Close Brothers Group plc Annual Report 2006

Close Brothers is an independent merchant bank and is amongst the top 200 listed companies in the UK.

Our goal is to deliver consistent, long term growth in profit and dividends.

We strive to achieve this through our core strategy of specialisation and diversification across a range of financial services and, in particular, by:

- focusing on higher margin activities
- managing business risk whilst maintaining a healthy return on capital
- attracting and supporting management teams of the highest calibre
- fostering entrepreneurialism, independent thinking and a willingness to innovate
- placing the highest importance on quality, professionalism and integrity in everything we do.

Our Results at a Glance

Profit £157m +21%

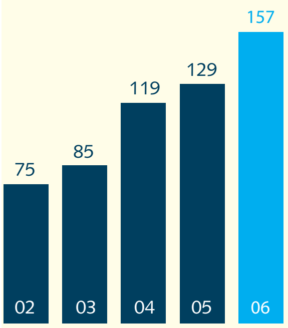
Financial Highlights

	2005	2006	
Profit before goodwill and taxation	£129m	£157m	+21%
Earnings per share before goodwill	62.0p	74.1p	+19%
Profit before taxation	£112m	£157m	+41%
Earnings per share	49.8p	74.1p	+49%
Dividends per share	28.5p	32.5p	+14%
Shareholders' funds	£578m	£662m	+15%
Total assets	£4.8bn	£4.8bn	

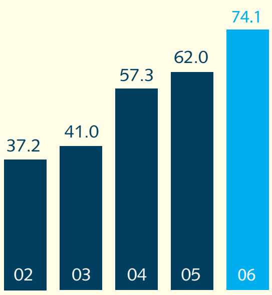
Operational Highlights

- Asset Management profit up 21% to £38 million. FuM up 16% to £8.2 billion.
- Corporate Finance record profit of £17 million.
- Securities profit up 34% to £48 million.
- Banking record profit of £74 million and bad debts remained well contained.

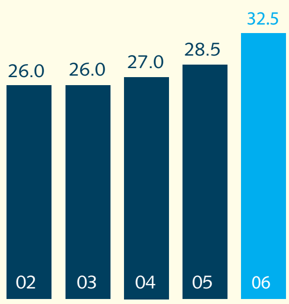
Profit before goodwill and taxation
£ million



Earnings per share before goodwill
pence



Dividends per share
pence



Up to 04 prepared under UK GAAP, 05 onwards prepared under IFRS.

Contents

Our Business at a Glance

Close Brothers is a diversified group of specialist financial services businesses with a long and successful track record.

We have four operating divisions: asset management, corporate finance, securities and banking. We derive our revenue from a mix of interest, fees, dealing and other income. We employ over 2,500 people, principally in the British Isles and also in continental Europe.

Scale of Operations

Income
£536m

Profit before taxation
£157m

Shareholders' funds
£662m

Funds under management
£8.2bn

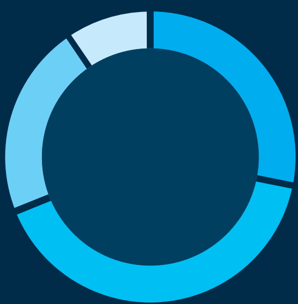
Loan book
£1.9bn

Total assets
£4.8bn

Spread of Income

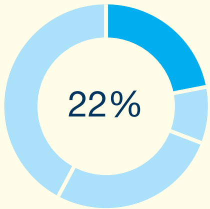
The spread of the group's income reflects the diversity of its activities.

- Interest – £144m (27%)
- Fees – £254m (47%)
- Dealing – £122m (23%)
- Other – £16m (3%)



Our Business at a Glance

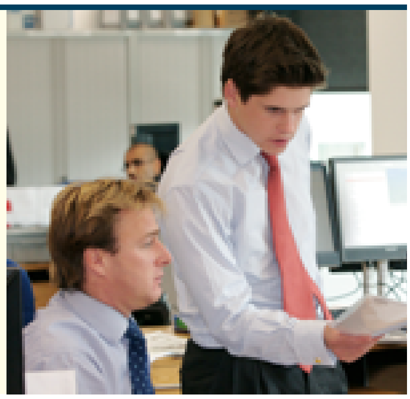
Asset Management



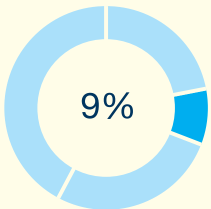
Profit contribution

Asset management has £8.2 billion of funds under management. On revenues of £140 million in 2006 it made an operating profit of £38 million and employed over 800 people.

This division focuses on the two areas of private clients and funds. Close Wealth Management Group offers a range of services for private clients both on and off shore. Our funds side includes a thriving private equity business and Close Investments, which has a broad product range covering three main areas, multi-manager, property and specialist funds, for retail and institutional investors.



Corporate Finance

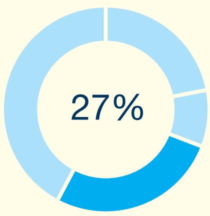


Profit contribution

We are a leading independent European corporate finance advisor with major hubs in London, Frankfurt and Paris. In 2006 the business made an operating profit of £17 million on revenues of £61 million and employed some 170 people.

Areas of particular expertise are mergers and acquisitions (acting on behalf of both corporate and private equity clients), restructuring and debt advisory work.

Securities

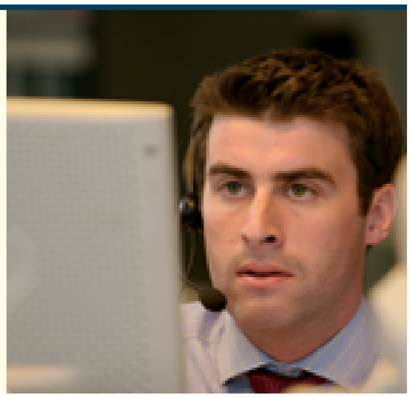


Profit contribution

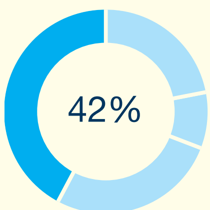
This division has two principal trading companies, Winterflood Securities and Close Brothers Seydler. In 2006 it made an operating profit of £48 million on revenues of £134 million and employed some 240 people.

Winterflood Securities is the leading liquidity provider in the London retail market and makes markets in most UK stocks and many international equities and bonds.

Close Brothers Seydler is a Frankfurt based broker dealer in domestic and international bonds and equities. It is also a leading designated sponsor of smaller German companies.



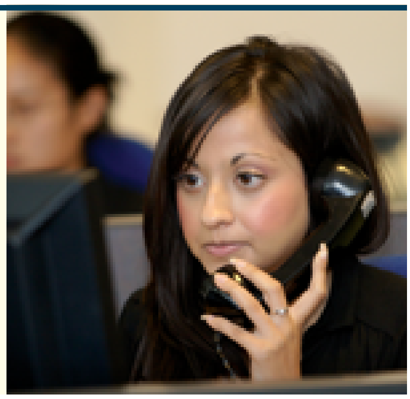
Banking



Profit contribution

On revenues of £199 million and a loan book of £1.9 billion in 2006 our banking division made an operating profit of £74 million. It employed over 1,200 people.

We focus on secured, diversified, asset based lending mainly in the UK and also in Germany. We finance a variety of asset classes including insurance premiums, property, domestic and commercial vehicles, specialist plant and machinery, light aircraft and invoice receivables. We also have an active treasury department.



CHAIRMAN’S AND CHIEF EXECUTIVE’S STATEMENT

2006 was an excellent year for Close Brothers with group profit before goodwill and taxation of **£157 million** (2005: £129 million), up **21%**, and earnings per share before goodwill up **19%** to **74.1p** (2005: 62.0p). There was no goodwill impairment this year (2005: £18 million).

In the light of these results, the board, which continues to pursue a progressive dividend policy, recommends an increased final dividend of **22.0p** per share which, together with the interim dividend, makes a total dividend for the year of **32.5p** per share (2005: 28.5p).

Sir David Scholey
Chairman

Colin Keogh
Chief Executive

CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

"Our strategic priorities are to continue to build on the recent strong progress in asset management and to return the growth rate in our banking division to its long term trend."

These financial statements reflect for the first time the application of International Financial Reporting Standards. Comparative figures have been adjusted accordingly. The effect on our opening balance sheet was not material. Our profit now includes a charge for share-based remuneration of £3 million (2005: £2 million) but no charge for goodwill amortisation.

OVERVIEW

After four consecutive years of earnings growth we were delighted to achieve the group's best ever profit. Asset management, corporate finance and banking all exceeded previous records whilst the securities division produced its highest contribution since the dot com era. Operating income increased 20%, operating margin remained high at 29% and costs remained under firm control with the expense/income ratio steady at 67%. Overall pre-tax return before goodwill impairment on opening capital was 27% (2005: 24%).

In broad terms, market conditions were favourable for our investment banking businesses but were more challenging for banking although the credit quality of our loan book remained good.

The divisional mix of our operating profit before central costs is shown in the table below.

	04 %	05 %	06 %
Asset Management	13	21	22
Corporate Finance	7	7	9
Securities	28	24	27
Banking	52	48	42
	100	100	100

To continue to achieve our goal of delivering long term profit and dividend growth to our shareholders, we have continued to invest in new initiatives.

Our asset management division is implementing a major re-shaping and re-branding exercise following some significant recruitment. The banking division has also recruited further specialist teams and is developing new products to exploit the mortgages market.

On the acquisition front, after an active 2005, this year has been quieter, the only transaction completed being the purchase of a 70% holding in Fortune, a London based fund of hedge funds business, from its management. Whilst a number of opportunities became available during the year, we maintain a disciplined approach to valuation and will only invest where we see real future value. We were encouraged this year by the successful integration of, and strong performances from, all of the deals completed in the previous year with exceptional results being achieved by our new broker dealer in Frankfurt.

Our strategic priorities are to continue to build on the recent strong progress in asset management and to return the growth rate in our banking division to its long term trend. Our securities businesses have strong positions in their respective markets and we see continuing demand for the independent advice offered by our corporate finance business.

We constantly look for acquisition opportunities to strengthen our existing market positions and to take the group into new areas of growth.

Asset Management

Our asset management division had another good year with further profit growth and pleasing strategic progress. Profit rose by 21% to £38 million and our funds under management by 16% to £8.2 billion.

On the private clients side we saw good growth in profit both on and off shore as we continued to reap the benefits of the earlier reorganisation of our business units. We strengthened our new business development capability and we bolstered our team of private client fund managers. Over the coming year we will be bringing together our private client businesses on and off shore under one brand, Close Wealth Management Group. This will create a solid platform for further growth.

Considerable progress was made in our funds business this year. We announced in April 2006 that we had acquired 70% of Fortune. This acquisition broadens our exposure to alternative asset and multi-manager classes, an important strategic objective, as well as taking us into an area which we believe will be of increasing interest and importance to both private and institutional clients. In the coming year we will be regrouping certain of our funds' activities together under the Close Investments banner. We expect this to result in more productive and cost-effective distribution.

Our private equity business had a record year and we expect continued strong performance in this area.

We remain excited by the prospects for this division.

Corporate Finance

Corporate finance had an excellent year with profit up 67% to £17 million. London, Frankfurt and Paris all delivered record performances. The major part of this growth came from mergers and acquisitions work where markets have been buoyant. The other two areas of our business, debt advice and restructuring, have also been busy with our market position and expertise in the latter now

CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

recognised as amongst the best in Europe. The division has also won a number of industry awards for successfully completed transactions.

Our opening pipeline is, once again, healthy.

Securities

Our securities businesses did well with operating profit up 34% to £48 million.

Winterflood Securities, our UK market-making business which sits at the heart of retail equity and bond trading in London, had a successful year in generally strong markets. Bargain numbers were up significantly on last year although the profit per bargain decreased somewhat. Nevertheless, operating margin held steady at 37% on increased income.

Close Brothers Seydler, our Frankfurt based broker dealer, had an outstanding first full year in the group, with pre-tax profit of £9 million. This was an excellent return on our cost of £21 million. Our business has thrived as German investor interest has recovered strongly on the back of rising equity markets and as the new issues market has returned to life.

Our new financial year has got off to a reasonable start, better in London than Frankfurt, but trading levels are lower than last year.

Banking

Banking profit was up 6% to £74 million on a loan book of £1.9 billion which was slightly down on last year. Bad debts remained well contained and provisions as a percentage of the average loan book were 1.0%, an historically low level. Banking continues to provide a high divisional operating margin, which remained steady at 37%.

The planned and profitable run off of a motor finance book acquired last year was the principal cause of this small reduction in our loan book. Good growth in a number of areas, particularly property finance and invoice finance, helped to mitigate the effect of insurance premium deflation and the contraction of our print finance business.

We are not anticipating any immediate improvement in our premium finance business where cyclical premium deflation continues, albeit at a reduced rate. In the meantime, we can see attractive growth prospects in several of our other specialist financing businesses and we have a number of interesting new initiatives under way.

BOARD CHANGES

As previously announced Sir David Scholey will be retiring from the board at the conclusion of our forthcoming Annual General Meeting. After a thorough selection process assisted by external consultants, Sir David will be succeeded as chairman by Mr. Roderick Kent, who served as managing director of Close Brothers for 28 years until 2002 and as a non-executive director since then.

Mr. Strone Macpherson, the senior independent director, will be appointed deputy chairman following our forthcoming Annual General Meeting.

Mr. Bruce Carnegie-Brown was appointed a non-executive director of the company on 22nd June, 2006. We are pleased to welcome him to the board.

Following these changes the board will comprise five executive directors and six independent non-executive directors, in addition to Mr. Kent as chairman.

OUTLOOK

We achieved a record profit in 2006 in a year in which the economic climate was relatively benign and stock markets performed well.

Looking forward, the general UK political and economic outlook is becoming somewhat opaque, with risks perhaps more on the downside (interest rates, inflation and consumer debt) than the upside.

All our businesses have started the new year in good shape and, regardless of the short term economic climate, our confidence in our long term growth prospects remains strong.

Sir David Scholey
Chairman

C.D. Keogh
Chief Executive

SIR DAVID SCHOLEY

Sir David has been one of the City's major figures over several decades, and our chairman for seven years. He has brought us breadth of experience and vision. Sir David's steady hand has guided us through the excitement of the heady equity markets in 1999/2000, the later bear market and the top management succession in 2002. We shall greatly miss the courtesy, charm and good humour that he has displayed in this role. He departs from our board safe in the knowledge that Close Brothers remains on solid foundations with a bright future. We thank him for his consistently sound judgement and wise counsel.

REVIEW OF OPERATIONS

Overview

"Our core strategy is to develop a diversified group of specialist businesses in order to provide for our shareholders, over time, consistent growth in profit and dividends."

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 specialist businesses in order to provide for our shareholders, over time, consistent growth in profit and dividends. Our strategic priorities are to consolidate and build upon the growth in our asset management division and to return the banking division's growth rate to its long term trend.

The group's operations are predominantly in the UK, but an increasing amount of profit (16%) came from operations outside the UK. Whilst we see many opportunities for continuing growth in all four divisions in the UK, we are looking increasingly at growth potential overseas, particularly in Europe.

Key Performance Indicators ("KPIs") used in managing the group are shown below with a brief commentary on each. These and other metrics are also used in each of our operating divisions. Given the differentiated activity 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.

	04 %	05 %	06 %
Return on opening capital	24	24	27
Operating margin	30	29	29
Expense/income ratio	65	67	67
Compensation ratio	41	43	43
10 year CAGR[1] profit[2]	14	14	13
10 year CAGR[1] dividends	14	13	13

1 Compound Annual Growth Rate.

2 Profit before goodwill and taxation.

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

The spread of the group's income reflects the diversity of its activities.

	04 %	05 %	06 %
Net interest income	33	32	27
Net fee income	40	43	47
Net dealing income	25	21	23
Other income	2	4	3
	100	100	100

We also attach great importance to careful cost management. We target an expense/income ratio in respect of each division. The overall group ratio increased marginally as we continue the planned expansion of our asset management division. Our largest expense item relates to our people and we seek to maintain our compensation ratio broadly within a range of 40% to 45%. There is a relatively high variable element in employee compensation in most of our non-banking businesses, where total remuneration is typically proportional to profit earned.

