income		Profit before goodwill and taxation		Net assets		Average number of persons employed	
	2005	2004	2005	2004	2005	2004	2005	2004
	£'000	£'000	£'000	£'000	£'000	£'000	No.	No.
Asset Management	118,974	92,874	31,800	17,413	130,336	136,257	694	698
Corporate Finance	42,251	35,855	10,111	9,839	10,294	11,022	145	135
Market-Making	97,579	96,716	35,707	37,922	70,587	51,324	226	146
Investment Banking	258,804	225,445	77,618	65,174	211,217	198,603	1,065	979
Banking	185,824	174,410	71,064	69,666	250,058	228,466	1,244	1,129
Group	3,368	1,327	(16,943)	(15,894)	79,046*	82,195	64	63
	447,996	401,182	131,739	118,946	540,321	509,264	2,373	2,171

Substantially all of the group's activities are located within the British Isles.
* Includes £24 million (2004 — £24 million) of goodwill relating to market-making.

5. Operating profit on ordinary activities before taxation

	2005	2004
	£'000	£'000
Interest receivable comprises:		
Interest receivable and similar income arising from debt securities and other fixed income securities	35,309	21,269
Other interest receivable and similar income	245,518	219,079
	280,827	240,348
Profit on ordinary activities before taxation is stated after charging:		
Audit fees:		
To Deloitte & Touche LLP	793	566
To Ernst & Young LLP	584	463
	1,377	1,029
Non-audit fees paid to the auditors:		
To Deloitte & Touche LLP	482	630
To Ernst & Young LLP	335	312
	817	942
Non-audit fees paid to the auditors are in respect of:		
Taxation and VAT compliance and advice	634	599
Regulatory and pension audit work	23	68
Due diligence reviews	11	8
Other advisory work	149	267
	817	942

Operating lease rentals payable, of which £633,000 (2004 — £nil) relate to plant and machinery, amounted to £8,245,000 (£8,403,000). Aggregate rentals received in respect of finance leases and hire purchase contracts amounted to £533,808,000 (2004 — £460,184,000). Aggregate rentals received in respect of operating leases amounted to £3,132,000 (2004 — £1,058,000).

6. Taxation on profit on ordinary activities

	2005	2004
	£'000	£'000
Taxation on profit on ordinary activities comprises:		
UK corporation taxation	37,723	36,796
Overseas taxation	2,564	1,311
Current year taxation charge	40,287	38,107
Deferred taxation (note 18)	(2,695)	(1,934)
Prior year corporation taxation under/(over) provision	273	(2,248)
	37,865	33,925
Reconciliation to current year taxation charge:		
Operating profit on ordinary activities before taxation	108,619	101,343
Taxation at 30% (2004 — 30%) on:		
Above operating profit	32,586	30,403
Goodwill amortisation disallowed	6,936	5,281
Disallowable expenses and other permanent differences	765	2,423
	40,287	38,107

7. Loans and advances to banks

	2005	2004
	£'000	£'000
Repayable:		
On demand	380,638	136,535
Within three months	403,582	588,156
Between three months and one year	2,110	7,599
Between one and two years	—	739
	786,330	733,029

8. Loans and advances to customers

	2005	2004
	£'000	£'000
Loans and advances (net of provisions and non-recourse borrowings) comprise:		
Hire purchase agreement receivables	787,193	697,649
Finance lease receivables	338,612	299,959
Other loans and advances	627,226	509,466
	1,753,031	1,507,074

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £2,086 million (2004 — £1,645 million).

	2005	2004
	£'000	£'000
Loans and advances are repayable:		
On demand or at short notice	67,725	61,149
Within three months	343,253	387,889
Between three months and one year	529,766	406,241
Between one and two years	440,801	306,217
Between two and five years	404,200	368,236
After more than five years	13,626	20,402
Provisions (note 9)	(46,340)	(43,060)
	1,753,031	1,507,074
Non-performing loans and advances:		
Before provisions	63,651	60,722
After provisions	31,346	31,933

Receivables securitised by non-recourse borrowings

Close Brothers Limited ("CBL") has securitised £208 million (2004 — £260 million) of its insurance premium finance receivables with Cruise Limited ("Cruise") in return for non-refundable finance of £200 million (2004 — £250 million). If the receipts from the finance receivables exceed interest and principal loan liabilities due to Cruise, the surplus is due to CBL. Should there be a shortfall, neither the company nor CBL is obliged to, and does not intend to, support any losses and the providers of the funding have agreed to this. CBL has the option to replace these securitised loans as they are repaid and to increase the amount of securitised receivables up to £260 million. At 31st July, 2005 the balance sheet of Cruise comprised principally insurance premium finance receivables of £208 million (2004 — £260 million) and borrowings of £200 million (2004 — £250 million). The profit and loss account, other recognised gains and losses and cash flows of Cruise are negligible.

9. Provisions for bad and doubtful debts

	2005			2004		
	Specific	General	Total	Specific	General	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1st August, 2004	34,981	8,079	43,060	31,781	4,925	36,706
Charge/(credit) for the year	20,795	(446)	20,349	19,627	3,154	22,781
Arising on acquisition	4,472	—	4,472	—	—	—
Amounts written off net of recoveries	(21,541)	—	(21,541)	(16,427)	—	(16,427)
At 31st July, 2005	38,707	7,633	46,340	34,981	8,079	43,060

10. Debt securities

The long and short positions on debt securities, of which £3,588,000 (2004 — £3,677,000) and £483,000 (2004 — £2,726,000) were due to mature within one year respectively, comprise those held for trading purposes by Winterflood Securities Limited.

