Close Brothers Group plc

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CLOSE BROTHERS GROUP plc

The specialist merchant banking group

announces record

FINAL RESULTS 2007

Financial Highlights
for the year ended 31st July, 2007

	2007	2006	
* Profit before tax	**£190m**	£157m	+21%
* Earnings per share	**90.4p**	74.1p	+22%
* Ordinary dividends per share	**37.0p**	32.5p	+14%
* Special dividend per share	**25.0p**	-	
* Shareholders' funds (equity)	**£753m**	£662m	+14%
* Total assets	**£5.4bn**	£4.8bn	+12%

Operational Highlights
for the year ended 31st July, 2007

* **Asset Management** record profit of £78 million (before exceptionals, up 20% to £35 million). FUM up 11% to £9.1 billion.
* **Corporate Finance** record profit of £22 million (2006: £17 million).
* **Securities** profit £44 million (2006: £48 million). Market share maintained.
* **Banking** profit £72 million (2006: £74 million). Bad debts remained low at 1.1% of loans.

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

"The group had a successful year with headline profit of £190 million including exceptional investment gains and fees of some £43 million.

In the face of current market uncertainty, our long standing prudent approach to liquidity and our broad spread of activities give us confidence in our resilience and long term growth prospects."

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

CLOSE BROTHERS GROUP plc
PRELIMINARY ANNOUNCEMENT OF AUDITED GROUP RESULTS
FOR THE YEAR ENDED 31ST JULY, 2007

The following is the full text of the preliminary announcement of results for the financial year ended 31st July, 2007. The financial information in relation to 31st July, 2007 has been extracted from the statutory accounts of the company, which have yet to be adopted by shareholders at general meeting and have yet to be filed with the Registrar of Companies.

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

The group had a successful year, with headline profit of £190 million (2006: £157 million), 21% up on last year's record, and earnings per share of 90.4p (2006: 74.1p). This result was after goodwill impairment of £4 million and has benefited materially from unusually high investment gains and performance fees of some £43 million. The group profit before tax and earnings per share, excluding these items, were respectively some £151 million and 71.9p.

The board is recommending a final dividend of 25p per share (2006: 22p) making total ordinary dividends for the year of 37p per share (2006: 32.5p), up 14% on last year and reflecting our confidence in the long term future of the business.

In addition, given the exceptional returns from our private equity and property businesses, the board is also recommending the payment of a special dividend of 25p per share this year.

OVERVIEW

Conditions during the financial year for our stock market related businesses have been favourable. Our Asset Management division has performed exceptionally well. We have benefited from high levels of activity in private equity, both within this division and our Corporate Finance division where levels of M&A activity have also been high.

Stock markets generally have shown healthy gains over the twelve months to 31st July, 2007 and, although retail investor activity has not been pronounced, both of our securities trading businesses delivered solid performances.

In our Banking division, high levels of liquidity have led to much aggressive lending in the market. We have resisted the siren calls to participate in this process. As a result, loan book growth has been difficult to achieve but the incidence of bad debts has remained low and we maintained our margins.

Group operating income increased by 13% year on year, operating margin improved somewhat to 31% (2006: 29%), and our expense income ratio fell to 65% (2006: 67%). Our pre-tax return on opening capital was 29% (2006: 27%).

CORPORATE DEVELOPMENTS

We have had an active period of corporate developments. Shortly after the year end we purchased a 49.9% interest in Mako Global Derivatives Executive LLP ("Mako") from its management. Mako is a leading market-maker in exchange traded derivatives, principally fixed interest and equity indices futures and options. It is active on the LIFFE, Euronext and Chicago derivatives exchanges and has around 100 employees.

During the year we acquired Aon's multi-manager fund management business and also the fund administration business of Scotiabank in the Cayman Islands.

We also reviewed opportunities for a number of larger transactions in all areas of our business although, especially in the asset management area, the market was very competitive and prices high in our opinion and we have not been prepared to purchase where we have not seen value.

We also increased our shareholding in PLUS Markets plc from 19% to 25% during the year.

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

STRATEGY

It is our goal to deliver consistent, long term growth in profit and dividends and we have developed a mix of distinctive, diverse and specialised financial services businesses to achieve this. It is in the nature of any such group that, at certain points in the cycle, some businesses will grow faster than others. Over the past two years, our growth has been driven by Asset Management, the impact of which is demonstrated in the mix analysis of operating profit shown below:

	2007		2006		2005	
	£m	**%**	£m	%	£m	%
Asset Management	**78**	**36**	38	22	32	21
Corporate Finance	**22**	**10**	17	9	10	7
Securities	**44**	**21**	48	27	36	24
Banking	**72**	**33**	74	42	70	48
	216	**100**	177	100	148	100

Our policy of diversification has proved successful over many years. Our Banking division, which is capital intensive, has a steady long term growth record. Our Corporate Finance and Securities divisions have more fluctuating profit streams but are highly cash generative, whilst Asset Management is an area with good growth prospects.