Our central costs increased by £2 million to £20 million, partly as a result of empty property provisions.

Our business approach is to limit our central functions to those that are best provided on a group wide basis by:

- ensuring that management teams throughout the group have clear strategies and responsibilities
- monitoring carefully the business plans and performance of each division
- initiating vigorous action, where appropriate, to ensure that group targets are met
- maintaining rigorous oversight of the risk management processes operated in each division and operating business
- assessing all acquisition opportunities.

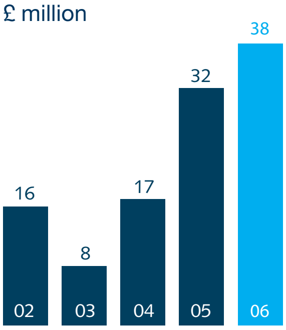
The group remained well capitalised and soundly financed. The consolidated Tier 1 risk asset ratio remained comfortably high at 17% (2005: 17%).

REVIEW OF OPERATIONS

Asset Management

"Our asset management division had another year of further profit growth. Funds under management grew by 16% to £8.2 billion."

Asset Management profit
£ million



Our asset management division has two main areas of focus, private clients and funds.

Our private client business, Close Wealth Management Group, offers a full range of services for private clients both on and off shore. Our funds side includes a thriving private equity and VCT business, and Close Investments, where we provide a broad range of open and closed ended investment products for retail and institutional investors. These include property, hedge fund and multi-manager products as well as more traditional investment funds.

The market background for our asset management division was favourable for most of our 2006 financial year. During the final quarter however these benign conditions were overshadowed by market concerns about inflation, rising interest rates and the prospect of economic slowdown in the US and the UK. The UK FTSE All-Share Index ended our financial year up 14%.

Against this backdrop the division had another year of further profit growth.

	05 £m	06 £m
Income	119	140
Costs	87	102
Profit	32	38

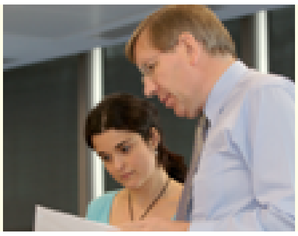
Funds under management ("FuM") grew by 16% to £8.2 billion as shown in the table below.

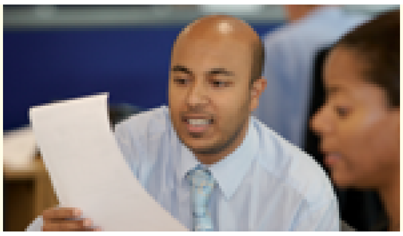
	Private clients £m	Funds £m	Total £m
31st July, 2005	2,478	4,579	7,057
New funds raised	388	945	1,333
Redemptions and withdrawals	(293)	(593)	(886)
Net new funds	95	352	447
Acquisition	–	419	419
Market movement	111	177	288
31st July, 2006	2,684	5,527	8,211

The pleasing level of new funds raised was offset somewhat by maturing funds and withdrawals. A key feature of this was our decision to crystallise the excellent performance of certain of our property funds.

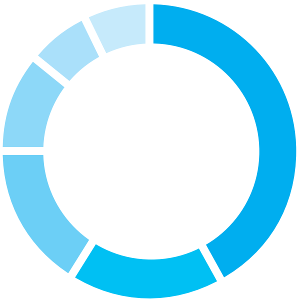
The "FuM by asset class" chart shows the key sectors in which our funds are invested and it demonstrates a broad spread, with less direct exposure to equity markets than for many other fund managers.

REVIEW OF OPERATIONS





FuM by asset class
31st July, 2006
(2005 in brackets)



- Equities 42% (43%)
- Fixed income and cash 17% (18%)
- Property 16% (18%)
- Private equity 11% (14%)
- Hedge funds 7% (2%)
- Other FuM 7% (5%)

KPIs for our asset management division were:

	05 %	06 %
Operating margin	27	27
Expense/income ratio	73	73
Compensation ratio	44	46
Net new money/opening FuM	6.7	6.3

An underlying improvement in our expense/income ratio has been offset by one-off costs, particularly investments in our private client business, reorganisation of our funds business and a consequent move to new premises.

Our private client business produced good profit growth offshore, where the benefits of systems integration and investment in business development are beginning to be seen. Onshore, good progress is being made. We have significantly increased our team of fund managers, which will add momentum to the development of this business. Inevitably their impact will take some time to be felt and in the short term we expect this to restrict profit growth in this area. In the next few months our private client businesses will combine under the name Close Wealth Management Group.

On the funds side we are also moving to harness our resources more effectively. Here we are bringing together our collectives businesses under the name Close Investments in order to improve sales performance, product design and distribution. We also anticipate that bringing together the back office aspects of these businesses will, over time, lead to a more efficient and scaleable administration operation.

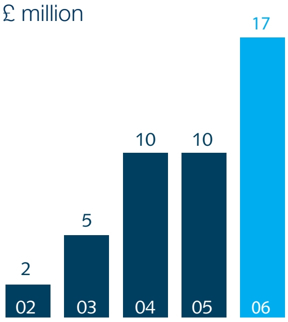
Fund manager performance across our activities in the period has been satisfactory. A particular highlight was the performance of our VCT funds. We launched several successful new products, such as the £144 million Close AllBlue Fund, a single manager multi-strategy hedge fund, and we continued to attract funds to our existing range, including the £53 million 'D' share issue for the CHIP property fund.

Our private equity business performed strongly, benefiting from some good realisations during the year. We are encouraged that we are continuing to find attractive investment opportunities and we expect this business to continue to perform well.

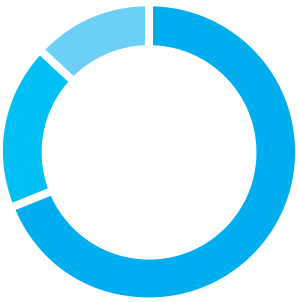
REVIEW OF OPERATIONS

Corporate Finance

Corporate Finance profit
£ million



Corporate Finance practice areas
Year to 31st July, 2006
(2005 in brackets)



Mergers and Acquisitions 69% (65%)
Restructuring 18% (25%)
Debt Advisory 13% (10%)

Our corporate finance division surpassed expectations this year, recording a 44% increase in revenues and a 67% increase in profit.

	05 £m	06 £m
Income	42	61
Costs	32	44
Profit	10	17

The year was marked by buoyant mergers and acquisitions ("M&A") revenues in all our offices and particularly strong growth in our debt advisory business. As a result, our earnings mix shifted somewhat away from restructuring work, as shown by the accompanying chart.

One of the highlights of the year for our M&A practice was the secondary buy-out of ERM Holdings for $535 million. This was the largest professional services buy-out to have taken place in the UK, providing a highly satisfactory outcome for its private equity backers. Another was Wagon's £128 million acquisition of Oxford Automotive to form one of Europe's leading automotive components suppliers. We also won Acquisitions Monthly's award for the M&A domestic deal of the year for our role in the sale of a £200 million shareholding in Gala Group, the gaming business. We also acted for Duke Street Capital on the sale of its specialist healthcare investment, Paragon Healthcare, to Hg Capital, for £322 million. These transactions illustrate clearly the substantial impact that private equity firms have had upon deal volumes in the M&A market in which we operate.

Our restructuring group maintained its activity levels and gained awards for both global and European restructuring work advising Parmalat on its £21 billion restructuring. We are currently engaged on a number of interesting assignments, including the £6.5 billion restructuring of Eurotunnel.

The debt advisory team has been particularly active. It completed its largest ever assignment, the £1 billion refinancing of Enterprise Inns.

KPIs for our corporate finance division were:

	05 %	06 %
Operating margin	24	28
Expense/income ratio	76	72
Compensation ratio	55	56

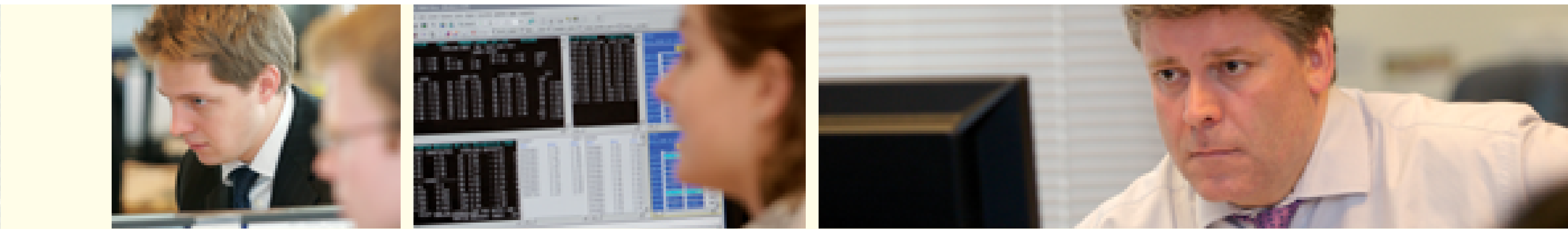
Whilst revenues grew significantly this year, expenses continued to be tightly controlled, which resulted in an improvement in our expense/income ratio.

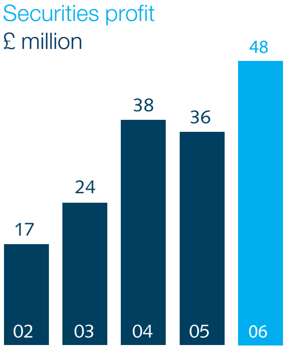
During the year we implemented some planned management changes with Richard Grainger assuming the role of executive chairman of the division and Martin Gudgeon becoming chief executive in his place. We also made selective recruitments at director level to broaden our sector expertise.

M&A activity amongst corporates and private equity sponsors across Europe has held up for the start of the new financial year and we have good prospects in the pipeline across all our practice areas.

REVIEW OF OPERATIONS

Securities





This division has two trading companies, Winterflood Securities ("Winterflood") and Close Brothers Seydler ("CBS"). Winterflood is the leading liquidity provider in UK equities to the retail stock broking community and it makes markets in more UK stocks than any other London based market-maker. CBS is a major Frankfurt based broker dealer in domestic German and international bonds and equities. It is also the leading designated sponsor of smaller German companies.

Market conditions for both these businesses were generally favourable. On turnover of £134 million the division made a profit of £48 million, up 34% on last year.

Whilst Winterflood and CBS operate in different markets, they have many elements in common. However, as CBS is new to the group, we believe that for this year it is more helpful to review them separately. In future years we will review the division as a whole.

Winterflood performed well with bargain numbers up 25% in a market where transaction volumes moved forward strongly. However, as a higher number of our bargains were executed on the lower margin LSE's SETSmm platform, the increase in our overall income was 13%. Our investment trust team was active and had a good year. Our key operating margin held firm at 37%.

	05 £m	06 £m
Income	93	104
Costs	58	65
Profit	35	39

Winterflood's expense/income and compensation ratios also held steady at 63% and 43% respectively.

Winterflood is transacting an increasing number of bargains on the new quote-driven Plus Markets platform, which delivers competitive costs of execution for larger bargains in smaller less liquid securities. Early in the year we supported a fundraising by Plus Markets Group plc in which we now have a shareholding of 19%.

CBS has had an exceptionally good year, its first as a member of our group. It makes markets in some 2,000 stocks and bonds in Frankfurt where it acts as skontroführer or specialist market-maker. It is also the leading designated sponsor in Frankfurt with some 130 corporate mandates. This is a contractual fee-based relationship and the role of the designated sponsor is to promote liquidity in that particular stock.

	05 £m	06 £m
Income	5	30
Costs	4	21
Profit	1	9

KPIs for CBS were:

	05 %	06 %
Operating margin	25	30
Expense/income ratio	75	70
Compensation ratio	38	33

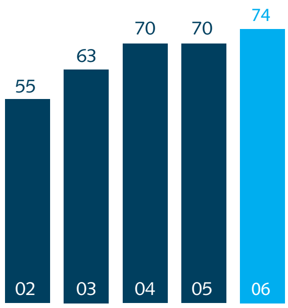
German equity markets have followed a broadly similar pattern to those in the UK with activity levels being up on last year. CBS has benefited from this with revenue and profit well ahead of last year, although last year's contribution was for three months only.

REVIEW OF OPERATIONS

Banking

"The quality of earnings in our banking division is evidenced by consistent profit growth over many years."

Banking profit
£ million



Our banking division provides specialist lending and treasury services to small businesses and individuals in the UK, the Channel Islands, Ireland and Germany.

The general market background for these activities remained satisfactory during our financial year, with the UK economy continuing to grow (albeit at modest levels), with interest rates generally stable and with bad debts remaining low.

Overall we had a better year than expected with profit growing by 6%. However some of our specialist sectors experienced tough conditions.

	05 £m	06 £m
Income	185	199
Costs	115	125
Profit	70	74

KPIs for our banking division were:

	05 %	06 %
Operating margin	38	37
Expense/income ratio	52	53
Compensation ratio	31	31
Return on opening capital	31	30
Bad debt as percentage of average loans	1.1	1.0
Return on average gross loans	3.7	3.8

We continued to seek business at attractive margins and achieved, once again, a strong operating margin of 37% and a consistent pre-tax return on the gross loan book of 3.8%. The expense/income ratio is slightly up on last year, although at 53% it remains comfortably the lowest in the group.

Bad debts remain well contained and our charge to the profit and loss account expressed as a percentage of average gross loans remained low at 1.0%. This continues below our long term average rate of 1.3%. The charge to the profit and loss account was £19 million, 9% of operating income.

The quality of earnings in our banking division is evidenced by consistent profit growth over many years, with a compound annual growth rate in pre-tax profit of 10% over the last ten years.

Our customer loan book remains well spread, well secured and well funded. Including securitised receivables, it decreased by £77 million during the year to £1.9 billion. It represented some 455,000 separate advances, only nine of which exceeded £5 million, the largest being £8 million.

REVIEW OF OPERATIONS



Analysis of group loan book
by asset security
31st July, 2006
(2005 in brackets)

- Insurance premiums 21% (22%)
- Transport, engineering & plant 20% (19%)
- Motor vehicles 19% (22%)
- Printing machinery 11% (12%)
- Property 11% (9%)
- Healthcare and other assets 10% (9%)
- Invoice receivables 8% (7%)

The principal cause for the modest fall in our loan book was the run-off of a motor finance book which we acquired last year. This reduced by £51 million during the year as planned, and has proved to be a profitable transaction.

Elsewhere, insurance premium deflation continued and, as a result, this part of our loan book fell despite an increase in the number of transactions financed. This is a cyclical market and we believe that the rate of deflation in insurance premiums is slowing, but we are less clear as to when the cycle will turn.

In other areas we experienced good growth in both loan book and profit. The property market remained strong. Property financing achieved record results and our mortgage broking business returned to modest profit. Our invoice financing business forged ahead on the back of improved sales performance in the UK and a maiden profit in Germany. The core of our equipment financing business continued on its growth path.

We remain committed to a conservative approach to the funding of our loan book.

With good credit ratings from Fitch and Moodys maintained, we arranged a number of new committed facilities on attractive terms. We have also extended our deposit and foreign exchange services and increased the longer term deposits, which helped to strengthen our balance sheet.

Across the division there are some interesting new developments afoot. For example, we have attracted new specialist teams into our asset finance business and, at the end of our financial year, we launched Close Mortgages – a new specialist mortgage lender initially offering buy-to-let mortgages exclusively through our mortgage broker network.

The UK banking market continues to see significant pricing pressure in a number of areas. Our policy is to seek to maintain healthy margins, in some cases at the expense of volume. However we do anticipate some modest growth in our loan book next year.

Our priority is to return the division's growth rate to its long term trend.

REVIEW OF OPERATIONS

Finance and Risk Management

INTERNATIONAL FINANCIAL REPORTING STANDARDS

As required under European legislation, the consolidated accounts reflect the application of International Financial Reporting Standards ("IFRS") for the first time. Comparative figures have been adjusted accordingly.

As signposted in our last annual report, the implementation of IFRS has had a slightly adverse, but not material, impact on profit before goodwill and taxation principally as a result of the requirement to expense £3 million (2005: £2 million) relating to share-based awards (IFRS 2). However mainly because of the later recognition of dividends (IAS 10), both our consolidated balance sheet footings and our total equity have risen.