	2005	2004
	£'000	£'000
Other debt securities (all held at cost):		
Certificates of deposit (unlisted, held for liquidity purposes and due to mature within one year)	576,766	762,510
Floating rate notes (listed and held for investment purposes)	220,732	14,999
	797,498	777,509

£10,185,000 (2004 — £999,000) of the floating rate notes were due to mature within one year. £9,924,000 (2004 — £nil) have been issued by corporates, the remainder by banks and buildings societies. The movement during the year comprises:

	£'000
At 1st August, 2004	14,999
Additions	200,826
Acquisition of subsidiary	8,506
Maturities	(3,599)
At 31st July, 2005	220,732

11. Equity shares

The net book value and historical cost of equity shares held for investment purposes is as follows:

	Group 2005	Group 2004	Company 2005	Company 2004
	£'000	£'000	£'000	£'000
Net book value				
Listed	4,941	1,875	—	—
Unlisted	21,789	24,895	54	145
	26,730	26,770	54	145
Historical cost				
Listed	4,938	2,138	—	—
Unlisted	20,515	22,556	54	145
	25,453	24,694	54	145

The movement on equity shares held for investment purposes is as follows:

	Group	Company
	£'000	£'000
At 1st August, 2004	26,770	145
Additions	7,523	—
Disposals	(12,576)	(91)
Unrealised surplus on revaluation	5,013	—
At 31st July, 2005	26,730	54

12. Tangible fixed assets

	Land and buildings	Fixtures, fittings and equipment	Motor vehicles	Total
Group	£'000	£'000	£'000	£'000
Cost				
At 1st August, 2004	11,182	53,086	3,400	67,668
Additions	255	6,753	1,087	8,095
Operating leases	—	11,213	—	11,213
Acquisition of subsidiaries	78	2,030	144	2,252
Disposals	(897)	(4,152)	(1,395)	(6,444)
At 31st July, 2005	**10,618**	**68,930**	**3,236**	**82,784**
Depreciation				
At 1st August, 2004	3,281	30,054	1,478	34,813
Charge for the year	620	10,760	765	12,145
Acquisition of subsidiaries	25	294	54	373
Disposals	(384)	(3,165)	(947)	(4,496)
At 31st July, 2005	**3,542**	**37,943**	**1,350**	**42,835**
Net book value at 31st July, 2005	**7,076**	**30,987**	**1,886**	**39,949**
Net book value at 31st July, 2004	7,901	23,032	1,922	32,855
Company				
Cost				
At 1st August, 2004	3,982	1,920	164	6,066
Additions	21	50	98	169
Disposals	—	(10)	(78)	(88)
At 31st July, 2005	**4,003**	**1,960**	**184**	**6,147**
Depreciation				
At 1st August, 2004	1,096	1,256	104	2,456
Charge for the year	253	193	40	486
Disposals	—	(7)	(65)	(72)
At 31st July, 2005	**1,349**	**1,442**	**79**	**2,870**
Net book value at 31st July, 2005	**2,654**	**518**	**105**	**3,277**
Net book value at 31st July, 2004	2,886	664	60	3,610

Included within fixtures, fittings and equipment are assets let under operating leases to customers with a cost of £18,973,000 (2004 — £8,620,000). The accumulated depreciation thereon is £2,908,000 (2004 — £725,000).

The net book value of land and buildings comprises:

	Group		Company	
	2005	2004	**2005**	2004
	£'000	£'000	**£'000**	£'000
Freehold	**1,683**	2,093	—	—
Long leasehold	**2,075**	2,330	—	—
Short leasehold	**3,318**	3,478	**2,654**	2,886
	7,076	7,901	**2,654**	2,886

13. Deposits by banks

	2005	2004
	£'000	£'000
Repayable:		
On demand or at short notice	3,081	43,500
Within three months	69,020	35,188
Between three months and one year	35,000	500
Between one and two years	1,000	—
	108,101	79,188

14. Customer accounts

	2005	2004
	£'000	£'000
Repayable:		
On demand or at short notice	464,241	400,204
Within three months	1,206,012	1,176,032
Between three months and one year	128,656	99,279
Between one and two years	19,278	5,637
	1,818,187	1,681,152

15. Bank loans and overdrafts

	2005	2004
	£'000	£'000
Repayable:		
On demand or at short notice	7,392	23,589
Within three months	11,873	—
Between three months and one year	112,947	163,771
Between one and two years	80,151	140,000
Between two and five years	282,000	294,000
	494,363	621,360

16. Debt securities — loan notes issued

	2005	2004
	£'000	£'000
Repayable:		
Between three months and one year	—	100,000
Between two and five years	350,000	—
After more than five years	17,130	—
	367,130	100,000

£367,130,000 of floating rate notes, which are Euro denominated, were issued during the year. £350,000,000 of loan notes are repayable on 10th December, 2007 and £17,130,000 on 20th April, 2015. £100,000,000 of loan notes were repaid on 28th December, 2004.