In our Asset Management division we have substantially reorganised and reshaped our operations over the past two years. This process continues and we intend to increase our scale in all areas, particularly on the funds side. We have a good platform for future growth.

Our Corporate Finance division remains firmly focused on strengthening its position in the European market, where demand for our services as providers of independent financial advice to both listed companies and to the private equity industry, remains strong. Like our other businesses, we see real strength in the diversity of our activities, with M&A, restructuring, debt advice and specialist IPO and pensions advice all core activities.

Winterflood Securities ("Winterflood") remains at the heart of our Securities division and we see good opportunities for growth on the back of its strong franchise in the securities market. Our investment trust broking team has shown the benefit of selective integration and we will be looking for opportunities to offer similar services in other areas. The strong position we have developed with Winterflood has enabled us to develop a more broadly based securities business which now includes Close Brothers Seydler ("Seydler"), our German market-making and broker dealer business, our investment in PLUS Markets plc and, more recently, our investment in Mako which gives us access to the fast growing derivatives trading market.

In our Banking division we continue to focus on existing markets for growth, to seek out new areas of specialist lending either by acquisition or by backing new teams and to look for opportunities to take our specialist banking skills into other European markets. In the short term this focus on new growth areas will increase our costs but we are confident that in the medium term the division's historical growth rate will be restored. In the meantime we remain firmly of the view that we should not be chasing volume growth at the expense of margin or quality.

We continue to look for acquisition opportunities to add value for our shareholders in all our areas of activity.

RESULTS

Asset Management

Our Asset Management division had a remarkable year. Headline profit was up over 100% to £78 million and Funds Under Management ("FUM") rose 11% to £9.1 billion.

Private equity and property related gains and performance fees have been a regular component of our Asset Management profit, though never on the scale of this year. Exceptional investment gains and performance fees of £43 million include an acceleration of realisations, which we would otherwise have expected over the next few years. Accordingly, we expect future results to include a lower than normal level of such gains. Excluding these gains, the profit of this division, on a like for like basis, grew by 20% and, despite current uncertain markets, we remain confident about the continuing growth of our Asset Management division.

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

Corporate Finance

After a quiet first quarter we had a very busy last nine months and produced a record profit of £22 million, some 29% ahead of last year. This has been driven particularly by highly active private equity markets in the UK and Continental Europe. Our operations in London, Frankfurt and Paris all delivered record performances. Whilst the M&A market has been exceptionally strong, restructuring has been correspondingly quieter.

We entered our new financial year with a good pipeline, however the outlook, including the timing of closing deals, is likely to be impacted by current market volatility.

Securities

Profit in our Securities division was down 8% to £44 million. In the UK, Winterflood's dealing margins were up slightly on steady bargain volumes, after three years of overall decline.

In trading terms, Seydler had a good year but, although the new issue market picked up in our second half, the year as a whole, as expected, was quieter than last year.

Volatile markets in the UK have led to a busy and challenging, but profitable start to the new financial year for Winterflood. Seydler has started better than last year.

Banking

Our Banking division had another flat year in which profit fell slightly to £72 million. We have deliberately chosen not to seek to grow our loan book at the expense of margin or underwriting quality. We believe that the recent well publicised credit and liquidity issues in the financial markets will prove this decision to have been correct. We have the building blocks in place to enable our Banking division to return to its historical growth rate.

CAPITAL

Our group has always been well capitalised and soundly financed, and with recent record results this strong position has been further reinforced. The board is quite clear that it wants to maintain our long standing conservative approach to liquidity and funding which has held us in good stead for many years. We were pleased to obtain a credit rating upgrade for the Bank from Moody's during the year to a long term rating of A2 and a short term rating of P1.

We estimate that we have in the order of some £150 million to £200 million of capital in excess of that which is essential to provide a prudent margin over regulatory requirements and those under Basle II and to fund organic growth. We are in discussion with the Financial Services Authority concerning our capital requirements under the new Basle II regime. Our current expectation is that the impact of the new rules will not be material.