Other main areas of impact include:
- loan impairment reviews (IAS 39);
- restatement of income recognition policies (IAS 18);
- valuation of and accounting for derivative instruments (IAS 39);
- later recognition of proposed or declared dividends (IAS 10);
- consolidation of the defined benefits pension scheme (IAS 19); and
- taxation effects of the above adjustments (IAS 12).

The reconciliation of the 2005 IFRS comparatives to the UK Generally Accepted Accounting Practice figures reported last year is shown in notes 36 to 40.

RISK MANAGEMENT

Risk management is the process of identifying the principal business risks to the group achieving its strategic objectives, establishing appropriate controls to manage those risks and ensuring that appropriate monitoring and reporting systems are in place. The group's risk management process balances cost against risk within the constraints of the group's risk appetite and 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 divisions 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 and individual integrity 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 stress tested 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.

REVIEW OF OPERATIONS

Finance and Risk Management



Market risk mainly relates to Winterflood and CBS. 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 or slow moving equity or fixed income positions. We also maintain real-time controls on the size and risk profile of their overall trading books and of individual books within these. The group's exposure to market price risk resulting from market-making is shown in note 28.

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 reviews of investment performance.

Apart from the 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.

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 internal or external borrowing facilities. 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 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. The credit quality of our 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, liquidity and currency exposure policies are established by the treasury committee with compliance thereof 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 £1.7 billion, of which £1.0 billion was drawn. We continue 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 profit and consolidated balance sheet is affected by movements in exchange rates is minimal.

We have a central internal audit unit which periodically examines the quality of the risk management, compliance and internal control procedures operating throughout the group. The frequency of examination depends upon the perceived risk and prevailing issues within each operation. The internal audit unit is part of our central group control unit which reports to the audit and compliance committee and has unrestricted and direct access to the chairman of the board.

Our separate businesses have their own financial control departments and, where regulated, their own compliance functions.

MANAGEMENT BOARD

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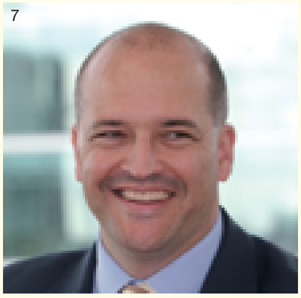
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1 **C.D. KEOGH, MBA, BARRISTER, ATII +**
CHIEF EXECUTIVE
Colin Keogh, aged 53, joined the corporate finance division of Close Brothers as a director in May 1985 having previously been employed by Saudi International Bank and Arthur Andersen. He was appointed a director of the company in August 1995 and chief executive in November 2002, having previously headed up both our corporate finance and asset management divisions.

2 **M.J. BARLEY, ACIB**
CHIEF EXECUTIVE, ASSET FINANCING
Mike Barley, aged 49, is chief executive of the asset financing division. He joined Close Brothers in June 1999 having previously been chief executive of Wagon Finance and an executive manager at Abbey National. He was appointed to the management board in August 2003.

3 **R.S. GRAINGER, ACA**
CHAIRMAN, CORPORATE FINANCE
Richard Grainger, aged 46, is chairman of the corporate finance division, having previously been chief executive. He joined Close Brothers in May 1996 on its acquisition of Hill Samuel corporate finance, which in turn he joined in April 1987 after qualifying with Price Waterhouse. He was appointed to the management board in August 2003.

4 **M.A. HINES, FSI +**
CHIEF EXECUTIVE, SECURITIES
Mike Hines, aged 57, joined Close Brothers in April 1993 on the acquisition of Winterflood Securities, of which he is the chief executive. He was appointed a director of the company in March 2002. He was previously with Bisgood Bishop for many years.

5 **S.R. HODGES, BARRISTER +**
JOINT MANAGING DIRECTOR
Stephen Hodges, aged 52, joined the banking division of Close Brothers as a director in 1985, following eight years at Hambros. He was appointed a director of the company in August 1995 with responsibility for the banking division. He was also appointed joint managing director in November 2002.

6 **D.C. PUSINELLI, ACA +**
CORPORATE DEVELOPMENT DIRECTOR
David Pusinelli, aged 50, qualified as a chartered accountant with Coopers & Lybrand before joining the corporate finance division of Close Brothers in 1986 as a director. He was appointed a director of the company in September 2002 with responsibility for corporate development.

7 **J.S. SIEFF**
CHIEF EXECUTIVE, ASSET MANAGEMENT
Jonathan Sieff, aged 40, is the chief executive of the asset management division. He joined Close Brothers in May 2003 and was appointed to the management board in July 2004. Previously he worked at Old Mutual and before that, HSBC.

8 **P.L. WINKWORTH, FCA, ATII, FSI +**
JOINT MANAGING DIRECTOR
Peter Winkworth, aged 58, was employed by KPMG and Barings, before joining Close Brothers as a director in 1977. He was a partner in the management buy-out of Close Brothers in 1979. He was appointed a director of the company in August 1984 with responsibility for finance. He was also appointed joint managing director in November 2002.

\+ executive director

CHAIRMAN AND NON-EXECUTIVE DIRECTORS

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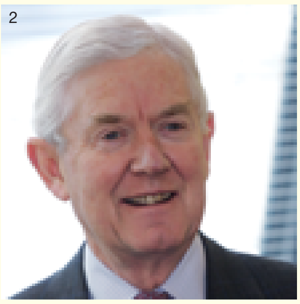
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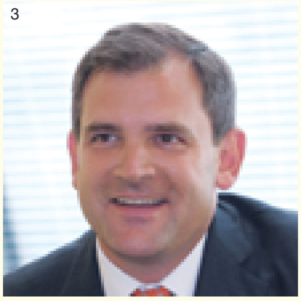
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1 **SIR DAVID SCHOLEY, CBE**
CHAIRMAN
Sir David Scholey, aged 71, spent most of his working life with Warburgs, latterly as chairman of the S G Warburg Group. He is currently a senior adviser to UBS AG and a non-executive director of The Chubb Corporation. He was appointed a director of the company in March 1999 and chairman in October 1999. He is chairman of the Nomination and Governance Committee. He will be retiring from the board at the conclusion of our forthcoming Annual General Meeting.

2 **P.N. BUCKLEY, CA**
NON-EXECUTIVE DIRECTOR
Peter Buckley, aged 64, has spent some 30 years as a director of Caledonia Investments plc. He was appointed its chief executive in 1987 and chairman in 1994. He is a non-executive director of Bristow Group Inc. He was appointed a director in November 1995.

3 **B.N. CARNEGIE-BROWN, FCIB**
NON-EXECUTIVE DIRECTOR
Bruce Carnegie-Brown, aged 46, began his banking career with Bank of America in 1981. He joined J P Morgan Chase in 1985 where he became head of debt capital markets in Europe and Asia before leaving in 2003. He was then appointed chief executive of Marsh Limited where he worked until June 2006. He was appointed a director in June 2006.

4 **R.D. KENT, MBA, MSI**
CHAIRMAN ELECT
Rod Kent, aged 59, joined Close Brothers as managing director in 1974 and led the management buy-out in 1979. He was appointed a director of the company in August 1984 and remained managing director until October 2002, when he became a non-executive director and consultant. He is the non-executive chairman of Grosvenor Limited and Bradford & Bingley Group plc, and the senior independent director of Whitbread plc. He will become the chairman following our forthcoming Annual General Meeting.

5 **P.S.S. MACPHERSON, MBA**
DEPUTY CHAIRMAN ELECT
SENIOR INDEPENDENT DIRECTOR
Strone Macpherson, aged 58, was formerly a director of Flemings and the executive deputy chairman of Misys. He is chairman of Tribal Group plc and a non-executive director of AXA UK PLC and of Kleinwort Benson Private Bank Limited. He was appointed a director in March 2003 and senior independent director in September 2004. He will become the non-executive deputy chairman following our forthcoming Annual General Meeting.

6 **M.G.A. MCLINTOCK**
NON-EXECUTIVE DIRECTOR
Michael McLintock, aged 45, is the chief executive of M&G and a director of Prudential plc. He was previously with Barings and Morgan Grenfell. He was appointed a director in May 2001. He is the chairman of the Remuneration Committee.

7 **D.G.J. PATERSON, FCA**
NON-EXECUTIVE DIRECTOR
Douglas Paterson, aged 62, was formerly a senior partner in the banking and capital markets division of PricewaterhouseCoopers. He is a non-executive director of Goldman Sachs International Bank. He was appointed a director in July 2004 and he is the chairman of the Audit and Compliance Committee.

8 **J.P. WILLIAMS**
NON-EXECUTIVE DIRECTOR
James Williams, aged 56, was with Baring Asset Management until retirement in 2002. He is a non-executive director of J P Morgan Fleming America Investment Trust plc and The Pan Asian Special Opportunities Fund. He was appointed a director in July 2004.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31st July, 2006.

Business Review and 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, 2006 and their principal activities are listed in note 29 to these financial statements.

A review of the development and performance of the business of the company and its subsidiary undertakings during the financial year is presented in the Chairman's and Chief Executive's Statement and the Review of Operations on pages 4 to 15. Principal risks and uncertainties facing the company and its subsidiary undertakings and how they are controlled are described on pages 14 and 15. Information relating to the environment and staff matters are given in the Corporate Social Responsibility statement on page 23.

Results and Dividends

The consolidated results for the year are shown on page 32. The directors recommend a final dividend for 2006 of 22.0p (2005: 19.0p) on each ordinary share which, together with the interim dividend of 10.5p (2005: 9.5p), makes a total distribution for the year of 32.5p (2005: 28.5p) per share.

Statement of Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements. The directors are required to prepare accounts for the group in accordance with International Financial Reporting Standards ("IFRS") and have chosen to prepare company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP").

In the case of UK GAAP accounts, the directors are required 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 profit or loss of the company for that period. In preparing these financial statements, the directors are required to select suitable accounting policies and then apply them consistently; make judgments and estimates that are reasonable and prudent; state whether all applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In the case of IFRS accounts, IAS 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. Directors are also required to properly select and apply accounting policies; present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and prepare the accounts on a going concern basis unless, having assessed the ability of the company to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985.

In accordance with the provisions of section 234ZA of the Companies Act 1985, each of the directors at the date of approval of this report confirms that so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of the information. Words and phrases used in this confirmation should be interpreted in accordance with section 234ZA of the Companies Act 1985.

Directors and Interests

(a) The present directors of the company, all of whom served throughout the year except Mr. B.N. Carnegie-Brown, who was appointed a director on 22nd June, 2006, are shown on pages 16 and 17. Mr. M.G. Wyatt retired as alternate director for Mr. P.N. Buckley on 27th October, 2005.

(b) The directors' interests in the share capital of the company were:

	Ordinary shares	
	31st July, 2006	1st August, 2005[1]
P.N. Buckley[2]	–	–
B.N. Carnegie-Brown	–	–
M.A. Hines	12,500	23,037
S.R. Hodges	411,075	402,260
R.D. Kent	227,186	224,770
C.D. Keogh	368,751	318,751
P.S.S. Macpherson	–	–
M.G.A. McLintock[3]	4,440	4,440
D.G.J. Paterson	10,000	10,000
D.C. Pusinelli	250,184	227,391
Sir David Scholey	10,000	10,000
J.P. Williams	7,000	7,000
P.L. Winkworth	602,765	629,765

1 Or at date of appointment if later.

2 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, 2006 (1st August, 2005: 18,000,000).

3 Mr. M.G.A. McLintock is a director of Prudential plc, which had an interest in 16,916,348 ordinary shares of the company at 31st July, 2006 (1st August, 2005: 14,516,823).

Details of the options to subscribe for shares held by the directors are given in the report of the board on directors' remuneration on pages 24 to 30. The beneficial interests of the directors in the share capital of the company have remained unchanged since 31st July, 2006.

(c) Mr. M.A. Hines is a director of and minority shareholder in Winterflood Securities Limited. At 31st July, 2006 he and his spouse were beneficially interested in 1,250 ordinary shares of that company (1st August, 2005: 1,250).

(d) In accordance with the provisions of the Articles of Association, Messrs. S.R. Hodges (appointed August 1995), P.S.S. Macpherson (appointed March 2003), M.G.A. McLintock (appointed May 2001) and P.L. Winkworth (appointed August 1984) retire by rotation and,

REPORT OF THE DIRECTORS

being eligible, offer themselves for re-election. Biographical details of these directors are given on pages 16 and 17. Sir David Scholey will retire from the board at the conclusion of the forthcoming Annual General Meeting ("AGM"). Messrs. S.R. Hodges and P.L. Winkworth have service contracts which can be terminated upon twelve months' notice. Messrs. P.S.S. Macpherson and M.G.A. McLintock are non-executive directors and, as such, do not have service contracts. 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. Consequently, the board recommends their re-election.

Mr. B.N. Carnegie-Brown, having been elected since the last AGM, retires in accordance with the Articles of Association and, being eligible, offers himself for re-election. He is a non-executive director and as such does not have a service contract. The board also recommends his re-election.

Mr. P.N. Buckley, who was appointed a director in November 1995, has served longer than nine years as a non-executive director and therefore offers himself for annual re-election in accordance with the Combined Code. He does not have a service contract being a non-executive director. The board, having determined that Mr. Buckley continues to act in an independent and objective manner, as explained on page 21 under the heading of "Independence of Non-executive Directors", recommends his re-election.

(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 1,474,335 shares in the company, all of which are conditionally earmarked for share awards. The trust acquired these shares at an average cost of 563p per share compared to a market value of 864.5p per share at 31st July, 2006. 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 each director and the 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.

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 6th September, 2006 the following had notified the company that they were interested in 3% or more of the issued share capital of the company:

	Ordinary shares	%
Caledonia Investments plc	18,000,000	12.3
Prudential plc	16,534,461	11.3
Barclays PLC	7,241,260	4.9
Zurich Financial Services AG	5,825,589	3.9
Legal & General plc	4,852,409	3.3

Supplier Payment Policy

All banking, securities 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 was 23 (2005: 24).

Auditors

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

Special Business at the Annual General Meeting

Authority to purchase own shares

At the last AGM the company was given authority to make market purchases of up to approximately 15% 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 21,961,000 of its 25p ordinary shares, being approximately 15% of the issued share capital of the company.

The maximum price which may be paid will not be more than 5% 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 18 months from the date the special resolution is passed and the date of the 2007 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 2007 Annual Report.

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 £12,201,000, 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.

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 £1,830,000 which represents approximately 5% 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 7.5% of the issued share capital should be allotted for cash on a non pre-emptive basis in any rolling three year period.

By order of the board

R.D. Sellers
Secretary

25th September, 2006

CORPORATE GOVERNANCE

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 24 to 30 and the Report of the Directors on pages 18 and 19, 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, 2006.

Compliance with the Combined Code

The company has complied with Section 1 of the Combined Code throughout the year ended 31st July, 2006.

Chairman

Sir David Scholey, the chairman, advised the board that he will be retiring at the conclusion of our forthcoming AGM.

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

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

A number of the company's largest institutional shareholders were consulted on this appointment.

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

Board Responsibilities

The board currently comprises five executive directors and eight 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), B.N. Carnegie-Brown, P.S.S. Macpherson and J.P. Williams).

To review the scope, findings and performance 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 and other terms and conditions of employment of the executive directors, management board members and the company secretary.

Nomination and Governance Committee (Sir David Scholey (chairman), Messrs. P.S.S. Macpherson, M.G.A. McLintock, D.G.J. Paterson and J.P. Williams).

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 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.

CORPORATE GOVERNANCE

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.

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's 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% of the company) and Prudential plc (which has an interest in approximately 11% 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. Buckley, who has served on the board for ten 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 Finance and Risk Management section of the Review of Operations on pages 14 and 15 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 by the company and its operating businesses 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 31st July, 2006 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 AGM and regular webcasts. Shareholders are given the opportunity to participate by asking questions at the AGM, 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.