17. Other assets and liabilities

	2005	2004
	£'000	£'000
Other assets		
Loans to money brokers against stock advanced	158,553	113,116
Amounts due from investment funds	47,103	35,302
Trade debtors	27,456	30,672
Other	34,080	18,734
	267,192	197,824
Other liabilities		
Loans from money brokers against stock advanced	142,371	105,639
Creditors	115,469	105,767
Amounts due to investment funds	47,743	37,559
Proposed dividend	27,301	25,604
Current corporation taxation	19,297	18,093
Other	20,654	20,592
	372,835	313,254

18. Deferred taxation

	Group		Company	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Group				
Capital allowances	9,719	5,926	(595)	(582)
Short term and other timing differences	13,436	9,608	3,037	1,620
Unrealised capital gains	(1,564)	(1,157)	—	—
Total deferred taxation asset	21,591	14,377	2,442	1,038

Movement in the year:	Group	Company
	£'000	£'000
Asset at 1st August, 2004	14,377	1,038
Credited to the profit and loss account (note 6)	2,695	1,404
Acquisition of subsidiaries	4,519	—
Asset at 31st July, 2005	21,591	2,442

19. Subordinated loan capital

Final maturity date	Prepayment date	Initial interest rate	2005 £'000	2004 £'000
2010	2005	10.07%	—	21,937
2020	2015	7.39%	30,000	30,000
2026	2021	7.42%	15,000	15,000
2026	2021	7.62%	30,000	30,000
			75,000	96,937

All the subordinated loan capital has been issued by Close Brothers Limited ("CBL"). The subordinated loan capital 2020 and 2026 is denominated in sterling. If CBL opts not to prepay at the prepayment date, the interest rate is reset to a margin over the yield on 5 year UK Treasury securities.

20. Share capital

	2005		2004	
	No.'000	£'000	No.'000	£'000
Authorised				
Ordinary shares of 25p each	200,000	50,000	200,000	50,000
Allotted, issued and fully paid				
At 1st August, 2004	144,264	36,066	144,012	36,003
Exercise of options	409	102	252	63
At 31st July, 2005	144,673	36,168	144,264	36,066

Throughout the year a total of 409,000 ordinary shares were allotted and issued for cash consideration of £1,882,000 as a result of the exercise of options.

The following options to subscribe for ordinary shares have been granted under the sharesave and executive share option schemes to 759 (2004 — 706) employees:

Year of grant	Exercise period	Exercise price per share	2005 Number	2004 Number
1995	3rd November, 2000 to 2nd November, 2005	316.0p	—	20,000
1996	6th November, 1999 to 5th November, 2006	330.0p	124,545	129,090
1996	6th November, 2001 to 5th November, 2006	330.0p	246,930	262,930
1997	30th October, 2000 to 29th October, 2007	482.5p	258,651	271,151
1997	30th October, 2002 to 29th October, 2007	482.5p	499,750	508,750
1998	7th October, 2001 to 6th October, 2008	417.5p	481,125	505,125
1998	7th October, 2003 to 6th October, 2008	417.5p	615,875	637,125
1998	9th November, 2001 to 8th November, 2008	552.5p	6,000	6,000
1998	9th November, 2003 to 8th November, 2008	552.5p	6,000	6,000
1999	3rd November, 2002 to 2nd November, 2009	779.5p	597,250	629,000
1999	3rd November, 2004 to 2nd November, 2009	779.5p	597,250	620,250
1999	1st December, 2004 to 31st May, 2005	590.0p	—	31,055
2000	23rd October, 2003 to 22nd October, 2010	1125.0p	467,140	499,590
2000	23rd October, 2005 to 22nd October, 2010	1125.0p	467,140	493,390
2000	1st December, 2005 to 31st May, 2006	958.0p	2,183	2,183
2001	26th September, 2004 to 25th September, 2011	560.0p	539,572	620,500
2001	26th September, 2006 to 25th September, 2011	560.0p	575,500	613,000
2001	1st December, 2004 to 31st May, 2005	438.0p	—	221,089
2001	1st December, 2006 to 31st May, 2007	438.0p	192,109	207,523
2002	8th October, 2005 to 7th October, 2012	450.0p	626,250	653,250
2002	8th October, 2007 to 7th October, 2012	450.0p	616,250	653,250
2002	1st December, 2005 to 31st May, 2006	391.0p	316,498	346,936
2002	1st December, 2007 to 31st May, 2008	391.0p	317,352	337,596
2003	7th October, 2006 to 6th October, 2013	732.5p	664,250	698,750
2003	7th October, 2008 to 6th October, 2013	732.5p	664,250	698,750
2003	1st December, 2006 to 31st May, 2007	586.0p	91,777	117,252
2003	1st December, 2008 to 31st May, 2009	586.0p	44,437	69,957
2004	7th October, 2007 to 6th October, 2014	675.0p	374,694	—
2004	7th October, 2009 to 6th October, 2014	675.0p	374,694	—
2004	29th November, 2007 to 28th November 2014	713.0p	10,000	—
2004	29th November, 2009 to 28th November, 2014	713.0p	10,000	—
2004	1st December, 2007 to 31st May, 2008	540.0p	216,018	—
2004	1st December, 2009 to 31st May, 2010	540.0p	112,688	—
			10,116,178	9,859,492

21. Reserves

	Share premium account	ESOP trust reserve
	£'000	£'000
Group and company		
At 1st August, 2004	250,430	(3,962)
Shares issued net of expenses	1,780	176
At 31st July, 2005	252,210	(3,786)

	Group	Company
	£'000	£'000
Profit and loss account		
At 1st August, 2004	226,730	70,301
Retained profit for the year	27,640	15,395
ESOP trust profit	95	95
Exchange adjustment	1,264	—
At 31st July, 2005	255,729	85,791

Reconciliation of movements in shareholders' funds	2005	2004
	£'000	£'000
Group		
Retained profit for the year	27,640	26,730
Exchange adjustment	1,264	(1,554)
Shares issued net of expenses — capital	102	63
— premium	1,780	903
Shares released at cost	176	772
ESOP trust profit	95	551
Net addition to shareholders' funds	31,057	27,465
Opening shareholders' funds	509,264	481,799
Closing shareholders' funds	540,321	509,264

22. Contingent liabilities

Memorandum items:
There are group contingent liabilities in respect of guarantees arising in the normal course of business amounting to £9,793,000 (2004 — £5,889,000).