We have a history of making successful "bolt on" acquisitions and of investing in businesses close to areas in which we already operate. Until recently, the climate has not, for us, been conducive to making such value enhancing acquisitions. We believe that this is now changing and that therefore it is important to retain an unquestionably strong balance sheet to ensure the flexibility to be able to move quickly to secure transactions should the opportunity arise. We also recognise the potential attraction of using some of our resources to buy back our own shares. We have the relevant authority in place to do so and will keep the matter under review.

CHAIRMAN AND CHIEF EXECUTIVE’S STATEMENT

BOARD CHANGES

As already announced, after 30 years with the company and in his 60th year our joint managing director and finance director, Peter Winkworth, will be stepping down from the board at the end of September 2007.

Peter Buckley, who has been a non-executive director for twelve years, will be retiring from the board before the end of the calendar year 2007. He is chairman of Caledonia Investments plc, which has been our largest shareholder for nearly two decades.

A special thank you from the board to both of them is given in the tributes.

James Williams, who has been a non-executive director for three years, will also retire from the board at the forthcoming Annual General Meeting. We thank him for his contribution to the group and his guidance to our Asset Management division.

Jamie Cayzer-Colvin, aged 42, is expected to join as a non-executive director when Peter Buckley retires. He is an executive director of Caledonia, our largest shareholder, and will therefore not be regarded as an independent director for the purposes of the Combined Code.

OUTLOOK

The diversity of Close Brothers is a key strength and has underpinned our long term growth record over many years.

Our new financial year has started with credit and liquidity issues dominating financial markets. We are not sorry to see the probable end of easy credit and we believe that this change in climate could see an increase in acquisition opportunities and also benefit our conservatively financed Banking division.

In the face of current market uncertainty, our long standing prudent approach to liquidity and our broad spread of activities give us confidence in our resilience and long term growth prospects.

TRIBUTE TO PETER WINKWORTH

In January 1977 Peter Winkworth joined the management team of the fledgling Close Brothers, which then had just a handful of employees and only £1 million of capital. As one of three founding executive directors he has played a key role in creating the strategy and building up the group to its current position. Today Close Brothers is a diverse financial group with more than 2,500 staff and £750 million capital. It is one of the top 200 companies listed on the London Stock Exchange and has just reported a record year.

Peter has been an outstanding finance director with an enviable track record. He has been at the heart of our development for more than 30 years. His integrity, energy, robustness of argument, clarity of view and, above all, sound judgement are hallmarks which we will all miss.

TRIBUTE TO PETER BUCKLEY

In 1987 Close Brothers was developing fast and required more capital. Alongside a conventional rights issue, we also sourced fresh funds from a direct placing with Caledonia, where Peter Buckley was our principal point of contact. Since that time Caledonia has supported us in many ways and has been our largest shareholder for many years.

Peter’s contribution to Close Brothers has been immeasurable and he has been a supportive guiding hand for more than 20 years. His courteous manner, financial acumen and commonsense approach to business will be much missed and we wish him well in his continued roles as chairman of Caledonia and president of The Royal Horticultural Society.

REVIEW OF OPERATIONS Overview

Close Brothers is a diversified financial services group with four divisions: Asset Management, Corporate Finance, Securities and Banking. Our core strategy is to develop a diversified group of distinctive and specialist businesses in order to provide for our shareholders, over time, consistent growth in profit and dividends. The success of this strategy is evidenced by the long run compound annual growth rate in profit and dividends of 13% and 12% respectively. We are confident that, over time, with our current mix of businesses, we can maintain this average growth rate.

Each of our divisions has a clear strategy for growth and we anticipate that an increasing proportion of our profit will, over time, come from our overseas operations.

Key Performance Indicators ("KPIs") used in managing the group are shown below. These and other measures are also used in each of our operating divisions. Given the different activities of our businesses there are significant variations in these KPIs between divisions so the blended rate reported at the group level will be influenced by our earnings mix.

	07 **%**	06 %	05 %
Return on opening capital	**29**	27	24
Operating margin	**31**	29	29
Expense/income ratio	**65**	67	67
Compensation ratio	**42**	43	43
10 year CAGR[1] profit[2]	**13**	13	13
10 year CAGR[1] dividends	**12**	13	13
Capital adequacy ratio[3]: Group	**25**	24	22
Capital adequacy ratio[3]: Bank	**14**	15	15

[1]Compound Annual Growth Rate.
[2]Profit before tax.
[3]At 31st July including audited profit but before dividends payable.

Our diversity, specialisation and focus on high margin business provide the bases for consistent growth with attractive returns on capital and operating margins. We use these ratios to measure the success of our strategy and the quality of stewardship of our shareholders' funds.