CORPORATE GOVERNANCE

Attendance at Meetings

The table below identifies the number of board and committee meetings held in the year to 31st July, 2006 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	5	3	2
Executive:				
M.A. Hines	10	–	–	–
S.R. Hodges	11	–	–	–
C.D. Keogh	10	–	–	–
D.C. Pusinelli	11	–	–	–
P.L. Winkworth	9	–	–	–
Non-executive:				
P.N. Buckley	10	4[2]	3	1[3]
B.N. Carnegie-Brown	2[1]	–[2]	–	–
R.D. Kent	9	–	–	1[3]
P.S.S. Macpherson	11	5	3	1[3]
M.G.A. McLintock	9	–	3	2
D.G.J. Paterson	11	5	–	1[3]
Sir David Scholey	10	–	–	2
J.P. Williams	11	5	–	1[3]

1 Mr. B.N. Carnegie-Brown was appointed a director on 22nd June, 2006 and therefore could have attended only two board meetings during the year.

2 On 21st September, 2006 Mr. B.N. Carnegie-Brown was appointed to the Audit and Compliance Committee when Mr. P.N. Buckley retired from this Committee.

3 On 24th November, 2005 Messrs. P.S.S. Macpherson, D.G.J. Paterson and J.P. Williams were appointed to the Nomination and Governance Committee when Messrs. P.N. Buckley and R.D. Kent retired from this Committee. Consequently each of these committee members was only eligible to attend one meeting during the year.

CORPORATE SOCIAL RESPONSIBILITY

Introduction

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 four headings below. The board takes collective responsibility for Corporate Social Responsibility ("CSR") and the company secretary is responsible for overseeing implementation and reporting progress to the board. The two themes of systems development and communicating good practice identified by the board in last year's CSR statement continue to be a focus for improving the group's CSR strategy. The board has agreed to communicate its CSR policy to all companies in the group and encourage and support the adoption of key CSR principles, whilst recognising the devolved and independent nature of our operating companies. In addition systems have been put in place to collect relevant data which will enable improved measurement of CSR objectives.

The board has also agreed its definition of CSR and confirmed its key objectives of staff welfare; charitable and community support; respecting the environment; and treating customers fairly.

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 and 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.

In accordance with our commitment to develop systems to measure key performance indicators for CSR reporting, the group has started to collate statistical data on all employees throughout the group, one of which highlights that over 30% of Close Brothers staff have been employed by the group for five years or more.

Operating divisions are encouraged to develop their own consultation policies. For example, some businesses held regular meetings between local management and employees to allow a free flow of information and ideas and to discuss decisions likely to affect their interests. Also staff participate directly in the success of the business through the group's savings related share options 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 £147,000 (2005: £323,000). We support the community by providing two types of charitable donation. Group companies contribute to recognised charities where significant humanitarian or environmental incidents have occurred. Also staff may have their own charitable fundraising endeavours matched by the group. We intend to improve staff awareness of this support by communicating it to staff throughout the group with the aim of increasing participation.

The Environment

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. For example; last year we obtained a guarantee from our electricity provider that 100% of the electricity supplied to our largest office in London, which accommodated over 16% of our workforce, was from renewable sources; we recycle almost 100% of confidential paper waste at this office; and we encourage other businesses throughout the group to recycle paper waste such that 179 tonnes of paper was recycled last year as part of this initiative. For the second year in a row the group was a signatory to the Carbon Disclosure Project, which encourages all businesses to disclose their climate change risks, opportunities and impacts. Our environmental policy is published on the group website.

Treating Customers Fairly

The group has always considered that Treating Customers Fairly ("TCF") is part of its business ethos and ensures its regulated businesses comply with the FSA Principle 'A Firm must pay due regard to the interests of its customers and treat them fairly'. We support the FSA's initiative to embed TCF in a business culture and we subscribe to the six outcomes of this initiative:

- Fair treatment of customers is central to the corporate culture.
- Products and services designed to meet the needs of and targeted at identified consumer groups.
- Customers receive clear information before, during and after sales.
- Advice given is suitable.
- Products and services perform acceptably and as firms have led customers to expect.
- No unreasonable barriers exist to changing product or provider or making a claim or complaint.

All companies of the group have evaluated their procedures, made changes as appropriate and have continued to treat TCF as a core concept.

REPORT OF THE BOARD ON DIRECTORS' REMUNERATION

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, management board members and the company secretary.

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. Mr. R.D. Sellers, the company secretary, is the secretary of the Committee.

The board regards all members of the Committee as independent as explained in the Corporate Governance Report on pages 20 to 22. Details of the number of meetings and each member's attendance are set out in the table on page 22.

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.

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 2005) 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, 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 executive directors 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 described in the Remuneration Policy.

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 an executive director's performance related award may be deferred and satisfied in ordinary shares of the company ("shares"). Performance related awards up to 100% of salary will be paid in cash without deferral. Awards in excess of 100% 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 director 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 director 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, his performance related award is paid from a formula-based profit sharing pool for Winterflood and is thus directly linked to the performance of that business. Any deferred element is decided on a discretionary basis, is payable in cash and is deferred until September 2008.

Details of the performance related awards in respect of the year ended 31st July, 2006 are set out on page 27.

REPORT OF THE BOARD ON DIRECTORS' REMUNERATION

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 ("the 1995 Scheme"), approved by shareholders in 1995 and the Inland Revenue approved Savings Related Share Option Scheme ("the SAYE Scheme"). Grants under the 2004 LTIP and SAYE Scheme are made annually and are expected to continue for the foreseeable future. No further grants will be made under the 1995 Scheme and the last grant to executive directors was made in September 2003.

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 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 awards will only vest if EPS growth is at or above an average of retail price index ("RPI") +5% per annum over the period. 25% of this part of the award vests at the RPI +5% threshold, increasing on a straight-line basis up to 100% vesting when the average EPS growth is RPI +10%.

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% of this part of the award vests for median TSR performance, increasing on a straight line basis up to 100% vesting when the company's TSR performance is at the 20th percentile (i.e. top fifth) of the comparator group.

Under the 1995 Scheme 50% of each grant of options has been subject to a performance condition requiring average EPS growth of RPI +4% per annum over any three year period during the ten year life of the option. The remaining 50% 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% of FTSE-100 companies.

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

Pensions

Messrs. S.R. Hodges, C.D. Keogh and D.C. Pusinelli participated in the group's defined benefits pension scheme and in a defined contribution pension scheme. Messrs. M.A. Hines and P.L. Winkworth participated in defined contribution pension schemes.

The group's defined benefits pension scheme was closed to new entrants in August 1996. The normal pensionable age is 65 when the pension is two thirds of final pensionable salary subject to completion of 30 years' service and there is a 50% widow's pension on death. Pensionable salary for executive directors who participated in the group's defined benefits pension scheme was set at their salary at 1st August, 2001 plus increases to reflect RPI to a maximum of 2% per annum from 1st August, 2002.

The company contribution rate for the group's defined benefits pension scheme was determined by the scheme actuary and was 25% per annum of pensionable salary together with an additional 12.5% per annum to contribute towards the underlying deficit. Details of company contributions to pension and retirement schemes in respect of executive directors are set out in the table of directors' remuneration for the year ended 31st July, 2006 on page 27. Following the introduction of new pension rules in April 2006 ("A Day") company contributions to defined contribution pension schemes may be paid as a retirement fund allowance.

The table below summarises pension benefits from the group's defined benefits pension scheme for those executive directors who participated in the 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 and represents potential liabilities of the group's defined benefits pension scheme in respect of the relevant executive director and does not necessarily represent a sum paid or payable to the executive director.

Directors' Benefits from the Defined Benefits Pension Scheme

	Transfer value of accrued pension				Accrued pension	
	At 31st July, 2005 £'000	Director's contributions £'000	Change during the year £'000	**At 31st July, 2006 £'000**	Increase during the year £'000	**At 31st July, 2006 £'000**
S.R. Hodges	1,156	16	142	**1,314**	8	**123**
C.D. Keogh	1,170	16	144	**1,330**	8	**123**
D.C. Pusinelli	839	13	103	**955**	7	**93**

REPORT OF THE BOARD ON DIRECTORS' REMUNERATION

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.

Executive 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 the company's 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

Chairman and Non-executive Directors

The chairman and the 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, 2006, Caledonia Investments plc was paid £40,000, as disclosed in the remuneration table on page 27.

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 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

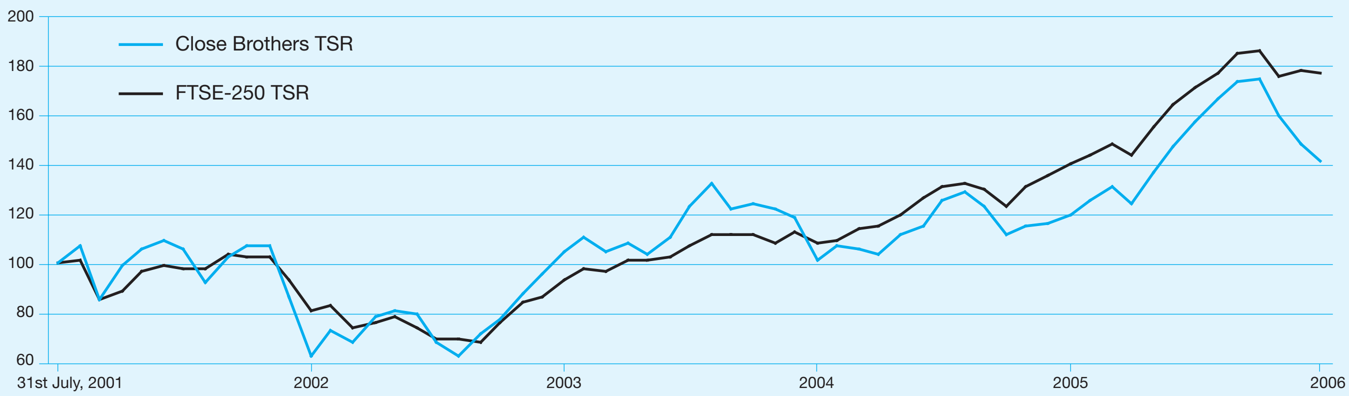
Mr. D.G. Hardisty, who retired as a director on 31st July, 2003, is retained by Close Asset Finance Limited, a subsidiary of the company, as a consultant for an annual fee of £125,000. Mr. Hardisty was chief executive of Close Asset Finance Limited until his retirement. The agreement is dated 31st July, 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. The company has given notice that this consultancy arrangement will terminate when he becomes chairman at the forthcoming AGM.

Mr. B.M. Winterflood, who retired as a director on 31st January, 2002, is non-executive chairman of Winterflood Securities Limited 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, 2006 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

REPORT OF THE BOARD ON DIRECTORS' REMUNERATION

Directors' Remuneration

The following table shows the remuneration of each director for the year ended 31st July, 2006:

	Salaries and fees £'000	Benefits £'000	Performance related awards in respect of the current year: Current £'000	Deferred* £'000	Total: 2006 £'000	2005 £'000	Company pension contributions: 2006 £'000	2005 £'000
Executive:								
M.A. Hines	188	14	1,100	100	**1,402**	1,368	**77**	77
S.R. Hodges	350	17	820	470	**1,657**	1,466	**124**	109
C.D. Keogh	400	26	1,010	610	**2,046**	1,801	**137**	122
D.C. Pusinelli	315	14	658	342	**1,329**	1,129	**109**	97
P.L. Winkworth	350	22	820	470	**1,662**	1,471	**88**	88
Non-executive:								
P.N. Buckley	40	–	–	–	**40**	40	**–**	–
B.N. Carnegie-Brown	4	–	–	–	**4**	–	**–**	–
R.D. Kent	140	–	–	–	**140**	140	**–**	–
P.S.S Macpherson	40	–	–	–	**40**	40	**–**	–
M.G.A. McLintock	45	–	–	–	**45**	45	**–**	–
D.G.J. Paterson	45	–	–	–	**45**	44	**–**	–
Sir David Scholey	165	–	–	–	**165**	165	**–**	–
J.P. Williams	40	–	–	–	**40**	40	**–**	–
Former directors	–	–	–	–	**–**	22	**–**	–
	2,122	93	4,408	1,992	**8,615**	7,771	**535**	493

* 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, 2005	Number of shares granted[1]	Number of shares called for	**Held at 31st July, 2006**	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[3]
2004	46,841	–	–	**46,841**	Sep 2006
2005	46,239	–	–	**46,239**	Sep 2007
2006	–	50,160	–	**50,160**	Sep 2008
	168,543	50,160	–	**218,703**	
C.D. Keogh					
2000	21,887	–	(21,887)[2]	**–**	Aug 2002
2003	52,000	–	–	**52,000**	Sep 2004[3]
2004	62,100	–	–	**62,100**	Sep 2006
2005	60,110	–	–	**60,110**	Sep 2007
2006	–	65,101	–	**65,101**	Sep 2008
	196,097	65,101	(21,887)	**239,311**	
D.C. Pusinelli					
2000	4,864	–	(4,864)[2]	**–**	Aug 2002
2004	26,614	–	–	**26,614**	Sep 2006
2005	29,901	–	–	**29,901**	Sep 2007
2006	–	36,552	–	**36,552**	Sep 2008
	61,379	36,552	(4,864)	**93,067**	
P.L. Winkworth					
2003	40,000	–	(40,000)[2]	**–**	Sep 2004[3]
2004	46,132	–	–	**46,132**	Sep 2006
2005	46,239	–	–	**46,239**	Sep 2007
2006	–	50,160	–	**50,160**	Sep 2008
	132,371	50,160	(40,000)	**142,531**	

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 income statement in the year to which the award relates.

2 The closing mid-market price on the date deferred share awards were called for was 1056p in respect of awards granted in 2000 and 832p in respect of awards granted in 2003.

3 In respect of deferred share awards granted in 2003, 50% of the grant vests on the vesting date and the balance one year later.

REPORT OF THE BOARD ON DIRECTORS' REMUNERATION

Directors' LTIP Awards

LTIP awards which are held by directors under the 2004 LTIP and are subject to the performance criteria described in this report under "Long-term incentives" on page 25 were as follows:

Grant year	Held at 1st August, 2005	Number of shares granted	Held at 31st July, 2006	Market price upon grant	Earliest vesting date*
M.A. Hines					
2004	28,735	–	28,735	654.0p	28th Oct 2007
2005	–	22,771	22,771	841.0p	3rd Oct 2008
	28,735	22,771	51,506		
S.R. Hodges					
2004	96,398	–	96,398	654.0p	28th Oct 2007
2005	–	63,760	63,760	841.0p	3rd Oct 2008
	96,398	63,760	160,158		
C.D. Keogh					
2004	114,942	–	114,942	654.0p	28th Oct 2007
2005	–	85,013	85,013	841.0p	3rd Oct 2008
	114,942	85,013	199,955		
D.C. Pusinelli					
2004	73,754	–	73,754	654.0p	28th Oct 2007
2005	–	57,384	57,384	841.0p	3rd Oct 2008
	73,754	57,384	131,138		
P.L. Winkworth					
2004	99,233	–	99,233	654.0p	28th Oct 2007
2005	–	63,760	63,760	841.0p	3rd Oct 2008
	99,233	63,760	162,993		

* 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

Share option entitlements, other than SAYE options, are subject to the performance criteria described in this report under "Long term incentives" on page 25. Unexercised options over ordinary shares held by directors under the 1995 Scheme and SAYE Scheme were as follows:

Grant year	Held at 1st August, 2005	Number of options granted/ (exercised)	Held at 31st July, 2006	Exercise price	Earliest exercise date	Expiry date
M.A. Hines						
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
2005 SAYE	–	1,414	1,414	661.0p	1st Dec 2008	31st May 2009
	169,400	(18,586)	150,814			

* The closing mid-market price on the date of exercise was 1091.5p in respect of options granted in 2001 and 1056.0p in respect of options granted in 2002.

REPORT OF THE BOARD ON DIRECTORS' REMUNERATION

Directors' Share Option Entitlements

Grant year	Held at 1st August, 2005	Number of options granted/ (exercised)	Held at 31st July, 2006	Exercise price	Earliest exercise date	Expiry date
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
2005 SAYE	–	1,414	1,414	661.0p	1st Dec 2008	31st May 2009
	580,746	(51,002)	529,744			

* The closing mid-market price on the date of exercise was 832.0p in respect of options granted in 1996 and 858.0p in respect of SAYE options granted in 2002.