Other contingent liabilities:
The company has given guarantees in respect of amounts drawn under subsidiaries' bank facilities amounting to £285,683,000 (2004 — £598,899,000). In addition, the company has given guarantees in respect of the subordinated loan capital set out in note 19.

The claim referred to in this note in the 2004 financial statements against a subsidiary was settled during the year without material effect on the group's financial position.

23. Commitments

	2005	2004
	£'000	£'000
Memorandum items:		
Undrawn facilities, credit lines and other commitments to lend		
— Within one year	225,170	190,198
— After more than one year	4,027	4,086
	229,197	194,284

Other commitments:
The group is committed to purchase minority interests in certain subsidiaries at agreed fair valuations at varying dates in the period to 31st July, 2013. Subsidiaries had contracted capital commitments relating to capital expenditure of £26,000 (2004 — £141,000) and contracted commitments to invest in private equity funds managed by the group of £22,022,000 (2004 — £33,766,000).

Annual commitments under non-cancellable operating leases:

	2005		2004	
	Premises	Other	Premises	Other
	£'000	£'000	£'000	£'000
Expiring:				
Within one year	687	194	885	364
Within two to five years	3,462	768	2,109	515
After more than five years	6,082	—	5,920	—
	10,231	962	8,914	879

24. Interest rate exposure

The group's interest rate exposure is summarised below in the form of an interest rate repricing table. The table reflects the repricing profile of the group's non trading assets, liabilities and net interest rate hedge contracts as at the year end. The trading book exposures of Winterflood Securities Limited and Close Brothers Seydler AG are different in nature and so are excluded from this table which shows the sensitivity of non trading net assets to interest rate movements. The cumulative gap of interest bearing net assets of £496,279,000 (2004 — £440,442,000) broadly equates to the group's non trading share capital and reserves, which as a matter of policy are not hedged. The table therefore demonstrates the group's policy of broadly matching interest rate exposure.

At 31st July, 2005

	Within three months £'000	Between three and six months £'000	Between six months and one year £'000	Between one and five years £'000	After more than five years £'000	Non-interest bearing £'000	Total £'000
Non trading assets							
Cash and balances at central banks	—	—	—	—	—	1,244	1,244
Loans and advances to banks	783,842	1,753	357	—	—	378	786,330
Loans and advances to customers	490,193	211,460	289,718	748,065	13,595	—	1,753,031
Debt securities and equity shares	657,734	68,058	65,217	4,416	2,073	28,301	825,799
Settlement accounts	—	—	—	—	—	604,692	604,692
Other assets	172,756	—	—	51	4,067	289,460	466,334
	2,104,525	281,271	355,292	752,532	19,735	924,075	4,437,430
Non trading liabilities							
Deposits by banks	102,101	3,000	2,000	1,000	—	—	108,101
Customer accounts	1,684,085	57,479	73,104	2,233	—	1,286	1,818,187
Bank loans and overdrafts	489,769	4,594	—	—	—	—	494,363
Debt securities — loan notes issued	367,130	—	—	—	—	—	367,130
Settlement accounts	—	—	—	—	—	561,173	561,173
Other liabilities	155,581	—	—	—	—	343,273	498,854
Subordinated loan capital	—	—	—	—	75,000	—	75,000
Minority interests and shareholders' funds	—	—	—	—	—	546,292	546,292
	2,798,666	65,073	75,104	3,233	75,000	1,452,024	4,469,100
Non trading net (liabilities)/assets	(694,141)	216,198	280,188	749,299	(55,265)	(527,949)	(31,670)
Net interest rate hedges							
Floating rate	537,091	79,750	106,000	—	—		722,841
Fixed rate	101,896	(137,750)	(222,805)	(464,182)	—		(722,841)
	638,987	(58,000)	(116,805)	(464,182)	—		—
Interest rate sensitivity gap	(55,154)	158,198	163,383	285,117	(55,265)		
Cumulative gap	(55,154)	103,044	266,427	551,544	496,279		

24. Interest rate exposure *continued*

At 31st July, 2004

	Within three months £'000	Between three and six months £'000	Between six months and one year £'000	Between one and five years £'000	After more than five years £'000	Non-interest bearing £'000	Total £'000
Non trading assets							
Cash and balances at central banks	—	—	—	—	—	844	844
Loans and advances to banks	724,548	7,133	466	739	—	143	733,029
Loans and advances to customers	492,321	157,976	182,356	654,478	19,943	—	1,507,074
Debt securities and equity shares	664,070	59,964	39,475	14,000	—	27,267	804,776
Settlement accounts	—	—	—	—	—	366,213	366,213
Other assets	113,116	—	—	—	4,067	262,090	379,273
	1,994,055	225,073	222,297	669,217	24,010	656,557	3,791,209
Non trading liabilities							
Deposits by banks	78,688	500	—	—	—	—	79,188
Customer accounts	1,575,466	55,704	40,598	5,637	—	3,747	1,681,152
Bank loans and overdrafts	472,601	148,759	—	—	—	—	621,360
Debt securities — loan notes issued	100,000	—	—	—	—	—	100,000
Settlement accounts	—	—	—	—	—	301,159	301,159
Other liabilities	119,320	—	—	—	—	300,142	419,462
Subordinated loan capital	—	—	21,937	—	75,000	—	96,937
Minority interests and shareholders' funds	—	—	—	—	—	513,938	513,938
	2,346,075	204,963	62,535	5,637	75,000	1,118,986	3,813,196
Non trading net (liabilities)/assets	(352,020)	20,110	159,762	663,580	(50,990)	(462,429)	(21,987)
Net interest rate hedges							
Floating rate	616,360	138,750	47,500	—	—		802,610
Fixed rate	(157,500)	(130,000)	(332,505)	(182,605)	—		(802,610)
	458,860	8,750	(285,005)	(182,605)	—		—
Interest rate sensitivity gap	106,840	28,860	(125,243)	480,975	(50,990)		
Cumulative gap	106,840	135,700	10,457	491,432	440,442		