It has always been our policy to be well capitalised and soundly financed whilst nonetheless delivering a high return on capital. We would therefore expect to have capital adequacy ratios well in excess of minimum regulatory requirements even before taking account of the need to fund our non regulated activities and small acquisitions. The capital adequacy ratio at 31st July, 2007 of the group was 25.3% (2006: 24.2%) and for Close Brothers Limited was 13.6% (2006: 15.2%).

We do not expect any significant change in our regulatory capital requirement as a result of Basle II.

REVIEW OF OPERATIONS Asset Management

Equity market conditions were generally favourable with the UK FTSE All-Share Index up 9.5% over the twelve months to 31st July, 2007. Against this backdrop, our Asset Management division had a remarkable year, producing a record profit of £78 million. This includes exceptional investment gains and performance fees of some £43 million which arose due to an acceleration of realisations which we would otherwise have expected over the next few years.

We expect future results to include a lower than normal level of investment gains and performance fees. Excluding these gains, the profit for this division, on a like for like basis, grew by 20%. Accordingly, our Asset Management division is well placed as a key driver of earnings growth for the group.

	07 **£m**	06 £m
Income	**199**	140
Costs	**121**	102
Profit	**78**	38

The underlying profit of our Asset Management division before exceptional gains was £35 million (2006: £29 million).

FUM grew by 11% to £9.1 billion as shown below:

	Private clients £m	Funds £m	**Total** **£m**
1st August, 2006	2,684	5,527	**8,211**
New funds raised	1,073	975	**2,048**
Redemptions, realisations and withdrawals	(332)	(1,355)	**(1,687)**
Net new funds	741	(380)	**361**
Acquisitions	-	679	**679**
Discontinued activities	-	(630)	**(630)**
Market movement	163	364	**527**
31st July, 2007	**3,588**	**5,560**	**9,148**

Our mix of asset classes remains steady and is a key strength that we will maintain.

During the year we exited our investment trust funds administration business (FUM: £575 million) as well as our small technology fund management business (FUM: £55 million). We have been active in the property market where concerns about the commercial property market in particular meant that we were happier realising investments for clients (to the tune of over £300 million) than raising new funds. We have also made significant realisations in our very successful private equity Fund VI. Fund inflows have been particularly strong in our private client business, reflecting the hiring of additional teams of fund managers at the end of our last financial year and strong business development. As the new teams settle down we would expect the rate of net new money inflows to revert to more normal levels.

KPIs for our Asset Management division were:

	07 **%**	06 %
Operating margin	**39**	27
Expense/income ratio	**61**	73
Compensation ratio	**43**	46
Net new funds*/opening FUM	**4.4**	6.3

*Net new funds excluding acquisitions and discontinued activities.

REVIEW OF OPERATIONS Asset Management

Excluding the exceptional gains, our KPIs are on target, with the exception of net new funds/opening FUM, which we expect to improve this coming year.

Fund performance has been good with more than two thirds of our funds performing in the top two quartiles or beating their benchmarks.

Our private client operations had a good year and are now operating as a more integrated business under the name Close Wealth Management Group. We continue to fund the cost of new teams through the profit and loss account.

Our Cayman Islands' operation has had an excellent year, with good prospects enhanced by the acquisition of Scotiabank's representative banking, agency and fund administration businesses.

On our funds side we have also made progress in Close Investments where we now have a clear focus on four main areas, property, multi-manager, structured and specialist products and hedge funds of funds. The acquisition of the Aon Asset Management business during the year brought further scale to our multi-manager offering.

Our private equity businesses have enjoyed a record year of successful realisations. Particular highlights were the CBPE Fund VI exits from Moody International, Minova and V Ships.

The integration within our private client and funds businesses is designed to benefit clients by simplifying our external presentation and providing easier access to a broader range of products and services. In addition it benefits the division by improving asset gathering capability, strengthening investment resources and enhancing efficiency and performance over time. Considerable progress has been made over the last twelve months in developing the strategy, investment process and infrastructure required to produce further growth and greater scalability. This will continue in the next twelve months.

REVIEW OF OPERATIONS Corporate Finance

Our Corporate Finance division has had another excellent year, taking advantage of a very strong M&A market to reach a record breaking level of income and profitability.

Income was up by 26% to £77 million and profit before tax up by 29% to £22 million.

	07 £m	06 £m
Income	**77**	61
Costs	**55**	44
Profit	**22**	17

M&A activity was the dominant theme in our principal offices in the UK, France and Germany representing over 70% of our income.

This year saw us advise on a significant number of high profile and high value transactions. The surge in private equity activity provided a number of attractive opportunities for us. These included advising Saga Holdings Limited on its ownership options, which culminated in its £6.2 billion combination with the AA. Another UK highlight was the £280 million disposal by Electra Partners of Capital Safety Group, the world leader in personal fall protection and rescue equipment, to Candover Partners.