Grant year	Held at 1st August, 2005	Number of options granted/ (exercised)	Held at 31st July, 2006	Exercise price	Earliest exercise date	Expiry date
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
	429,076	(144,916)	284,160			

* The closing mid-market price on the date of exercise was 858.0p in respect of SAYE options granted in 2002 and 851.0p in respect of options granted in 1998, 1999 and 2001.

Grant year	Held at 1st August, 2005	Number of options granted/ (exercised)	Held at 31st July, 2006	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
	624,730	(70,000)	554,730			

* The closing mid-market price on the date of exercise was 832.0p in respect of options granted in 1996.

REPORT OF THE BOARD ON DIRECTORS' REMUNERATION

Directors' Share Option Entitlements

Grant year	Held at 1st August, 2005	Number of options granted/ (exercised)	Held at 31st July, 2006	Exercise price	Earliest exercise date	Expiry date
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
	350,300	(40,000)	310,300			

* The closing mid-market price on the date of exercise was 832.0p in respect of options granted in 1996.

Grant year	Held at 1st August, 2005	Number of options granted/ (exercised)	Held at 31st July, 2006	Exercise price	Earliest exercise date	Expiry date
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
2005 SAYE	–	1,414	1,414	661.0p	1st Dec 2008	31st May 2009
	667,416	(1,002)	666,414			

* The closing mid-market price on the date of exercise was 858.0p in respect of SAYE options granted in 2002.

The closing mid-market price of the company's shares on 31st July, 2006 was 864.5p and the range during the year was 748p to 1101p.

Audit

Directors' remuneration information disclosed on pages 27 to 30, together with the table disclosing directors' benefits from the defined benefits pension scheme on page 25, are required to be, and have been, audited by the company's auditors, Deloitte & Touche LLP.

On behalf of the board

M.G.A. McLintock
Chairman of the Remuneration Committee

25th September, 2006

REPORT OF THE AUDITORS

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

We have audited the group and individual company financial statements (the "financial statements") of Close Brothers Group plc for the year ended 31st July, 2006 which comprise the consolidated income statement, the consolidated and individual company balance sheets, the consolidated statement of changes in equity and the consolidated cash flow statement and the related notes 1 to 42. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in 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

The directors' responsibilities for preparing the annual report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union and for preparing the parent individual company financial statements and the directors' remuneration report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, 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 and whether, in addition, the group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions 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 2003 FRC 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 audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 company's circumstances, 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 to be 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 group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the group's affairs as at 31st July, 2006 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the individual company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the individual company's affairs as at 31st July, 2006;
- the individual company 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; and
- the information given in the directors' report is consistent with the financial statements.

Separate opinion in relation to IFRS

As explained in note 1 to the financial statements, the group, in addition to complying with its legal obligation to comply with IFRSs as adopted for use in the European Union, has also complied with IFRSs as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the group's affairs as at 31st July, 2006 and of its profit for the year then ended.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

25th September, 2006

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.

CONSOLIDATED INCOME STATEMENT
for the year ended 31st July, 2006

	Note	2006 £'000	2005 £'000
Interest and similar income	5	281,926	282,841
Interest expense and similar charges		137,624	140,320
Net interest income		144,302	142,521
Fees and commissions income		302,919	228,055
Fees and commissions expense		(48,913)	(36,396)
Gains less losses arising from dealing in securities		122,339	96,285
Other operating income		15,627	17,019
Other income		391,972	304,963
Operating income		536,274	447,484
Administrative expenses	2	346,256	285,799
Depreciation and amortisation	12	14,083	12,145
Impairment losses on loans and advances	10	18,621	20,044
Total operating costs		378,960	317,988
Operating profit on ordinary activities before impairment losses on goodwill and taxation		157,314	129,496
Impairment losses on goodwill	30	–	17,735
Operating profit on ordinary activities before taxation	5	157,314	111,761
Taxation	6	45,280	37,152
Profit on ordinary activities after taxation		112,034	74,609
Profit attributable to minority interests		3,436	2,212
Profit attributable to the shareholders of the company		108,598	72,397
Basic earnings per share on profit attributable to shareholders	7	74.1p	49.8p
Earnings per share before impairment losses on goodwill		74.1p	62.0p
Diluted earnings per share	7	73.8p	49.6p
Dividends per share		32.5p	28.5p

All income and profits are in respect of continuing operations.

CONSOLIDATED BALANCE SHEET
at 31st July, 2006

	Note	2006 £'000	2005 £'000
Assets			
Cash and balances at central banks		1,272	1,244
Settlement accounts		628,305	604,692
Loans and advances to customers	8	1,862,023	1,939,203
Loans and advances to banks	9	510,691	786,330
Money market securities	27	1,156,768	797,498
Debt securities – long positions		67,066	61,345
Equity shares – long positions		49,623	40,377
Loans to money brokers against stock advanced		156,420	158,553
Investment securities	11	43,682	27,384
Intangible assets – goodwill	30	109,807	95,711
Intangible assets – other	12	2,623	1,672
Property, plant and equipment	12	42,549	38,277
Share of gross assets of joint ventures		21,743	21,624
Share of gross liabilities of joint ventures		(20,818)	(20,914)
Share of net assets of joint ventures	31	925	710
Other receivables	17	87,549	108,949
Deferred taxation assets	18	25,362	28,976
Prepayments and accrued income		63,135	64,398
Derivative financial instruments	27	5,093	–
Total assets		4,812,893	4,755,319
Liabilities			
Settlement accounts		573,671	561,173
Deposits by customers	13	1,843,074	1,818,187
Deposits by banks	14	168,378	108,101
Debt securities – short positions		54,554	49,628
Equity shares – short positions		21,684	20,424
Loans from money brokers against stock advanced		157,356	142,371
Non-recourse borrowings		150,000	200,000
Loans and overdrafts from banks	15	363,205	494,363
Promissory notes and other debt securities in issue	16	358,014	367,130
Other liabilities	17	219,673	182,817
Current taxation liabilities		16,766	19,297
Accruals and deferred income		136,791	138,444
Subordinated loan capital	19	75,000	75,000
Derivative financial instruments	27	12,370	–
Total liabilities		4,150,536	4,176,935
Equity			
Called up share capital	20	36,603	36,168
Share premium account		259,783	252,210
Profit and loss account		346,714	279,044
Other reserves		11,887	5,092
Minority interests		7,370	5,870
Total equity		662,357	578,384
Total liabilities and equity		4,812,893	4,755,319

Approved by the Board of Directors on 25th September, 2006 and signed on its behalf by:

$\left.\begin{array}{l}\text{Sir David Scholey}\\ \text{C.D. Keogh}\\ \text{P.L. Winkworth}\end{array}\right\}$ Directors

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31st July, 2006

	2006 £'000	2005 £'000
Called up share capital		
Opening balance	36,168	36,066
Exercise of options	435	102
Closing balance	36,603	36,168
Share premium account		
Opening balance	252,210	250,430
Exercise of options	7,573	1,780
Closing balance	259,783	252,210
Profit and loss account		
Opening balance	279,044	242,637
Retained profit for the year	108,598	72,397
Dividends	(42,524)	(39,240)
IAS 39 adjustments at 1st August, 2005	(1,589)	–
Other reserve movements	3,185	3,250
Closing balance	346,714	279,044
Other reserves:		
ESOP trust reserve		
Opening balance	(3,786)	(3,962)
Shares purchased at cost	(4,926)	–
Shares released at cost	410	176
Closing balance	(8,302)	(3,786)
Share-based awards reserve		
Opening balance	7,614	4,285
Charge to the income statement	3,307	1,940
Movement relating to deferred share awards	887	1,389
Closing balance	11,808	7,614
Exchange movements reserve		
Opening balance	1,264	–
Currency translation differences	(326)	1,264
Closing balance	938	1,264
Cash flow hedging reserve		
Opening balance recorded for derivatives under IAS 39 at 1st August, 2005	(1,843)	
Movement on derivatives during the year	1,976	
Closing balance	133	
Available-for-sale reserve		
Opening balance under IAS 39 at 1st August, 2005	3,431	
Movement on available-for-sale investments	3,879	
Closing balance	7,310	
Total other reserves	11,887	5,092
Minority interests		
Opening balance	5,870	4,538
Movement during the period	1,500	1,332
Closing balance	7,370	5,870
Total equity	662,357	578,384

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31st July, 2006

	Note	2006 £'000	2005 £'000
Net cash inflow from operating activities	36(a)	153,418	307,161
Net cash outflow from investing activities:			
Dividends paid to minority interests		(1,669)	(934)
Purchase of assets let under operating leases		(13,865)	(11,213)
Purchase of property, plant and equipment		(8,121)	(6,920)
Sale of property, plant and equipment		4,155	1,685
Purchase of intangible assets		(2,447)	(1,175)
Purchase of equity shares held for investment		(9,911)	(7,523)
Sale of equity shares held for investment		11,168	19,091
Minority interests acquired for cash		(2,853)	(5,134)
Purchase of loan book		–	(130,530)
Purchase of subsidiaries	36(b)	(11,258)	(29,506)
		(34,801)	(172,159)
Net cash inflow before financing		118,617	135,002
Financing activities:			
Issue of ordinary share capital including premium		8,008	1,882
Repayment of subordinated loan capital		–	(21,937)
Equity dividends paid		(42,524)	(39,240)
Interest paid on subordinated loan capital		(5,616)	(7,743)
Net increase in cash		78,485	67,964

In the directors' view, cash is an integral part of the group's operating activities, since it is a bank's stock in trade. Nevertheless, as required by International Accounting Standard No. 7, cash is not treated as cash flow from operating activities but is required to be shown separately in accordance with the format above.

COMPANY BALANCE SHEET
at 31st July, 2006

	Note	2006 £'000	2005 £'000 (restated)
Fixed assets			
Tangible fixed assets – property, plant and equipment	12	2,331	3,277
Investments in subsidiaries	29	324,115	324,115
Equity shares	11	–	54
		326,446	327,446
Current assets: Debtors	32	158,996	102,219
Creditors: Amounts falling due within one year	33	32,855	31,262
Net current assets		126,141	70,957
Total assets less current liabilities		452,587	398,403
Creditors: Amounts falling due after more than one year	33	27,072	27,072
Net assets		425,515	371,331
Capital and reserves			
Share capital	20	36,603	36,168
Share premium account		259,783	252,210
ESOP trust reserve		(8,302)	(3,786)
Share-based awards reserve		11,808	7,614
Profit and loss account	21	125,623	79,125
Total equity shareholders' funds		425,515	371,331

The restatement of the 2005 comparatives is explained in note 41.

Approved by the Board of Directors on 25th September, 2006 and signed on its behalf by:

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

THE NOTES

1. Accounting policies

(a) Adoption of International Financial Reporting Standards

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

The company financial statements are prepared in accordance with Section 226 of, and Schedule 4 to, the Companies Act 1985 and with all relevant UK accounting standards. Any differences in these standards from their IFRS counterparts are stated in the remainder of this note.

(b) Accounting convention

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

The company financial statements have been prepared under the historical cost convention, modified by the revaluation of unlisted equity shares held for investment purposes which are included in the balance sheet at directors' valuation.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the group's accounting policies. These notes set out areas involving a higher degree of judgement or complexity or areas where assumptions are significant to the financial statements. These areas are the fair value of financial assets and liabilities (note 27), impairment losses on loans and advances (note 10) and goodwill (note 30).

(c) Basis of consolidation

The consolidated financial statements incorporate the individual financial statements of Close Brothers Group plc, the company, and entities it controls (its subsidiaries). Control exists where the company has the power to govern the financial and operating policies of the entity.

The acquisition method of accounting has been adopted for subsidiaries. Under this method the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition with the interest of minority shareholders stated at the minority's proportion of these amounts. Any excess of the cost of acquisition over these net assets is booked as goodwill. The results of subsidiaries are included in the consolidated income statement up to the date of disposal.

The consolidated financial statements consolidate the individual financial statements of its associates using the equity method.

All intra-group balances, transactions, income and expenses are eliminated on consolidation. As allowed by IFRS 1, the group has not restated business combinations that took place before 1st August, 2004.

(d) Net interest income

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

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

(e) Fees and commissions net income

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

(f) Gains less losses arising from dealing in securities

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

(g) Loans and advances

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

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

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

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

THE NOTES

1. Accounting policies continued

(h) Finance leases, operating leases and instalment finance

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

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

(i) Equity shares and debt securities

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

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

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

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

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

(j) Depreciation

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

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

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

(k) Foreign currencies

For the company and those subsidiaries whose balance sheets are denominated in sterling, monetary assets and liabilities denominated in foreign currencies are translated into sterling at the closing rates of exchange at the balance sheet date. Foreign currency transactions are translated into sterling at the average rates of exchange over the year and exchange differences arising in these cases are taken to the income statement.

The balance sheets of subsidiaries denominated in foreign currencies are translated into sterling at the closing rates. The income statements for these subsidiaries are translated at the average rates and exchange differences arising in these cases are taken to the exchange movements reserve.

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

(l) Deferred taxation

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

(m) Intangible assets – goodwill

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

(n) Pensions

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

For the group's one defined benefits scheme, which was closed to new entrants in 1996 and involved at 31st July, 2006 only 105 active and deferred members, scheme liabilities are measured on an actuarial basis using the projected credit method and discounted at a rate that reflects the current rate of return on a high quality corporate bond of equivalent term and currency to the scheme liabilities. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the income statement over the members' expected average remaining working lives.

THE NOTES

1. Accounting policies continued

(o) Share-based awards

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

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

(p) Derivative financial instruments ("derivatives") and hedge accounting

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

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

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

(q) Investments in subsidiaries

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

THE NOTES

2. Administrative expenses

	2006 £'000	2005 £'000
Staff costs:		
Wages and salaries	195,761	160,591
Social security costs	22,172	18,793
Share-based awards	3,307	1,940
Pension costs	7,503	10,003
	228,743	191,327
Other administrative expenses	117,513	94,472
	346,256	285,799

3. Information regarding directors

	2006 £'000	2005 £'000
Directors' emoluments:		
Salaries	1,982	1,977
Share-based awards	1,456	785
Fees	140	162
Other benefits	93	98
Performance related awards in respect of the current year:		
Current	4,408	3,855
Deferred	1,992	1,679
	10,071	8,556
Gains upon exercise of options	1,332	4
Company pension contributions	535	493
	11,938	9,053

The remuneration of individual directors is shown in the report of the board on directors' remuneration on pages 24 to 30.

4. Segmental analysis

	Asset Management £'000	Corporate Finance £'000	Securities £'000	Banking £'000	Group £'000	Total £'000
2006						
Operating income	140,004	60,819	134,416	198,763	2,272	536,274
Profit before taxation	38,248	16,892	47,968	74,027	(19,821)	157,314
Total equity	153,523	15,062	78,627	269,409	145,736	662,357
Total assets	944,231	44,408	960,912	2,893,437	(30,095)	4,812,893
Total liabilities	790,708	29,346	882,285	2,624,028	(175,831)	4,150,536
Property, plant, equipment and intangible asset purchases	3,723	345	2,702	17,500	163	24,433
Depreciation, amortisation and impairment of assets	1,977	175	2,376	8,454	1,101	14,083
Average number of persons employed	776	161	235	1,276	73	2,521
2005						
Operating income	119,039	42,251	97,579	185,247	3,368	447,484
Profit before goodwill and taxation	31,644	10,110	35,768	69,731	(17,757)	129,496
Profit before taxation	31,644	10,110	35,768	69,731	(35,492)	111,761
Total equity	130,589	13,041	71,703	246,568	116,483	578,384
Total assets	925,930	39,889	909,015	2,900,722	(20,237)	4,755,319
Total liabilities	795,341	26,848	837,312	2,654,154	(136,720)	4,176,935
Property, plant, equipment and intangible asset purchases	1,938	250	1,756	15,195	169	19,308
Depreciation, amortisation and impairment of assets	2,864	217	2,171	6,407	18,221	29,880
Average number of persons employed	694	145	226	1,244	64	2,373

Substantially all of the group's activities and revenue are located within the British Isles and the value of transactions between segments was minimal.