25. Interest rate and exchange rate contracts

	2005	2004
	£'000	£'000
Interest rate contracts:		
Nominal amount	1,492,367	816,790
Credit risk weighted amount	3,601	863
Exchange rate contracts:		
Nominal amount	369,240	7,121
Credit risk weighted amount	18,912	26

Interest rate and exchange rate contracts are entered into with a number of financial institutions only for hedging purposes. The credit risk weighted amounts have been prepared in accordance with guidelines laid down by the Financial Services Authority and are intended to give an indication of credit risk. Nominal amounts of interest rate contracts totalling £439,818,000 (2004 — £192,395,000) and exchange rate contracts totalling £367,130,000 (2004 — £nil) have a residual maturity of more than one year. The remaining interest rate and exchange rate contracts have a residual maturity of less than one year.

26. Assets and liabilities in foreign currencies

The aggregate amounts of monetary assets and liabilities denominated in foreign currencies, mainly US dollars, were as follows:

	2005	2004
	£'000	£'000
Assets	454,019	341,844
Liabilities	434,368	388,558

The group's exposure to foreign exchange risk is considered by the directors to be minimal.

27. Fair values of financial instruments and unrecognised gains and losses on hedges

The fair values of the group's trading financial assets and liabilities are dealt with in note 28. The tables below highlight the unrecognised gains and losses, attributable to the group's derivative financial instruments and non trading financial assets and liabilities, for which liquid and active markets exist. Certificates of deposit and derivative financial instruments are normally held to maturity and are purchased for liquidity and hedging purposes respectively. The fair values of the financial instruments have been obtained from independent, open market sources or using discounted cash flow techniques based on prevailing market rates.

	2005		2004	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Primary financial assets:				
Debt securities	797,498	797,530	777,509	777,904
Listed investments — equity shares	4,941	5,192	1,875	1,985
	802,439	802,722	779,384	779,889
Primary financial liabilities:				
Floating rate notes	367,130	362,842	100,000	100,150

The directors deem that the fair value of the group's other non trading financial assets and liabilities materially equate to their book value.

In order to minimise the impact of interest rate and currency rate changes to the group's financial assets and liabilities, derivative financial instruments are purchased to hedge exposures. The tables below summarise the unrecognised gains and losses on these derivative financial instruments:

	2005		2004	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Derivative financial instruments held to manage interest rate and currency exposure:				
Interest rate hedges	—	(1,618)	—	1,734
Forward foreign currency contracts	—	16	—	26
Currency swaps	—	(6,535)	—	—
	—	(8,137)	—	1,760

	Gains £'000	Losses £'000	Net gains/ (losses) £'000
Unrecognised gains and losses on hedges:			
At 1st August, 2004	3,114	1,354	1,760
Arising in previous years that were recognised in the current year	2,671	1,338	1,333
Arising in previous years that were not recognised in the current year	443	16	427
Arising in the current year that have not yet been recognised	2,192	10,756	(8,564)
At 31st July, 2005	2,635	10,772	(8,137)
Of which:			
Expected to be recognised next year	296	6,076	(5,780)
Expected to be recognised later than next year	2,339	4,696	(2,357)

28. Trading book exposure

The group's trading activities relate to Winterflood Securities Limited and Close Brothers Seydler AG. The following table shows the group's trading book exposure to market price risk for the year ended **31st July, 2005:**

		Highest exposure £'000	Lowest exposure £'000	Average exposure £'000	**Exposure at 31st July £'000**
Equities	— Long	60,480	28,473	42,670	**40,377**
	— Short	33,634	10,905	20,541	**20,424**
				22,129	**19,953**
Debt securities	— Long	96,841	46,952	62,270	**61,345**
	— Short	88,064	37,781	58,572	**49,628**
				3,698	**11,717**

The following table shows the group's trading book exposure to market price risk for the year ended 31st July, 2004:

		Highest exposure £'000	Lowest exposure £'000	Average exposure £'000	Exposure at 31st July £'000
Equities	— Long	50,548	26,666	39,675	34,714
	— Short	29,670	12,471	16,681	14,406
				22,994	20,308
Debt securities	— Long	110,627	52,746	64,733	54,521
	— Short	110,765	48,657	61,418	52,842
				3,315	1,679

The average exposure has been calculated on a daily basis. The highest and lowest exposures occurred on different dates and therefore a net position of these exposures does not reflect a spread of the trading book. The basis on which the trading book is valued each day is given in the accounting policies in note 1(g).

Based upon the trading book exposure at 31st July, 2005 given above, a hypothetical fall of 10 per cent. in market prices would result in a £1,995,000 (2004 — £2,031,000) decrease in the group's income and net assets on the equity trading book and a £1,172,000 (2004 — £168,000) decrease on the debt securities trading book. However, the group's trading activity is a jobbing business where positions are managed throughout the day on a continuous basis. Accordingly the result shown above is purely hypothetical.