Internationally, we advised AXA Private Equity on its acquisition of a majority stake in CABB GmbH, a German specialty chemicals company, and Milestone Capital on the sale of Groupe 5aSec, the leading French provider of textile care services, to ING Parcom Private Equity and management.

Our Debt Advisory business was also active on private equity transactions in the year in the UK, France and Germany.

In the quoted sector, major transactions included advice to Enterprise plc on its £491 million takeover by 3i plc and to Alpha Airports Group plc on its £194 million takeover by Autogrill S.p.A. of Italy. In Germany, we advised Fujitsu Services of Japan on the €105 million public offer for TDS Informationstechnologie AG.

Our Restructuring business was busy on a number of transactions, examples of which were the €900 million refinancing of Ontex International NV and the £1.1 billion restructuring of The Polestar Company Limited.

As these transactions demonstrate, there is a significant international aspect to our work. With this in mind, we continue to pursue our long term strategic objective of strengthening our international base and during the year increased our stake in our French subsidiary from 50% to 83% with a further commitment to acquire the remaining 17% in April 2008. We also entered into a strategic alliance with Allegro Advisors, an independent investment bank in India, who became members of the Close Brothers Network, our worldwide investment banking network.

The KPIs for the Corporate Finance division were:

	07 %	06 %
Operating margin	**29**	28
Expense/income ratio	**71**	72
Compensation ratio	**57**	56

The KPIs reflect a strong performance where costs have been kept under close control while income has reached record levels.

On 14th August, 2007 we announced the appointment of Stephen Aulsebrook as the new chief executive of the Corporate Finance division.

Our Corporate Finance business has the strength in depth to make continued progress and we are confident of the prospects for long term growth both in the UK and internationally.

REVIEW OF OPERATIONS Securities

This division comprises Winterflood and Seydler. Shortly after the year end we acquired a 49.9% holding in the exchange traded derivatives market-maker, Mako.

Winterflood remains the leading liquidity provider in UK equities and bonds to the retail stock broking community. Seydler is a Frankfurt based broker dealer in domestic German and international bonds and equities. It is also a leading designated sponsor of small and mid-sized German companies with some 160 corporate relationships.

	07 **£m**	06 £m
Income	**128**	134
Costs	**84**	86
Profit	**44**	48

Our operating margin decreased slightly to 34%, caused mainly by a non-trading £3 million provision made by Seydler this year to cover a possible regulatory customer protection levy. Our underlying operating margin excluding this cost improved slightly to 37% (2006: 36%).

KPIs for the Securities division were:

	07 **%**	06 %
Operating margin	**34**	36
Expense/income ratio	**66**	64
Compensation ratio	**35**	40

For Winterflood, market conditions were remarkably similar to last year in terms of bargain numbers of 6.9 million (2006: 7.3 million), overall revenue of £103 million (2006: £104 million) and profit of £40 million (2006: £39 million). It was pleasing to note that, after three years of decline, 2007 saw a slight increase in overall profit per bargain, driven mainly by good performance in the investment trust book. Fee levels were slightly up on last year.

The market in which Winterflood operates has changed significantly in the last few years with the move toward more order driven securities trading. The success with which Winterflood has adapted to changing market conditions is a tribute to the skill of our traders and the robustness of our business model. Winterflood remains a committed provider of liquidity to the retail, and increasingly, the institutional market, either order or quote driven. We remain firmly of the view that for the large number of less liquid stocks the order driven system is not optimal and that the traditional quote driven system remains the best way to provide certainty of price and execution.

We have been greatly encouraged by the success of the investment trust team and their ability to develop their business off the back of the Winterflood platform. We are seeking opportunities to replicate this success in other areas.

Michael Hines, Chief Executive, Securities, will be retiring from Winterflood at the end of the next financial year after 42 years in the securities business. He will be succeeded by Julian Palfreyman who will then become chief executive.

For Seydler, market-making activity has been running at better levels than last year but in the first six months, as expected, the important new issue market was much quieter than last year. This market picked up in our second half but underlying profit of £7 million was still some 20% below last year's strong performance. In addition, we have decided to provide £3 million against a possible regulatory customer protection levy relating to the failure of a German retail fund business several years ago prior to our acquisition of Seydler.

Seydler continues to occupy a strong position in the Frankfurt market and opportunities exist to increase our market-making activities. We also see opportunities to enhance the service we provide to our corporate clients and are planning to establish a London based team to give these clients access to the UK's capital markets.