THE NOTES

5. Operating profit on ordinary activities before taxation

	2006 £'000	2005 £'000
Interest and similar income comprises:		
Interest and similar income arising from debt securities		
and other fixed income securities	41,850	35,309
Other interest and similar income	240,076	247,532
	281,926	282,841
Profit on ordinary activities before taxation is stated after charging:		
Audit fees:		
To Deloitte & Touche LLP	786	793
To Ernst & Young LLP	713	584
	1,499	1,377
Non-audit fees paid to the auditors:		
To Deloitte & Touche LLP	738	482
To Ernst & Young LLP	456	335
	1,194	817
Non-audit fees paid to the auditors are in respect of:		
Taxation and VAT compliance and advice	756	634
Regulatory and pension audit work	217	23
Other advisory work	221	160
	1,194	817

Operating lease rentals payable, of which £1,666,000 (2005: £633,000) relate to plant and machinery, amounted to £7,381,000 (2005: £8,245,000). Aggregate rentals received in respect of finance leases and hire purchase contracts amounted to £560,289,000 (2005: £533,808,000). Aggregate rentals received in respect of operating leases amounted to £5,615,000 (2005: £3,132,000).

6. Taxation expense

	2006 £'000	2005 £'000
Taxation expense comprises:		
UK corporation taxation	38,090	37,723
Overseas taxation	7,353	2,564
Current year taxation charge	45,443	40,287
Deferred taxation (note 18)	211	(3,408)
Prior year corporation taxation (over)/under provision	(374)	273
	45,280	37,152
Reconciliation to taxation expense:		
Taxation at 30% (2005: 30%) on:		
Operating profit of £157,314,000 (2005: £111,761,000)	47,194	33,528
Goodwill impairment losses disallowed	–	5,321
Disallowable items and other permanent differences	(1,914)	(1,697)
	45,280	37,152

7. Earnings per share

Basic earnings per share on profit attributable to shareholders of the company is based on profit after taxation and minority interests of £108,598,000 (2005: £72,397,000) and on 146,594,000 (2005: 145,348,000) 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 147,100,000 (2005: 145,829,000) 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.

THE NOTES

8. Loans and advances to customers

	2006 £'000	2005 £'000
Loans and advances comprise:		
Hire purchase agreement receivables	738,284	777,541
Finance lease receivables	266,568	334,852
Other loans and advances	857,171	826,810
	1,862,023	1,939,203

Reconciliation between gross investment in finance leases to present value of minimum lease payments:

	2006 £'000	2005 £'000
Gross investment in finance leases due:		
Within one year	476,761	510,237
Between one and five years	707,385	789,119
After more than five years	9,626	11,453
	1,193,772	1,310,809
Unearned finance income	(163,633)	(187,405)
Present value of minimum lease payments	1,030,139	1,123,404
Of which due:		
Within one year	401,463	426,909
Between one and five years	619,519	685,755
After more than five years	9,157	10,740

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £1,841 million (2005: £2,086 million).

	2006 £'000	2005 £'000
Loans and advances are repayable:		
On demand or at short notice	96,778	67,652
Within three months	516,918	457,557
Between three months and one year	570,246	609,728
Between one and two years	345,092	436,805
Between two and five years	367,574	400,226
After more than five years	11,919	13,575
Provisions	(46,504)	(46,340)
	1,862,023	1,939,203

Loans and advances to customers are classified as loans and receivables under IAS 39.

9. Loans and advances to banks

	2006 £'000	2005 £'000
Repayable:		
On demand	347,432	380,638
Within three months	162,772	403,582
Between three months and one year	487	2,110
	510,691	786,330

Loans and advances to banks are classified as loans and receivables under IAS 39.

THE NOTES

10. Impairment losses on loans and advances

	2006 £'000	2005 £'000
At 1st August, 2005 under UK GAAP	46,340	43,060
IFRS opening balance adjustments	1,500	–
	47,840	43,060
Charge for the year	18,621	20,044
Arising on acquisition	–	4,472
Amounts written off net of recoveries	(19,957)	(21,236)
At 31st July, 2006	46,504	46,340

The amount of interest income accrued on impaired loans and advances was £5,986,000.

11. Equity shares held for investment purposes

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Listed	16,760	5,595	–	–
Unlisted	26,922	21,789	–	54
	43,682	27,384	–	54

	Group £'000	Company £'000
At 1st August, 2005	27,384	54
IFRS opening balance adjustments	251	–
At 1st August, 2005 restated under IFRS	27,635	54
Additions	9,911	–
Disposals	(12,146)	(54)
Credit relating to the increase in the carrying amount of investments	18,282	–
At 31st July, 2006	43,682	–

Equity shares held for investment purposes are classified as £30,190,000 held at fair value through profit and loss and £13,492,000 held as available-for-sale.

THE NOTES

12. Property, plant and equipment and intangible assets – other

	Land and buildings £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000	Intangible fixed assets – other £'000
Group					
Cost or valuation					
At 31st July, 2005 under UK GAAP	10,618	68,930	3,236	82,784	–
IFRS opening balance adjustments	–	(9,796)	–	(9,796)	9,796
Operating lease additions	–	13,865	–	13,865	–
Other additions	266	6,940	915	8,121	2,447
Acquisition of subsidiary	–	242	–	242	–
Disposals	–	(7,787)	(867)	(8,654)	(100)
At 31st July, 2006	**10,884**	**72,394**	**3,284**	**86,562**	**12,143**
Depreciation and amortisation					
At 31st July, 2005 under UK GAAP	3,542	37,943	1,350	42,835	–
IFRS opening balance adjustments	–	(8,124)	–	(8,124)	8,124
Charge for the year	1,299	10,522	766	12,587	1,496
Acquisition of subsidiary	–	206	–	206	–
Disposals	–	(2,864)	(627)	(3,491)	(100)
At 31st July, 2006	**4,841**	**37,683**	**1,489**	**44,013**	**9,520**
Net book value at 31st July, 2006	**6,043**	**34,711**	**1,795**	**42,549**	**2,623**
Net book value at 31st July, 2005	7,076	29,315	1,886	38,277	1,672

Included within fixtures, fittings and equipment are assets let under operating leases to customers with a cost of £28,065,000 (2005: £18,973,000). The accumulated depreciation thereon is £6,061,000 (2005: £2,908,000).

	2006 £'000	2005 £'000
Future minimum lease payments under non-cancellable operating leases due:		
Within one year	**4,136**	3,553
Between one and five years	**8,396**	7,467
After more than five years	**–**	27
	12,532	11,047

	Land and buildings £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
Company				
Cost or valuation				
At 31st July, 2005	4,003	1,960	184	6,147
Additions	24	91	48	163
Disposals	–	(14)	(50)	(64)
At 31st July, 2006	**4,027**	**2,037**	**182**	**6,246**
Depreciation				
At 31st July, 2005	1,349	1,442	79	2,870
Charge for the year	899	155	46	1,100
Disposals	–	(14)	(41)	(55)
At 31st July, 2006	**2,248**	**1,583**	**84**	**3,915**
Net book value at 31st July, 2006	**1,779**	**454**	**98**	**2,331**
Net book value at 31st July, 2005	2,654	518	105	3,277

The net book value of land and buildings comprises:

	Group		Company	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000
Freehold	**1,558**	1,683	**–**	–
Long leasehold	**1,943**	2,075	**–**	–
Short leasehold	**2,542**	3,318	**1,779**	2,654
	6,043	7,076	**1,779**	2,654

THE NOTES

13. Deposits by customers

	2006 £'000	2005 £'000
Repayable:		
On demand or at short notice	631,279	464,241
Within three months	998,634	1,206,012
Between three months and one year	181,584	128,656
Between one and two years	30,077	19,278
Between two and five years	1,500	–
	1,843,074	1,818,187

14. Deposits by banks

	2006 £'000	2005 £'000
Repayable:		
On demand or at short notice	11,466	3,081
Within three months	44,242	69,020
Between three months and one year	108,670	35,000
Between one and two years	4,000	1,000
	168,378	108,101

15. Loans and overdrafts from banks

	2006 £'000	2005 £'000
Repayable:		
On demand or at short notice	4,157	7,392
Within three months	588	11,873
Between three months and one year	127,148	112,947
Between one and two years	101,606	80,151
Between two and five years	129,706	282,000
	363,205	494,363

16. Promissory notes and other debt securities in issue

	2006 £'000	2005 £'000
Repayable:		
Between three months and one year	–	–
Between one and two years	340,934	–
Between two and five years	–	350,000
After more than five years	17,080	17,130
	358,014	367,130

£340,934,000 (2005: £350,000,000) of loan notes mature on 10th December, 2007 and £17,080,000 (2005: £17,130,000) on 20th April, 2015.

THE NOTES

17. Other receivables and other liabilities

	2006 £'000	2005 £'000
Other receivables		
Amounts due from investment funds	34,278	47,103
Trade debtors	23,702	27,456
Other	29,569	34,390
	87,549	108,949
Other liabilities		
Creditors	132,178	98.012
Amounts due to investment funds	36,779	47,743
Provisions	25,885	15,763
Other	24,831	21,299
	219,673	182,817

Provisions movement in the year:

	Claims £'000	Property £'000	Other £'000	Total £'000
At 1st August, 2005	4,430	3,886	7,447	15,763
Utilisation	(100)	(840)	(1,278)	(2,218)
Charge for the year	6,095	3,146	3,099	12,340
At 31st July, 2006	10,425	6,192	9,268	25,885

Property provisions arise in respect of leaseholds where rents payable exceed the value to the group. Claims and other items for which provisions are made arise in the normal course of business. The timing and outcome of these claims and other items are uncertain.

18. Deferred taxation assets

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Group				
Capital allowances	13,731	10,577	(527)	(595)
Short term and other timing differences	16,282	19,963	4,079	3,037
Unrealised capital gains	(4,651)	(1,564)	–	–
	25,362	28,976	3,552	2,442

Movement in the year:

	Group £'000	Company £'000
At 1st August, 2005 under UK GAAP	21,591	2,442
IFRS opening balance adjustments	7,385	–
At 1st August, 2005 restated under IFRS	28,976	2,442
(Charge)/credit for the year	(211)	1,110
Equity movements	(3,403)	–
At 31st July, 2006	25,362	3,552

19. Subordinated loan capital

Final maturity date	Prepayment date	Initial interest rate	2006 £'000	2005 £'000
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	75,000

All the subordinated loan capital has been issued by Close Brothers Limited ("CBL") and 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 five year UK Treasury securities.

THE NOTES

20. Share capital

	2006		2005	
	Number '000	£'000	Number '000	£'000
Authorised				
Ordinary shares of 25p each	200,000	50,000	200,000	50,000
Allotted, issued and fully paid				
At 1st August, 2005	144,673	36,168	144,264	36,066
Exercise of options	1,740	435	409	102
	146,413	36,603	144,673	36,168

Share-based awards

The following share-based awards have been granted under the SAYE Scheme, 1995 Executive Share Option Scheme and 2004 LTIP to 790 (2005: 759) employees:

				Number of options				
Year of grant	Exercise period	Market price upon exercise[1]	Exercise price per share	At 1st August, 2005	Granted	Exercised	Lapsed	At 31st July, 2006
1996	6th Nov 1999 to 5th Nov 2006	829.8p	330.0p	124,545	–	(124,545)	–	–
1996	6th Nov 2001 to 5th Nov 2006	829.4p	330.0p	246,930	–	(246,930)	–	–
1997	30th Oct 2000 to 29th Oct 2007	949.7p	482.5p	258,651	–	(90,651)	–	168,000[2]
1997	30th Oct 2002 to 29th Oct 2007	–	482.5p	499,750	–	–	–	499,750
1998	7th Oct 2001 to 6th Oct 2008	921.2p	417.5p	481,125	–	(249,425)	–	231,700[2]
1998	7th Oct 2003 to 6th Oct 2008	990.0p	417.5p	615,875	–	(3,592)	–	612,283
1998	9th Nov 2001 to 8th Nov 2008	955.3p	552.5p	6,000	–	(6,000)	–	–
1998	9th Nov 2003 to 8th Nov 2008	–	552.5p	6,000	–	–	–	6,000
1999	3rd Nov 2002 to 2nd Nov 2009	964.7p	779.5p	597,250	–	(172,000)	(17,500)	407,750[2]
1999	3rd Nov 2004 to 2nd Nov 2009	–	779.5p	597,250	–	–	(17,500)	579,750
2000	23rd Oct 2003 to 22nd Oct 2010	–	1125.0p	467,140	–	–	(29,550)	437,590[2]
2000	23rd Oct 2005 to 22nd Oct 2010	–	1125.0p	467,140	–	–	(29,550)	437,590
2000	1st Dec 2005 to 31st May 2006	858.0p	958.0p	2,183	–	(704)	(1,479)	–
2001	26th Sep 2004 to 25th Sep 2011	934.8p	560.0p	539,572	–	(231,628)	(12,500)	295,444[2]
2001	26th Sep 2006 to 25th Sep 2011	831.0p	560.0p	575,500	–	(2,678)	(12,822)	560,000
2001	1st Dec 2006 to 31st May 2007	1030.8p	438.0p	192,109	–	(3,669)	(6,153)	182,287
2002	8th Oct 2005 to 7th Oct 2012	918.9p	450.0p	626,250	–	(281,960)	(7,500)	336,790[2]
2002	8th Oct 2007 to 7th Oct 2012	–	450.0p	616,250	–	–	(18,000)	598,250
2002	1st Dec 2005 to 31st May 2006	866.3p	391.0p	316,498	–	(310,152)	(6,346)	–
2002	1st Dec 2007 to 31st May 2008	974.0p	391.0p	317,352	–	(2,505)	(9,591)	305,256
2003	7th Oct 2006 to 6th Oct 2013	–	732.5p	664,250	–	–	(2,000)	662,250
2003	7th Oct 2008 to 6th Oct 2013	–	732.5p	664,250	–	–	(4,500)	659,750
2003	1st Dec 2006 to 31st May 2007	957.0p	586.0p	91,777	–	(1,755)	(16,271)	73,751
2003	1st Dec 2008 to 31st May 2009	868.5p	586.0p	44,437	–	(1,077)	(11,196)	32,164
2004	7th Oct 2007 to 6th Oct 2014	801.5p	675.0p	374,694	–	(4,444)	(5,500)	364,750
2004	7th Oct 2009 to 6th Oct 2014	801.5p	675.0p	374,694	–	(4,444)	(5,500)	364,750
2004	29th Nov 2007 to 28th Nov 2014	–	713.0p	10,000	–	–	–	10,000
2004	29th Nov 2009 to 28th Nov 2014	–	713.0p	10,000	–	–	–	10,000
2004	1st Dec 2007 to 31st May 2008	873.4p	540.0p	216,018	–	(2,146)	(24,394)	189,478
2004	1st Dec 2009 to 31st May 2010	–	540.0p	112,688	–	–	(8,874)	103,814
2004	28th Oct 2007 to 27th Oct 2008	–	0.0p	505,015	–	–	–	505,015
2005	1st Dec 2008 to 31st May 2009	1072.0p	661.0p	–	224,860	(22)	(8,596)	216,242
2005	1st Dec 2010 to 31st May 2011	–	661.0p	–	70,995	–	(5,551)	65,444
2005	3rd Oct 2008 to 2nd Oct 2009	–	0.0p	–	514,504	–	–	514,504
				10,621,193	810,359	(1,740,327)	(260,873)	9,430,352

1 The market price upon exercise was determined by the weighted average of the closing mid-market share price on the day of each exercise during the year.

2 Options exercisable at 31st July, 2006.

THE NOTES

20. Share capital continued

Share-based awards

For the share-based awards granted during the year, the weighted average fair value of those options at 31st July, 2006 was 488p (2005: 289p). The main assumptions for the valuation of these share-based awards comprised:

Exercise period	Share price at issue	Expected volatility	Expected option life in years	Dividend yield	Risk free interest rate
1st December, 2008 to 31st May, 2009	826.0p	25%	3.0	3.9%	4.2%
1st December, 2010 to 31st May, 2011	826.0p	34%	5.0	3.9%	4.2%
3rd October, 2008 to 2nd October, 2009	841.0p	26%	3.0	3.9%	4.2%

Expected volatility was determined mainly by reviewing share price volatility for the expected life of each option up to the date of grant. The total liability as at 31st July, 2006 for share-based payments is £5,779,000 (2005: £5,329,000).