Summarised below are the gains for the year on financial assets and liabilities held for trading:

	2005 £'000	2004 £'000
Net dealing income — equities	**89,567**	93,295
— debt securities	**6,718**	6,688
	96,285	99,983

29. Investments in subsidiaries

The group's principal subsidiaries at 31st July, 2005 were:

Name of subsidiary	Principal activity	Percentage of equity held by group	Country of registration and operation
Armed Services Finance Limited	Motor financing	80	England
Braemar Finance Limited	Healthcare asset financing	91	England
Close Asset Finance Limited	Commercial asset financing	100	England
Close Asset Management (Cayman) Limited	Investment management	85	Cayman
Close Asset Management Holdings Limited[1]	Asset management holding company	100	England
Close Asset Management Jersey Limited	Investment management	100	Jersey
Close Bank (Cayman) Limited	Private banking	100	Cayman
Close Bank Guernsey Limited	Private banking	100	Guernsey
Close Bank (Isle of Man) Limited	Private banking	100	Isle of Man
Close Brothers S.A.	Corporate finance advisory services	50	France
Close Brothers GmbH	Corporate finance advisory services	50	Germany
Close Brothers (Cayman) Limited	Trust, fund and company administration	85	Cayman
Close Brothers Corporate Finance Limited[1]	Corporate finance advisory services	100	England
Close Brothers Finance plc	Finance company	100	England
Close Brothers Growth Capital Limited	Integrated debt and equity investment	88[2]	England
Close Brothers Investment Limited	Tax based retail investment products	98[3]	England
Close Brothers Limited[1]	Treasury, property financing and insurance premium financing	100	England
Close Brothers Military Services Limited	Financial services for the Armed Forces	80	England
Close Brothers Private Equity LLP	Private equity fund management	—[4]	England
Close Brothers Seydler AG	Securities trading	92	Germany
Close Credit Management Limited	Credit management and debt collection	99	England
Close Finance (CI) Limited	Commercial and consumer asset financing	91	Jersey
Close Finance GmbH	Non-recourse debt factoring	87	Germany
Close Finsbury Asset Management Limited	Investment trust and fund management	100	England
Close Fund Management Limited	Specialist investment and unit trust management	90	England
Close Fund Services Limited	Fund administration	100	Guernsey
Close International Custody Services Limited	Custodial services	100	Guernsey
Close Investment Limited	AIM fund management	97	England
Close Invoice Finance Limited	Debt factoring and invoice discounting	100	England
Close Motor Finance Limited	Motor financing	100	England
Close Portfolio Management Limited	Investment company	100	England
Close Private Asset Management Limited	Private client discretionary fund management	100	England
Close TEAMS Limited	Institutional pension fund multi-management	100	England
Close Trust Company Jersey Limited	Trust and company administration	100	Jersey
Close Trustees Guernsey Limited	Trust and company administration	100	Guernsey
Close Trustees (Cayman) Limited	Trust and company administration	85	Cayman
Close Trustees (Isle of Man) Limited	Trust and company administration	100	Isle of Man
Close Trustees (Switzerland) S.A.	Trust and company administration	70	Switzerland
Close Venture Management Limited	Venture capital fund management	98[3]	England
Close Wealth Management Limited	Private client discretionary fund management	100	England
Commercial Finance Credit Limited	Commercial asset financing	100	England
Kingston Asset Finance Limited	Commercial asset financing	100	England
Mortgage Intelligence Limited	Mortgage broking	95	England
OLIM Limited	Institutional fund management	93	England
Reabourne Technology Investment Management Limited	Technology and biotechnology fund management	100	England
Surrey Asset Finance Limited	Commercial asset financing	100	England
Winterflood Securities Limited[1]	Market-making	100	England

1 Direct subsidiaries of the company.

2 In respect of Close Brothers Growth Capital Limited the group holds 3 per cent. of its share capital and has a 94 per cent. holding in Close Holdings Limited which itself holds a further 90 per cent.

3 In respect of Close Brothers Investment Limited ("CBIL"), the group holds 7 per cent. of its share capital and has a 99 per cent. holding in CBPE Holdings Limited which itself holds a further 92 per cent. CBIL itself holds 100 per cent. of the share capital of Close Venture Management Limited.

4 Close Brothers Private Equity LLP is a limited partnership registered under the Limited Liability Partnerships Act 2000.

29. Investments in subsidiaries *continued*

The group purchased Cattles Commercial Finance Limited (now Kingston Asset Finance Limited) on 14th January, 2005, Seydler AG (now Close Brothers Seydler AG) on 29th April, 2005 and Escher UK Asset Management Limited (now Close TEAMS Limited) on 29th July, 2005 which have been accounted for as acquisitions. The book value, which equated to the fair value, of the net assets of these acquisitions is shown below:

	£'000
Loans and advances to banks	10,185
Loans and advances to customers	65,232
Debt securities	8,506
Equity shares — long positions	3,549
Other assets	6,098
	93,570
Bank loans and overdrafts	(53,837)
Other liabilities	(8,155)
Net assets acquired	31,578
Cash consideration for purchase of shares from shareholders:	
Upon acquisition	38,900
Deferred	5,916
	44,816
Goodwill arising	13,238

During the year there were no changes to the cost, net book value and carrying value of investments in subsidiaries by the company.

30. Intangible fixed assets — goodwill

	£'000
Original cost capitalised at 1st August, 2004	136,811
Amortisation in prior years	(38,183)
Net book value at 1st August, 2004	98,628
Amortisation for the year	(23,120)
Goodwill arising during the year from acquisition of above subsidiaries	13,238
Other goodwill arising during the year	117
Net book value at 31st July, 2005	88,863

Cumulative goodwill arising from acquisitions before 1st August, 1998, of £81,923,000 (2004 — £81,923,000), was written off directly to reserves. The relevant constituent of this goodwill would only be charged or credited to the profit and loss account should one of these acquisitions be sold. The amortisation for the year included £14,700,000 (2004 — £8,000,000) of write-down of goodwill.

31. Investments in associates and joint ventures

The group has six (2004 — five) associates. They have been accounted for using the net equity method. The group's share of the associates' net assets is £325,000 (2004 — £328,000) and related unamortised goodwill is £536,000 (2004 — £528,000). The group's share of operating profit was £283,000 (2004 — £278,000) and its share of taxation on profit was £100,000 (2004 — £139,000). These associates have no indebtedness to the group.