REVIEW OF OPERATIONS Banking

Our Banking division provides specialist lending and treasury services to small businesses in the UK, Ireland, the Channel Islands, Germany and recently Spain. Overall our loan book has grown from £1.86 billion to £1.96 billion although profit has dipped slightly to £72 million.

The general market for our Banking businesses has been one of high levels of liquidity and consequent strong competition for assets. Against this background we have held to our stated policy of not chasing volume at the expense of margin.

	07 **£m**	06 £m
Income	**198**	199
Costs	**126**	125
Profit	**72**	74

KPIs for our Banking division were:

	07 **%**	06 %
Operating margin	**36**	37
Expense/income ratio	**53**	53
Compensation ratio	**30**	31
Return on opening capital	**27**	30
Bad debt/average loans	**1.1**	1.0
Return on average loans	**3.7**	3.8

All KPIs were on target, albeit that it was another flat year for growth in profit and for our customer loan book. Total assets of our Banking division grew by some 17% as our Treasury operation concluded another successful year in growing the level of customer deposits. In addition to this, we continued to put in place long term committed facilities from lending banks and other institutions. As a result, our balance sheet remains highly liquid and our funding sources are diverse.

The headline figures for our customer loan book mask a great deal of underlying activity and some changes in the mix of our portfolio of businesses. Significant features of the year include:

- Another year of insurance premium deflation saw our customer loan book in this area fall by 10% from £385 million to £348 million. Although our case count was broadly unchanged, and costs and bad debt were well controlled, our net income from this area fell during the year. However, we remain confident that this is a business which can generate significant future growth in profitability.
- Our property finance team had an excellent year with an increase in their loan book of over 50% to £306 million. Our lending in this area remains well spread by borrower and geographically, and this diversification will help us in a market which is showing increasing variation in regional market conditions.
- In our commercial asset finance operations there continued to be a change in the mix of underlying assets financed. Lending in our Transport and Engineering business grew by 14% during the year to £358 million as new teams contributed additional business, which bodes well for the future growth of this area. Our restructured print finance business saw its loan book fall, but profit grew as it focused on more profitable lines of activity.
- The incidence of bad debt throughout our loan book has been satisfactorily low. This is evidenced by the charge to the profit and loss account, expressed as a percentage of average customer loans, which remained below our long term average, at 1.1%. This charge is very comfortably covered by the level of pre-bad debt, pre-tax profit of 4.8%, a cover of more than 4 times.

REVIEW OF OPERATIONS Banking

We continue to invest capital and senior management time in seeking out new areas of activity, both in the UK and abroad. Start-ups, and the identification of suitable new teams who can bring specialist lending skills, take time to bear fruit. We have resisted the temptation to acquire banking businesses which would dilute the strong long term performance which we have achieved in this area. Nevertheless, we believe there continue to be interesting opportunities for us to grow and diversify our specialist lending operations. Examples during the year of new ventures included our first overseas property financing, a detailed investigation of the opportunities for insurance premium finance outside the UK, the launch of an invoice discounting business in Ireland and our first asset finance transactions outside the UK. Not all these projects will necessarily be successful and during the year we suspended the operations of Close Mortgages, our specialist mortgage lender, in the light of uneconomic returns available in this sector.

Looking ahead, we can see that the long term rate of growth in our loan book should be restored. We continue to achieve a strong operating margin of 36% and a consistent pre-tax return on the gross loan book of 3.7%.

CONSOLIDATED INCOME STATEMENT
for the year ended 31st July, 2007

	2007 **£'000**	2006 £'000
Interest and similar income	**312,997**	281,926
Interest expense and similar charges	**165,632**	137,624
Net interest income	**147,365**	144,302
Fees and commissions income	**360,786**	302,919
Fees and commissions expense	**(54,091)**	(48,913)
Gains less losses arising from dealing in securities	**115,525**	122,339
Other operating income	**37,213**	15,627
Other income	**459,433**	391,972
Operating income	**606,798**	536,274
Administrative expenses	**376,323**	346,256
Depreciation and amortisation	**15,083**	14,083
Impairment losses on loans and advances	**21,541**	18,621
Impairment losses on goodwill	**3,659**	-
Total operating expenses	**416,606**	378,960
Operating profit on ordinary activities before tax	**190,192**	157,314
Tax	**53,517**	45,280
Profit on ordinary activities after tax	**136,675**	112,034
Profit attributable to minority interests	**3,731**	3,436
Profit attributable to the shareholders of the company	**132,944**	108,598
Basic earnings per share on profit attributable to shareholders	**90.4p**	74.1p
Diluted earnings per share	**89.8p**	73.8p
Ordinary dividends per share	**37.0p**	32.5p
Special dividend per share	**25.0p**	-

All income and profits are in respect of continuing operations.