21. Profit and loss account

	Company £'000
At 1st August, 2005	79,125
Retained profit for the year	45,958
ESOP trust profit	540
At 31st July, 2006	125,623

22. Contingent liabilities

Memorandum items

There are group contingent liabilities in respect of guarantees arising in the normal course of business amounting to £9,670,000 (2005: £9,793,000).

Other contingent liabilities

The company has given guarantees in respect of amounts drawn under subsidiaries' bank facilities amounting to £238,779,000 (2005: £285,683,000). In addition, the company has given guarantees in respect of the subordinated loan capital set out in note 19.

23. Commitments

	2006 £'000	2005 £'000
Memorandum items:		
Undrawn facilities, credit lines and other commitments to lend:		
Within one year	299,106	225,170
After more than one year	2,868	4,027
	301,974	229,197

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 £190,000 (2005: £26,000) and contracted commitments to invest in private equity funds managed by the group of £13,918,000 (2005: £22,022,000).

Future minimum lease payments under non-cancellable operating leases:

	2006		2005	
	Premises £'000	Other £'000	Premises £'000	Other £'000
Expiring:				
Within one year	9,470	861	10,231	962
Within two to five years	36,901	602	29,611	835
After more than five years	43,700	85	40,511	–
	90,071	1,548	80,353	1,797

THE NOTES

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 here. This table shows the sensitivity of non trading net assets to interest rate movements. The cumulative gap of interest bearing net assets of £564,379,000 (2005: £482,451,000) 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, 2006	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	Effective interest rates
Non trading assets								
Cash and balances at central banks	–	–	–	–	–	1,272	1,272	–
Loans and advances to banks	509,806	126	361	–	–	398	510,691	4.2%
Loans and advances to customers	618,038	335,857	246,068	651,491	10,569	–	1,862,023	11.0%
Debt securities and equity shares	994,645	79,058	76,865	–	6,200	45,601	1,202,369	4.9%
Settlement accounts	–	–	–	–	–	628,305	628,305	–
Other assets	160,856	–	–	–	4,067	326,621	491,544	4.6%
	2,283,345	415,041	323,294	651,491	20,836	1,002,197	4,696,204	
Non trading liabilities								
Deposits by banks	122,444	41,934	–	4,000	–	–	168,378	4.4%
Deposits by customers	1,641,050	79,390	95,057	27,577	–	–	1,843,074	4.2%
Non-recourse borrowings	117,000	33,000	–	–	–	–	150,000	4.9%
Loans and overdrafts from banks	363,165	–	–	–	–	40	363,205	4.8%
Promissory notes and other debt securities in issue	358,014	–	–	–	–	–	358,014	3.3%
Settlement accounts	–	–	–	–	–	573,671	573,671	–
Subordinated loan capital	–	–	–	–	75,000	–	75,000	7.5%
Other liabilities	161,247	10,750	–	–	–	370,959	542,956	4.3%
Equity	–	–	–	–	–	662,357	662,357	–
	2,762,920	165,074	95,057	31,577	75,000	1,607,027	4,736,655	
Non trading net (liabilities)/assets	(479,575)	249,967	228,237	619,914	(54,164)	(604,830)	(40,451)	
Net interest rate hedges								
Floating rate	418,971	41,000	22,000	42,000	–	–	523,971	
Fixed rate	(35,354)	(92,116)	(225,500)	(171,001)	–	–	(523,971)	
	383,617	(51,116)	(203,500)	(129,001)	–	–	–	
Interest rate sensitivity gap	(95,958)	198,851	24,737	490,913	(54,164)			
Cumulative gap	(95,958)	102,893	127,630	618,543	564,379			

THE NOTES

24. Interest rate exposure continued

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	Effective interest rates
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	4.2%
Loans and advances to customers	604,430	293,901	287,240	740,088	13,544	–	1,939,203	11.3%
Debt securities and equity shares	657,734	68,058	65,217	4,416	2,073	29,056	826,554	4.4%
Settlement accounts	–	–	–	–	–	604,692	604,692	–
Other assets	172,756	–	–	51	4,067	318,700	495,574	3.4%
	2,218,762	363,712	352,814	744,555	19,684	954,070	4,653,597	
Non trading liabilities								
Deposits by banks	102,101	3,000	2,000	1,000	–	–	108,101	4.0%
Deposits by customers	1,684,085	57,479	73,104	2,233	–	1,286	1,818,187	4.0%
Non-recourse borrowings	116,000	84,000	–	–	–	–	200,000	5.1%
Loans and overdrafts from banks	489,769	4,594	–	–	–	–	494,363	4.7%
Promissory notes and other debt securities in issue	367,130	–	–	–	–	–	367,130	2.5%
Settlement accounts	–	–	–	–	–	561,173	561,173	–
Subordinated loan capital	–	–	–	–	75,000	–	75,000	7.5%
Other liabilities	146,687	8,894	–	–	–	327,348	482,929	4.8%
Equity	–	–	–	–	–	578,384	578,384	–
	2,905,772	157,967	75,104	3,233	75,000	1,468,191	4,685,267	
Non trading net (liabilities)/assets	(687,010)	205,745	277,710	741,322	(55,316)	(514,121)	(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	(48,023)	147,745	160,905	277,140	(55,316)			
Cumulative gap	(48,023)	99,722	260,627	537,767	482,451			

25. Interest rate and exchange rate contracts

	2006 £'000	2005 £'000
Interest rate contracts:		
Nominal amount	**1,298,439**	1,492,367
Credit risk weighted amount	**2,962**	3,601
Exchange rate contracts:		
Nominal amount	**366,879**	369,240
Credit risk weighted amount	**18,798**	18,912

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 £238,301,000 (2005: £439,818,000) and exchange rate contracts totalling £358,852,000 (2005: £367,130,000) 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.

THE NOTES

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:

	2006 £'000	2005 £'000
Assets	502,616	454,019
Liabilities	481,368	434,368

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

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

The long and short positions on debt securities, of which £31,432,000 (2005: £3,588,000) and £nil (2005: £483,000) were due to mature within one year respectively, comprise those held for trading purposes by Winterflood Securities Limited and Close Brothers Seydler AG. These, along with the long and short positions on equity shares, are the only items classified as held for trading. As such they are at fair value through profit or loss and the net gains arising are the only items shown within "gains less losses arising from dealing in securities".

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 non trading financial assets and liabilities, for which liquid and active markets exist. Certificates of deposit are normally held to maturity, are purchased for liquidity purposes and are classified as loans and receivables under IAS 39. 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.

	2006		2005	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Other debt securities (all held at cost):				
Certificates of deposit (unlisted and due to mature within one year)	833,655	833,763	576,766	576,766
Floating rate notes (listed and held for investment purposes)	323,113	323,137	220,732	220,764
	1,156,768	1,156,900	797,498	797,530
Other primary financial assets:				
Listed investments – equity shares	16,760	16,760	5,595	5,846
	1,173,528	1,173,660	803,093	803,376

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

£8,030,000 (2005: £10,185,000) of the floating rate notes were due to mature within one year. £25,300,000 (2005: £9,924,000) have been issued by corporates, the remainder by banks and buildings societies. £299,296,000 are classified as available-for-sale under IAS 39 with the remainder classified as held to maturity. The movement during the year comprises:

	£'000
At 1st August, 2005	220,732
Additions	218,633
Disposals	(110,644)
Maturities and other movements	(5,608)
At 31st July, 2006	323,113

THE NOTES

27. Fair values of financial assets and liabilities and unrecognised gains and losses on hedges continued

The group enters into derivative contracts as a principal only to minimise the impact of interest and currency rate changes to its financial assets and liabilities ("financial instruments"). These derivatives all meet the IAS 39 criteria, either for fair value or cash flow hedge accounting. The fair value hedges hedge the interest rate risk in recognised financial instruments. The cash flow hedges relate to exposure to future interest payments or receipts on recognised financial instruments and on forecast transactions for periods of up to nine years. The following table shows the group's derivative contracts at 31st July, 2006:

	Notional £'000	Assets £'000	Liabilities £'000
Exchange rate contracts			
Foreign exchange forwards	8,027	376	(352)
Cross currency basis rate swaps	358,852	–	(9,264)
Interest rate contracts			
Interest rate swaps	1,235,439	4,652	(2,727)
Forward rate agreements	63,000	65	(27)
	1,665,318	5,093	(12,370)

Included in the above are the following cash flow hedges, with the remainder being fair value hedges:

	Notional £'000	Assets £'000	Liabilities £'000
Exchange rate contracts			
Cross currency basis rate swaps	358,852	–	(148)
Interest rate contracts			
Interest rate swaps	1,123,485	4,637	(2,262)
Forward rate agreements	63,000	65	(27)
	1,545,337	4,702	(2,437)

THE NOTES

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, 2006:

	Highest exposure £'000	Lowest exposure £'000	Average exposure £'000	**Exposure at 31st July £'000**
Equities:				
Long	64,636	41,245	50,200	**49,623**
Short	45,119	10,242	22,767	**21,684**
			27,433	**27,939**
Debt securities:				
Long	89,422	40,511	60,099	**67,066**
Short	87,682	38,231	54,510	**54,554**
			5,589	**12,512**

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 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(i).

Based upon the trading book exposure given above, a hypothetical fall of 10% in market prices would result in a £2,794,000 (2005: £1,995,000) decrease in the group's income and net assets on the equity trading book and a £1,251,000 (2005: £1,172,000) decrease in the debt securities trading book. However, the group's trading activity is mainly a jobbing business where positions are managed throughout the day on a continuous basis. Accordingly the result shown above is purely hypothetical.

THE NOTES

29. Investments in subsidiaries

The group's principal subsidiaries at 31st July, 2006 were:

Name of subsidiary	Principal activity	Equity held by group %	Country of registration and operation
Armed Services Finance Limited	Motor financing	80	England
Close Asset Finance Limited	Commercial asset financing	100	England
Close Asset Management (Cayman) Limited	Investment management	85	Cayman
Close Asset Management Holdings Limited	Asset management holding company	100[1]	England
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	Corporate finance advisory services	100[1]	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	100	England
Close Brothers Limited	Treasury, property financing and insurance premium financing	100[1]	England
Close Brothers Military Services Limited	Financial services for the Armed Forces	80	England
Close Brothers Private Equity LLP	Private equity fund management	–[3]	England
Close Brothers Seydler AG	Securities trading	89	Germany
Close Business Finance Limited	Healthcare asset financing	100	England
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 funds 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 Asset Management Limited	Investment management	100	Jersey
Close International Custody Services Limited	Custodial services	100	Guernsey
Close Investment Limited	AIM fund management	100	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	100	England
Close Wealth Management Limited	Private client discretionary fund management	100	England
Commercial Finance Credit Limited	Commercial asset financing	100	England
Fortune Asset Management Limited	Institutional multi hedge fund management	70	England
Kingston Asset Finance Limited	Commercial asset financing	100	England
Mortgage Intelligence Limited	Mortgage broking	95	England
OLIM Limited	Institutional fund management	100	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	Market-making	100[1]	England

1 Direct subsidiaries of the company.

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

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

THE NOTES

29. Investments in subsidiaries continued

The group purchased 70% of Fortune Asset Management Limited on 19th April, 2006. The book value of the net assets of this acquisition, which has been consolidated using acquisition accounting, is shown below:

	£'000
Loans and advances to banks	386
Prepayments and accrued income	623
Other assets	371
Total assets	1,380
Total liabilities	(617)
Minority interests	(229)
Net assets acquired	534
Cash consideration relating to purchase of shares from shareholders	6,797
Deferred consideration	4,200
Total consideration	10,997
Goodwill arising	10,463

If this acquisition had occurred on 1st August, 2005, the effect on group profit after taxation for the year ended 31st July, 2006 would have been an increase of £190,000.

30. Intangible assets – goodwill

	Net book value £'000
At 1st August, 2005 under UK GAAP	88,863
IFRS opening balance adjustments	6,848
At 1st August, 2005 restated under IFRS, including £142,147,000 of original capitalised cost	95,711
Goodwill arising from acquisition of subsidiary (note 29)	10,463
Goodwill arising from purchases of minority interests and other movements	3,633
At 31st July, 2006	**109,807**

Cumulative goodwill arising from acquisitions before 1st August, 1998, of £81,923,000 (2005: £81,923,000) was, and remains, written off directly to reserves. The relevant constituent of this goodwill would be charged or credited to the profit and loss account should the related acquisitions be sold.

There are no cash generating units for which the carrying value of goodwill is significant in comparison with the total carrying value of goodwill. The impairment review for all goodwill was based on cash flows developed using the most recent budget, three year plan and forecast for each cash generating unit and took account of past experience. In each case the cost of capital was taken to be 4.75% and annual growth rates ranged between 0% and 25%. In no cases were projections made more than seven years ahead and projected rates fall significantly in later years due to their uncertainty. Management does not believe that a change in assumptions would cause the aggregate carrying amounts of goodwill to exceed the aggregate of their recoverable amounts, without the change being accompanied by a significant loss event.

31. Investments in associates and joint ventures

The group has 6 (2005: 6) associates. They have been accounted for using the net equity method. The group's share of the associates' net assets is £423,000 (2005: £325,000). The group's share of operating profit was £261,000 (2005: £283,000) and its share of taxation on profit was £90,000 (2005: £100,000). These associates have no (2005: £nil) indebtedness to the group.

The group has investments in a number of joint ventures totalling £5,000 (2005: £5,000). They have been accounted for using the gross equity method. The group's share of operating income and operating profit were £497,000 (2005: £442,000) and £215,000 (2005: £213,000) respectively and the group received no dividends (2005: £175,000) from them. The group's share of their net assets is £925,000 (2005: £710,000) and the group has amounts owned by them of £4,135,000 (2005: £4,242,000).

The effect of these investments on the group's results has not been separately disclosed in the profit and loss account and balance sheet because of their immateriality.

THE NOTES

32. Debtors

	2006 £'000	2005 £'000
Company		
Amounts falling due within one year:		
Amounts owed by subsidiaries	151,884	97,185
Corporation taxation receivable	2,725	1,678
Deferred taxation asset (note 18)	3,552	2,442
Other debtors	835	914
	158,996	102,219

33. Creditors

	2006 £'000	2005 £'000
Company		
Amounts falling due within one year:		
Amounts owed to subsidiaries	7,050	6,860
Accruals and deferred income	7,928	10,018
Provisions	7,210	3,717
Other creditors	10,667	10,667
	32,855	31,262

Provisions movement in the year:

	Property £'000	Other £'000	Total £'000
At 1st August, 2005	1,502	2,215	3,717
Charge for the year	2,193	1,300	3,493
At 31st July, 2006	3,695	3,515	7,210

	2006 £'000	2005 £'000
Amounts falling due after more than one year:		
Interest free loan from subsidiary with no fixed repayment date	27,072	27,072

34. Related party transactions

Transactions with key management

For the purposes of Related Party Disclosures (IAS 24) key management comprise the management board shown on page 16. Key management have banking relationships with group entities which are entered into in the normal course of business. Amounts included in customer accounts at 31st July, 2006 attributable, in aggregate, to key management were £4,194,000 (2005: £3,595,000).

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% 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, 2006 the loan balance outstanding was £4,067,000 (2005: £4,067,000).

THE NOTES

35. 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 to the income statement for the group pension schemes was £7,503,000 (2005: £10,003,000).

Defined benefits pension scheme

The group's only defined benefits pension scheme ("the scheme") was closed to new entrants in August 1996. At 31st July, 2006 this scheme had 29 (2005: 32) active members, 76 (2005: 76) deferred members and 3 (2005: 2) pensioners. The remainder of this note relates exclusively to the scheme.

Contributions to the scheme have been determined by an independent qualified actuary based on triennial valuations using the attained age method. The most recent such valuation was at 31st July, 2006, when the agreed company contribution rate was 29.5% per annum of pensionable salaries. Future contributions to be made by the participating group companies under actuarial advice should meet all pension obligations.