The group has investments in a number of joint ventures totalling £5,000 (2004 — £5,000). They have been accounted for using the gross equity method. The group's share of operating income and operating profit were £442,000 (2004 — £496,000) and £213,000 (2004 — loss £25,000) respectively and the group received £175,000 of dividends (2004 — £Nil) from them. The group's share of their net assets is £710,000 (2004 — £497,000) and the group has amounts owed by them of £4,242,000 (2004 — £4,243,000).

The effect of these investments on the group's results has not been separately disclosed because of its immateriality.

32. Debtors

	2005	2004
	£'000	£'000
Company		
Amounts falling due within one year:		
Amounts owed by subsidiaries	128,416	109,891
Corporation taxation receivable	1,678	2,291
Deferred taxation asset (note 18)	2,442	1,038
Other debtors	914	1,027
	133,450	114,247

33. Creditors: Amounts falling due within one year

	2005	2004
	£'000	£'000
Company		
Amounts owed to subsidiaries	6,860	9,283
Accruals and deferred income	18,613	16,656
Proposed dividend	27,301	25,604
Other creditors	10,667	10,667
	63,441	62,210

34. Creditors: Amounts falling due after more than one year

	2005	2004
	£'000	£'000
Company		
Loan from subsidiary	27,072	27,072

The loan is interest free and carries no fixed repayment date.

35. Profit of parent company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's profit for the financial year, before dividends payable, amounted to £56,332,000 (2004 — £46,719,000).

36. 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.

37. Consolidated cash flow statement

	Movement in the year	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:			
Debt securities held for liquidity		(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

38. Pensions

The group operates defined contribution pension schemes and a defined benefits pension scheme for eligible employees. Assets of all schemes are held separately from those of the group. The charge for the group pension schemes was £10,003,000 (2004 — £7,591,000).

Defined benefits pension scheme

The group operates only one defined benefits pension scheme ("the scheme") which was closed to new entrants in August 1996. At 31st July, 2005 this scheme had 32 (2004 — 35) active members, 76 (2004 — 74) deferred members and two (2004 — one) pensioners. The remainder of this note relates exclusively to the scheme.

In accordance with Statement of Standard Accounting Practice No. 24 on Accounting for Pension Costs, contributions to the scheme are determined by an independent qualified actuary based on triennial valuations using the attained age method. The most recent such valuation was at 31st July, 2003, when the market value of the assets of the scheme was £12,800,000. The agreed company contribution rate was 25 per cent. per annum of pensionable salaries together with an additional 7½ per cent to contribute towards the underlying deficit at that date. Future contributions to be made by the participating companies under actuarial advice should meet all pension obligations. The scheme actuary has estimated that the funding level of the scheme was around 100 per cent. as at 31st July, 2005. This has been calculated on a consistent ongoing basis compared with the 2003 formal valuation, allowing for changes in market conditions and special contributions.

In addition, in accordance with the transitional requirements of Financial Reporting Standard No. 17 on Retirement Benefits, ("FRS 17") the most recent valuation has been reviewed and updated as at 31st July, 2005 based upon the following annual financial assumptions:

	2005	2004	2003
	%	%	%
Inflation	2.70	2.90	2.70
Increase in:			
Salaries	2.00	2.00	4.20
Pensions in payment	2.70	2.90	3.00
Discount rate for scheme liabilities	5.50	5.75	5.50
Expected return on:			
Equities	8.00	8.25	8.50
Bonds	5.50	5.75	5.55
Cash	4.20	4.50	3.50

The valuation method is prescribed by FRS 17 and these assumptions do not necessarily reflect those used in the full actuarial valuation as at 31st July, 2003 which determines the company contribution rate for future years. Nonetheless FRS 17 requires the directors to disclose the assets and liabilities of the scheme using these FRS 17 assumptions.

The group's total accumulated profit and loss account reserve, which was £255,729,000 (2004 — £226,730,000), would have been £255,295,000 (2004 — £223,415,000) if the FRS 17 net deficit disclosed below had been accounted for as a liability of the group:

	2005	2004	2003
	£'000	£'000	£'000
Equities	12,461	9,364	7,838
Bonds	2,870	2,770	2,111
Cash	3,629	185	2,754
Total market value of scheme assets	18,960	12,319	12,703
Present value of scheme liabilities	(19,580)	(17,055)	(19,512)
Deficit	(620)	(4,736)	(6,809)
Related deferred taxation asset	186	1,421	2,043
Net deficit	(434)	(3,315)	(4,766)

38. Pensions *continued*

If the FRS 17 net deficit had been accounted for as a liability of the group, the effect on the statement of total recognised gains and losses would have been:

	2005	2004	2003	2002
	£'000	£'000	£'000	£'000
Actual return less expected return on scheme assets	1,671	(552)	(356)	(3,365)
as a percentage of the market value of the scheme assets	*9%*	*(4%)*	*(3%)*	*(32%)*
Experience gains/(losses) arising on scheme liabilities	3	436	4,096	(224)
as a percentage of the present value of scheme liabilities	*0%*	*3%*	*31%*	*(1%)*
(Loss)/gain on changes in assumptions underlying the present value of the scheme liabilities	(634)	2,118	(1,682)	304
Total actuarial gain/(loss)	1,040	2,002	2,058	(3,285)
as a percentage of the present value of scheme liabilities	*5%*	*12%*	*11%*	*(16%)*

And the charge to the group profit and loss account and the movement on the scheme deficit would have been:

	(Charge)/credit to the group profit and loss account	Pension scheme deficit
	£'000	£'000
Deficit at 1st August, 2004		(4,736)
Expected return on scheme assets	986	
Expected return on scheme liabilities	(984)	
Other finance costs	2	
Current service cost	(788)	
Theoretical FRS 17 charge		(786)
Contributions		3,862
Total actuarial gain from above		1,040
Deficit at 31st July, 2005		**(620)**

The theoretical FRS 17 charge to the profit and loss account shown above compares to the actual charge for this year of £3,934,000.