CONSOLIDATED BALANCE SHEET
at 31st July, 2007

	2007	2006
	£'000	£'000
Assets		
Cash and balances at central banks	**1,631**	1,272
Settlement accounts	**624,935**	628,305
Loans and advances to customers	**1,962,443**	1,862,023
Loans and advances to banks	**577,928**	510,691
Debt securities and equity shares – long trading positions	**116,672**	116,689
Financial instruments classified as available for sale	**775,244**	312,788
Certificates of deposit classified as loans and receivables	**823,606**	833,655
Equity shares valued at fair value through profit or loss	**16,548**	30,190
Floating rate notes held to maturity	**27,918**	23,817
Loans to money brokers against stock advanced	**114,294**	156,420
Other receivables	**57,890**	88,474
Property, plant and equipment	**37,422**	42,549
Intangible assets – goodwill	**113,181**	109,807
Intangible assets – other	**7,279**	2,623
Deferred tax assets	**27,773**	25,362
Prepayments and accrued income	**82,437**	63,135
Derivative financial instruments	**7,738**	5,093
Total assets	**5,374,939**	4,812,893
Liabilities		
Settlement accounts	**484,465**	573,671
Deposits by customers	**2,302,688**	1,843,074
Deposits by banks	**160,567**	168,378
Debt securities and equity shares – short trading positions	**66,955**	76,238
Loans and overdrafts from banks	**457,839**	363,205
Promissory notes and other debt securities in issue	**353,017**	358,014
Loans from money brokers against stock advanced	**185,035**	157,356
Non-recourse borrowings	**150,000**	150,000
Subordinated loan capital	**75,000**	75,000
Other liabilities	**192,352**	219,673
Current tax liabilities	**29,338**	16,766
Accruals and deferred income	**144,984**	136,791
Derivative financial instruments	**20,045**	12,370
Total liabilities	**4,622,285**	4,150,536
Equity		
Called up share capital	**36,833**	36,603
Share premium account	**264,612**	259,783
Profit and loss account	**432,440**	346,714
ESOP trust reserve	**(17,100)**	(8,302)
Other reserves	**28,582**	20,189
Minority interests	**7,287**	7,370
Total equity	**752,654**	662,357
Total liabilities and equity	**5,374,939**	4,812,893

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31st July, 2007

	2007 £'000	2006 £'000
Called up share capital		
Opening balance	**36,603**	36,168
Exercise of options	**230**	435
Closing balance	**36,833**	36,603
Share premium account		
Opening balance	**259,783**	252,210
Exercise of options	**4,829**	7,573
Closing balance	**264,612**	259,783
Profit and loss account		
Opening balance	**346,714**	277,455
Profit for the year	**132,944**	108,598
Dividends paid	**(49,334)**	(42,524)
Transfer from share-based awards reserve	**1,704**	-
Other movements	**412**	3,185
Closing balance	**432,440**	346,714
ESOP trust reserve		
Opening balance	**(8,302)**	(3,786)
Shares purchased	**(9,039)**	(4,926)
Shares released	**241**	410
Closing balance	**(17,100)**	(8,302)
Other reserves:		
Share-based awards reserve		
Opening balance	**11,808**	7,614
Charge to income statement	**4,120**	3,307
Transfer to profit and loss account	**(1,704)**	-
Movement relating to deferred share awards	**629**	887
Closing balance	**14,853**	11,808
Exchange movements reserve		
Opening balance	**938**	1,264
Currency translation differences	**(760)**	(326)
Closing balance	**178**	938
Cash flow hedging reserve		
Opening balance	**133**	(1,843)
Movement on derivatives	**1,359**	1,976
Closing balance	**1,492**	133
Available for sale reserve		
Opening balance	**7,310**	3,431
Movement on available for sale investments	**4,749**	3,879
Closing balance	**12,059**	7,310
Total other reserves	**28,582**	20,189
Minority interests		
Opening balance	**7,370**	5,870
Charge to income statement	**3,731**	3,436
Other movements	**(3,814)**	(1,936)
Closing balance	**7,287**	7,370
Total equity	**752,654**	662,357