The valuation was based upon the following annual financial assumptions:

	2006 %	2005 %	2004 %
Inflation	2.80	2.70	2.90
Increase in:			
Salaries	2.00	2.00	2.00
Pension in payment	2.80	2.70	2.90
Discount rate for scheme liabilities	5.50	5.50	5.75
Expected return on the scheme's assets:			
Equities	7.80	8.00	8.25
Bonds	4.60	5.50	5.75
Cash	4.20	4.20	4.50

The net surplus/(deficit) of the scheme disclosed below has been accounted for as an asset/(liability) of the group:

	2006 £'000	2005 £'000	2004 £'000
Equities	16,908	12,461	9,364
Bonds	3,353	2,870	2,770
Cash	1,359	3,629	185
Total market value of scheme assets	21,620	18,960	12,319
Present value of scheme liabilities	(21,425)	(19,580)	(17,055)
Surplus/(deficit)	195	(620)	(4,736)
Related deferred taxation (liability)/asset	(59)	186	1,421
Net surplus/(deficit)	136	(434)	(3,315)

	2006		2005	
	(Charge)/credit to the group income statement £'000	Pension scheme deficit £'000	(Charge)/credit to the group income statement £'000	Pension scheme deficit £'000
Opening deficit		(620)		(4,736)
Expected return on scheme assets	1,335		986	
Expected increase in scheme liabilities	(1,070)		(984)	
Current service cost	(783)		(788)	
Charge to the income statement		(518)		(786)
Contributions		945		3,862
Net actuarial gain		388		1,040
Closing surplus/(deficit)		195		(620)

THE NOTES

36. Consolidated cash flow statement reconciliation

	UK GAAP 2005 £'000	Adjustments 2005 £'000	IFRS 2005 £'000	IFRS 2006 £'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	3,142	111,761	157,314	
(Increase)/decrease in:					
Interest receivable and prepaid expenses	(13,375)	(8,976)	(22,351)	1,886	
Net settlement accounts	21,535	–	21,535	(11,115)	
Net equity shares held for trading	3,904	–	3,904	(7,986)	
Net debt securities held for trading	(10,038)	–	(10,038)	(795)	
Increase in interest payable and accrued expenses	17,064	8,701	25,765	(1,877)	
Depreciation, amortisation and goodwill impairment losses	35,265	(5,385)	29,880	14,083	
Net cash inflow from trading activities	162,974	(2,518)	160,456	151,510	
(Increase)/decrease in:					
Debt securities held for liquidity	(11,483)	10,065	(1,418)	(10,890)	
Loans and advances to customers	(195)	(155)	(350)	77,180	
Loans and advances to banks not repayable on demand	190,802	(186,604)	4,198	5,716	
Other assets less other liabilities	(22,821)	2,673	(20,148)	83,350	
Increase/(decrease) in:					
Deposits by banks	28,913	–	28,913	60,277	
Customer accounts	137,035	–	137,035	24,887	
Bank loans and overdrafts	(180,834)	–	(180,834)	(131,158)	
Non-recourse borrowings	(50,000)	–	(50,000)	(50,000)	
Promissory notes and other debt securities in issue	267,130	–	267,130	(9,116)	
Taxation paid	(37,821)	–	(37,821)	(48,338)	
Net cash inflow from operating activities	483,700	(176,539)	307,161	153,418	
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries					
Cash consideration in respect of current year purchases	(38,900)	–	(38,900)	(6,797)	
Loan stock redemptions and deferred consideration paid in respect of prior year purchases	(791)	–	(791)	(4,847)	
Net movement in cash balances	10,185	–	10,185	386	
	(29,506)	–	(29,506)	(11,258)	
(c) Analysis of changes in financing					
Share capital (including premium) and subordinated loan capital:					
Opening balance	383,433	–	383,433	363,378	
Shares issued for cash	1,882	–	1,882	8,008	
Repayment of subordinated loan capital	(21,937)	–	(21,937)	–	
Closing balance	363,378	–	363,378	371,386	
					Movement in the period £'000
(d) Analysis of cash balances					
Cash and balances at central banks	1,244	–	1,244	1,272	28
Loans and advances to banks repayable on demand	380,638	1,185,785	1,566,423	1,644,880	78,457
	381,882	1,185,785	1,567,667	1,646,152	78,485

Except for the above adjustments the comparative consolidated cash flow statement is otherwise unchanged.

THE NOTES

37. Consolidated income statement reconciliation

The table below compares the consolidated income statement for the year ended 31st July, 2005, now reported under IFRS, with that previously reported under UK Generally Accepted Accounting Practice ("UK GAAP"):

	Note 40	UK GAAP £'000	Adjustments £'000	IFRS £'000
Interest and similar income	(i)	280,827	2,014	282,841
Interest expense and similar charges		140,320	–	140,320
Net interest income		140,507	2,014	142,521
Fees and commissions income	(i)	230,019	(1,964)	228,055
Fees and commissions expense	(i)	(35,834)	(562)	(36,396)
Gains less losses arising from dealing in securities		96,285	–	96,285
Other operating income		17,019	–	17,019
Other income		307,489	(2,526)	304,963
Operating income		447,996	(512)	447,484
Administrative expenses	(i) and (ii)	283,763	2,036	285,799
Depreciation and amortisation		12,145	–	12,145
Impairment losses on loans and advances	(i)	20,349	(305)	20,044
Total operating costs		316,257	1,731	317,988
Operating profit on ordinary activities before impairment losses on goodwill and taxation		131,739	(2,243)	129,496
Impairment losses on goodwill	(iii)	23,120	(5,385)	17,735
Operating profit on ordinary activities before taxation		108,619	3,142	111,761
Taxation	(iv)	37,865	(713)	37,152
Profit on ordinary activities after taxation		70,754	3,855	74,609
Profit attributable to minority interests	(v)	2,177	35	2,212
Profit attributable to the shareholders of the company		68,577	3,820	72,397

THE NOTES

38. Consolidated balance sheet reconciliation

The table below compares the consolidated balance sheet, as at 31st July, 2005, now reported under IFRS, with that previously reported under UK GAAP:

	Note 40	UK GAAP £'000	Adjustments £'000	IFRS £'000
Assets				
Cash and balances at central banks		1,244	–	1,244
Settlement accounts		604,692	–	604,692
Loans and advances to customers	(i)	1,953,031	(13,828)	1,939,203
Loans and advances to banks		786,330	–	786,330
Money market securities		797,498	–	797,498
Debt securities – long positions		61,345	–	61,345
Equity shares – long positions		40,377	–	40,377
Loans to money brokers against stock advanced		158,553	–	158,553
Investment securities	(vi)	26,730	654	27,384
Intangible assets – goodwill	(iii)	88,863	6,848	95,711
Intangible assets – other	(vii)	–	1,672	1,672
Property, plant and equipment	(vii)	39,949	(1,672)	38,277
Share of gross assets of joint ventures		21,624	–	21,624
Share of gross liabilities of joint ventures		(20,914)	–	(20,914)
Share of net assets of joint ventures		710	–	710
Other receivables	(i) and (vi)	108,639	310	108,949
Deferred taxation assets	(iv)	21,591	7,385	28,976
Prepayments and accrued income	(i)	49,600	14,798	64,398
Total assets		4,739,152	16,167	4,755,319
Liabilities				
Settlement accounts		561,173	–	561,173
Deposits by customers		1,818,187	–	1,818,187
Deposits by banks		108,101	–	108,101
Debt securities – short positions		49,628	–	49,628
Equity shares – short positions		20,424	–	20,424
Loans from money brokers against stock advanced		142,371	–	142,371
Non-recourse borrowings		200,000	–	200,000
Loans and overdrafts from banks		494,363	–	494,363
Promissory notes and other debt securities in issue		367,130	–	367,130
Other liabilities	(i), (ix) and (x)	211,167	(28,350)	182,817
Current taxation liabilities		19,297	–	19,297
Accruals and deferred income	(i)	126,019	12,425	138,444
Subordinated loan capital		75,000	–	75,000
Total liabilities		4,192,860	(15,925)	4,176,935
Equity				
Called up share capital		36,168	–	36,168
Share premium account		252,210	–	252,210
Profit and loss account		255,729	23,315	279,044
ESOP trust reserve		(3,786)	–	(3,786)
Share-based awards reserve	(ii)	–	7,614	7,614
Exchange movements reserve	(viii)	–	1,264	1,264
Minority interests	(v)	5,971	(101)	5,870
Total equity		546,292	32,092	578,384
Total liabilities and equity		4,739,152	16,167	4,755,319

THE NOTES

39. Consolidated equity reconciliation

	Note 40	31st July, 2005 £'000	1st August, 2004 £'000
Profit and loss account reserve previously reported under UK GAAP		255,729	226,730
Income recognition adjustments	(i)	(14,913)	(14,310)
Expense recognition adjustments	(i)	1,200	900
Recognition of share-based awards	(ii)	(2,736)	(796)
Goodwill adjustments	(iii)	6,836	1,451
Taxation effect of above items	(iv)	8,573	7,658
Minority interest effect of above items	(v)	101	136
Moving exchange adjustments to exchange movements reserve	(viii)	(1,264)	–
Recognition of pension deficit	(ix)	(1,783)	(4,736)
Dividend recognition adjustments	(x)	27,301	25,604
		23,315	15,907
Profit and loss account reserve reported under IFRS		279,044	242,637

Total equity at 31st July, 2004 previously reported under UK GAAP	509,264
Above profit and loss account reserve adjustments	15,907
Recognising share-based awards reserve	4,285
Including minority interests in equity	4,538
Total equity at 1st August, 2004 under IFRS	533,994

40. Comparison of the 2005 consolidated income statement, balance sheet and cash flow statement as now reported under IFRS with those previously reported under UK GAAP

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

THE NOTES

41. Company balance sheet restatement

The comparative company balance sheet as at 31st July, 2005 has been restated to incorporate recent financial reporting standards which have the effect of converging UK GAAP with IFRS. These restatements are shown below:

	Note 40	As reported in 2005	Restatement adjustments	As reported on page 36
Fixed assets		327,446	–	327,446
Current assets: Debtors	(x)	133,450	(31,231)	102,219
Creditors: Amounts falling due within one year	(ii) and (x)	63,441	(32,179)	31,262
Net current assets		70,009	948	70,957
Total assets less current liabilities		397,455	948	398,403
Creditors: Amounts falling due after more than one year		27,072	–	27,072
Net assets		370,383	948	371,331
Capital and reserves				
Share capital		36,168	–	36,168
Share premium account		252,210	–	252,210
ESOP trust reserve		(3,786)	–	(3,786)
Share-based awards reserve	(ii)	–	7,614	7,614
Profit and loss account	(ii) and (x)	85,791	(6,666)	79,125
Total equity shareholders' funds		370,383	948	371,331

42. Profit of parent company

As permitted by Section 230 of the Companies Act 1985, the income statement 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 £88,482,000 (2005: £23,987,000).

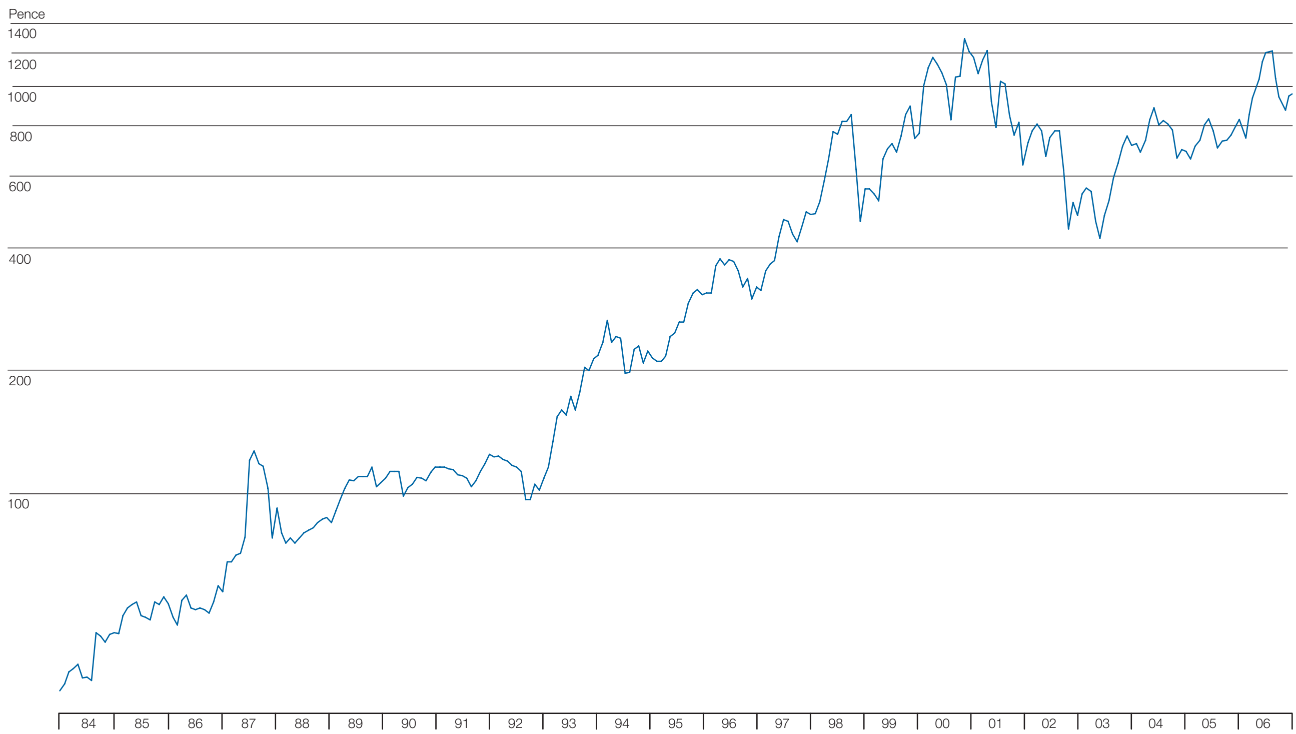
ADDITIONAL INFORMATION

Five Year Financial Summary

		2002	2003	2004	2005	**2006**
Operating income	£m	276	323	401	447	**536**
Profit before goodwill and taxation	£m	75	85	119	129	**157**
Profit before taxation	£m	68	78	101	112	**157**
Profit attributable to shareholders	£m	44	51	65	72	**109**
Earnings per share before goodwill	p	37.2	41.0	57.3	62.0	**74.1**
Earnings per share	p	32.3	35.7	45.1	49.8	**74.1**
Dividend per share	p	26.0	26.0	27.0	28.5	**32.5**
Equity	£m	472	482	509	578	**662**
Total assets	£m	3,054	3,569	3,880	4,755	**4,813**
Number of employees		1,840	1,943	2,252	2,440	**2,568**

The data for years 2005 and 2006 has been prepared under IFRS, whilst the data for years 2002, 2003 and 2004 has been prepared under UK GAAP.

Share Price



ADDITIONAL INFORMATION

Shareholder Analysis

	Number of shareholders		Total shares held	
	2006	2005	2006	2005
Number of shares held				
Up to 500	1,670	1,704	474,058	479,168
501 – 1,000	1,310	1,356	1,040,615	1,065,082
1,001 – 2,000	997	1,069	1,490,419	1,622,501
2,001 – 5,000	639	682	2,051,452	2,212,511
5,001 – 10,000	236	254	1,691,281	1,815,257
10,001 – 50,000	280	306	6,459,577	7,046,770
Over 50,000	253	233	133,205,709	130,431,495
	5,385	5,604	146,413,111	144,672,784
Category of shareholders				
Investment groups	119	126	70,222,261	67,231,213
Insurance companies	8	14	42,607,830	49,994,373
Private shareholders	2,700	2,874	20,077,843	16,490,050
Nominee holders	2,552	2,583	11,576,522	5,897,132
Pension funds	6	7	1,928,655	5,060,016
	5,385	5,604	146,413,111	144,672,784

Calendar

Annual General Meeting	1st November, 2006
Payment of final dividend	3rd November, 2006
Announcement of interim results	Early March 2007
Payment of interim dividend	Mid April 2007
Announcement of final results	September 2007

Auditors
Deloitte & Touche LLP.

Ernst & Young LLP (Close Brothers Limited group).

Solicitors
Freshfields Bruckhaus Deringer.

Stockbrokers
UBS Investment Banking.

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