39. Related party transactions

Transactions with directors

Certain directors of the company maintained deposit accounts with the Close Brothers Limited group during the course of the year on normal commercial terms.

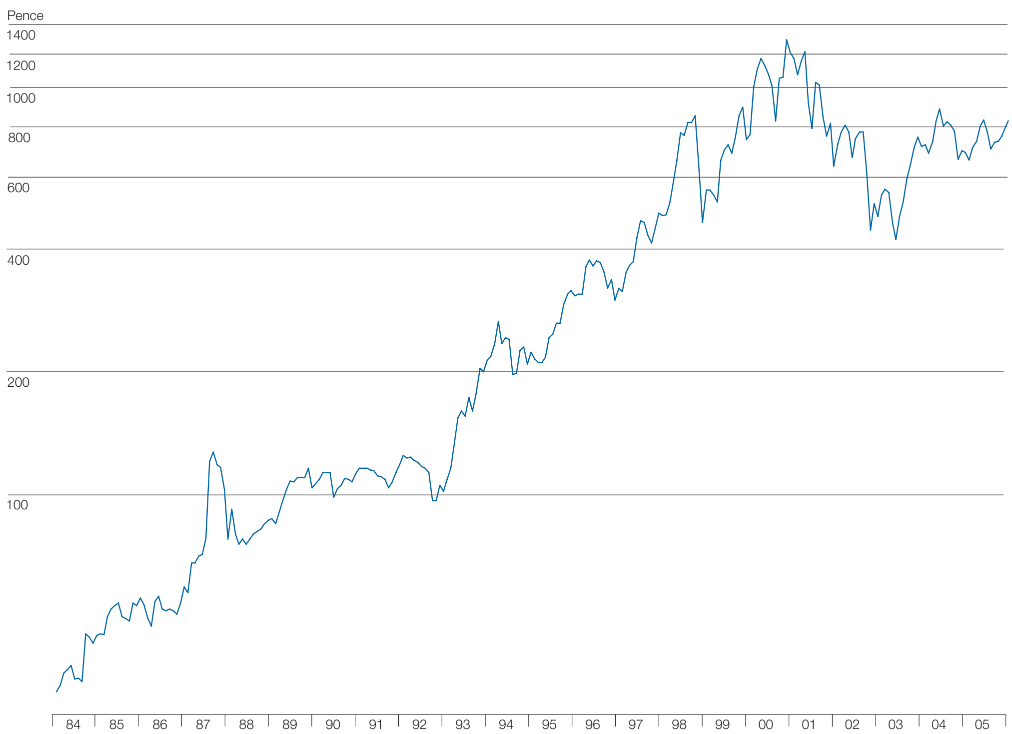
Transactions with joint ventures

Close Asset Management Holdings Limited ("CAMHL") has an investment in a joint venture, Roselead Limited, a company engaged in property investment. CAMHL holds all of Roselead Limited's 10 per cent. debenture loan stock 2028. Interest on this loan stock is payable six monthly and the loan is secured on the assets of the company. At 31st July, 2005 the loan balance outstanding was £4,067,000 (2004 — £4,067,000).

Five Year Financial Summary

		2001	2002	2003	2004	2005
Operating income	£m	292.7	276.4	323.3	401.2	**448.0**
Profit before taxation and goodwill amortisation	£m	94.2	75.1	85.3	118.9	**131.7**
Earnings per share before goodwill amortisation	p	47.4	37.2	41.0	57.3	**63.1**
Profit before taxation	£m	89.5	68.4	77.8	101.3	**108.6**
Profit attributable to shareholders	£m	59.1	44.3	51.0	65.2	**68.6**
Earnings per share	p	44.0	32.3	35.7	45.1	**47.2**
Dividends per share	p	26.0	26.0	26.0	27.0	**28.5**
Shareholders' funds	£m	408	472	482	509	**540**
Total assets	£m	2,767	3,054	3,569	3,880	**4,539**
Number of employees		1,740	1,840	1,943	2,252	**2,440**

Share Price



Shareholder analysis

	Number of shareholders		Total shares held	
	2005	2004	2005	2004
Number of shares held				
Up to 500	1,704	1,767	479,168	492,244
501 — 1,000	1,356	1,243	1,065,082	988,229
1,001 — 2,000	1,069	891	1,622,501	1,345,873
2,001 — 5,000	682	673	2,212,511	2,203,616
5,001 — 10,000	254	238	1,815,257	1,700,356
10,001 — 50,000	306	310	7,046,770	7,147,555
Over 50,000	233	254	130,431,495	130,385,903
	5,604	5,376	144,672,784	144,263,776
Category of shareholders				
Investment groups	126	150	67,231,213	66,688,414
Insurance companies	14	15	49,994,373	40,500,637
Private shareholders	2,874	2,803	16,490,050	21,408,385
Nominee holders	2,583	2,401	5,897,132	6,387,519
Pension funds	7	7	5,060,016	9,278,821
Total	5,604	5,376	144,672,784	144,263,776

Calendar

Annual General Meeting	27th October, 2005
Payment of final dividend	1st November, 2005
Announcement of interim results	Early March, 2006
Payment of interim dividend	Mid April, 2006
Announcement of final results	September, 2006

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Solicitors

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Stockbrokers

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