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31st July, 2007

	Note	**2007 £'000**	2006 £'000
Net cash inflow from operating activities	1(a)	**573,015**	153,418
Net cash outflow from investing activities:			
Dividends paid to minority interests		**(1,915)**	(1,669)
Purchase of assets let under operating leases		**(5,685)**	(13,865)
Purchase of property, plant and equipment		**(9,623)**	(8,121)
Sale of property, plant and equipment		**6,888**	4,155
Purchase of intangible assets		**(1,849)**	(2,447)
Purchase of equity shares held for investment		**(25,106)**	(9,911)
Sale of equity shares held for investment		**45,267**	11,168
Minority interests acquired for cash		**(10,185)**	(2,853)
Purchase of subsidiaries	1(b)	**(12,402)**	(11,258)
		(14,610)	(34,801)
Net cash inflow before financing		**558,405**	118,617
Financing activities:			
Issue of ordinary share capital including premium		**5,059**	8,008
Equity dividends paid		**(49,334)**	(42,524)
Interest paid on subordinated loan capital		**(5,617)**	(5,616)
Net increase in cash		**508,513**	78,485

THE NOTES

1. Consolidated Cash Flow Statement reconciliation

	2007 £'000	2006 £'000
(a) Reconciliation of operating profit on ordinary activities before tax to net cash inflow from operating activities		
Operating profit on ordinary activities before tax	**190,192**	157,314
(Increase)/decrease in:		
Interest receivable and prepaid expenses	**(19,302)**	1,886
Net settlement accounts	**(85,836)**	(11,115)
Net debt securities and equity shares held for trading	**(9,266)**	(8,781)
Interest payable and accrued expenses	**6,733**	(1,877)
Depreciation, amortisation and goodwill impairment losses	**18,742**	14,083
Net cash inflow from trading activities	**101,263**	151,510
(Increase)/decrease in:		
Debt securities held for liquidity	**3,003**	(10,890)
Loans and advances to customers	**(100,420)**	77,180
Loans and advances to banks not repayable on demand	**(3,195)**	5,716
Other assets less other liabilities	**83,375**	83,350
Increase/(decrease) in:		
Deposits by banks	**(7,811)**	60,277
Customer accounts	**459,614**	24,887
Bank loans and overdrafts	**94,634**	(131,158)
Non-recourse borrowings	**-**	(50,000)
Promissory notes and other debt securities in issue	**(4,997)**	(9,116)
Tax paid	**(52,451)**	(48,338)
Net cash inflow from operating activities	**573,015**	153,418
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries		
Cash consideration in respect of current year purchases	**(8,745)**	(6,797)
Loan stock redemptions and deferred consideration paid in respect of prior year purchases	**(6,123)**	(4,847)
Net movement in cash balances	**2,466**	386
	(12,402)	(11,258)
(c) Analysis of changes in financing		
Share capital (including premium) and subordinated loan capital:		
Opening balance	**371,386**	363,378
Shares issued for cash	**5,059**	8,008
Closing balance	**376,445**	371,386

(d) Analysis of cash and cash equivalent balances

	Movement in the period £'000		
Cash and balances at central banks	359	**1,631**	1,272
Loans and advances to banks	64,042	**572,968**	508,926
Floating rate notes classified as available for sale	454,161	**756,460**	302,299
Certificates of deposit classified as loans and receivables	(10,049)	**823,606**	833,655
	508,513	**2,154,665**	1,646,152

THE NOTES

2. Earnings per share
Basic earnings per share on profit attributable to shareholders of the company is based on profit after tax and minority interests of £132,944,000 (2006: £108,598,000) and on 147,057,000 (2006: 146,594,000) ordinary shares, being the weighted average number of shares in issue and contingently issuable during the year excluding those held by the employee benefit trust.

Diluted earnings per share is based on this same profit, but on 147,983,000 (2006: 147,100,000) 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.

3. Dividends
A final ordinary dividend of 25.0p per share and a special dividend of 25.0p per ordinary share are proposed to be paid on 6th November, 2007 to holders of ordinary shares on the register at the close of business on 5th October, 2007.

4. Basis of preparation
The financial information contained in this announcement does not constitute statutory accounts for the year ended 31st July, 2007 within the meaning of section 240 of the Companies Act 1985, but is derived from those accounts, on which the auditors have yet to sign their report. It has been prepared on the basis of the accounting policies set out in the 2006 statutory accounts. While the financial information has been computed in accordance with International Financial Reporting Standards ("IFRS"), this announcement does not itself comply with IFRS. The company expects to publish full financial statements that comply with IFRS on 2nd October, 2007.

The financial information for the year ended 31st July, 2006 has been derived from the audited financial statements of Close Brothers Group plc for that year, which have been reported on by Deloitte & Touche LLP and delivered to the Registrar of Companies. The report of the auditors on those statutory accounts was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.