Close Brothers Annual Report 2008

Close Brothers Group plc

Our Goal

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 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

1-9 Overview

1 Group Results
2 Our Business
4 Chairman and Chief Executive's Statement
8 The Board
9 Chairman and Non-Executive Directors

10-20 Business Review

10 Overview
12 Asset Management
14 Banking
16 Corporate Finance
17 Securities
18 Risk Management

21-43 Governance

21 Report of the Directors
25 Corporate Governance
29 Social Responsibility
31 Report of the Board on Directors' Remuneration
42 Report of the Auditors

44-84 Financial Statements

44 Consolidated Income Statement
45 Consolidated Balance Sheet
46 Consolidated Statement of Recognised Income and Expense
46 Consolidated Cash Flow Statement
47 Company Balance Sheet
48 The Notes
84 Investor Relations

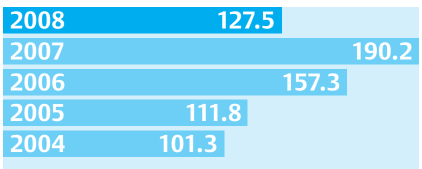
Group Results

Financial Highlights
for the year ended 31 July 2008

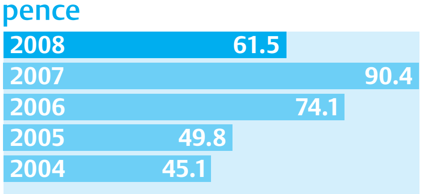
	2008	2007
Operating profit before tax	**£127.5m**	£190.2m
Basic earnings per share	**61.5p**	90.4p
Operating profit before exceptional items, goodwill impairment and tax	**£137.5m**	£172.8m
Adjusted earnings per share*	**67.3p**	82.8p
Ordinary dividends per share	**39.0p**	37.0p
Special dividend per share	**–**	25.0p
Total equity	**£720.4m**	£752.6m
Total assets	**£5.8bn**	£5.4bn

*Earnings before exceptional items net of tax and goodwill impairment.

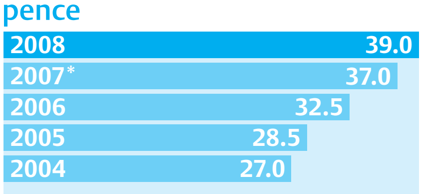
Operating profit before tax
£ million



Basic earnings per share
pence



Ordinary dividends per share
pence



2004 prepared under UK GAAP, 2005 onwards prepared under IFRS.

*Also 25p special dividend.

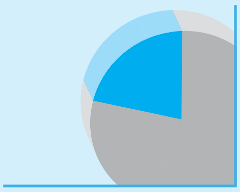
Our Business

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, Banking, Corporate Finance and Securities. We derive our revenue from a mix of fees, dealing profits and interest margin. We employ over 2,600 people, principally in the British Isles and also in Continental Europe.

Asset Management

21%
Profit contribution

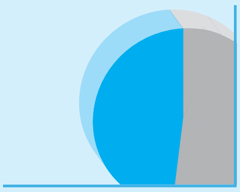


Asset Management has £8.2 billion of Funds under Management. On revenues of £134 million in 2008 it made an operating profit of £33 million and employed over 850 people.

Our core business is wealth and investment management for private clients, from mass affluent to high net worth, both onshore and offshore, supported by a multi-asset investment approach and distribution through several channels.

Banking

48%
Profit contribution



On revenues of £207 million and a loan book of £2.2 billion our Banking division made an operating profit of £75 million. In 2008 it employed over 1,280 people.

We focus on secured, diversified and 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 and a mortgage broker network.

Operating income
£509.2m

Operating profit before tax
£127.5m

Shareholders' funds
£720.4m

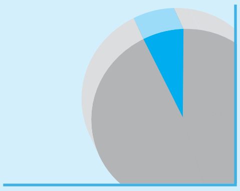
Funds under Management
£8.2bn

Loan book
£2.2bn

Total assets
£5.8bn

Corporate Finance

6%
Profit contribution

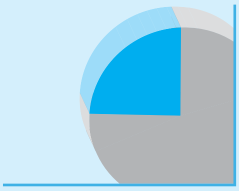


We are a leading independent European corporate finance adviser with principal offices in London, Frankfurt, Paris and Madrid. In 2008 the division made an operating profit of £10 million on revenues of £57 million and employed some 180 people.

Areas of particular expertise are mergers and acquisitions advice for both corporate and private equity clients, restructuring, debt advisory and IPO advisory services and pensions advisory work for companies and trustees.

Securities

25%
Profit contribution



This division has two principal trading companies, Winterflood Securities and Close Brothers Seydler, and a recent strategic investment in Mako. In 2008 it made an operating profit of £39 million on revenues of £110 million and employed over 260 people.

Winterflood Securities is the leading liquidity provider in the London retail securities market. Close Brothers Seydler is a Frankfurt based broker dealer and Mako is a market-maker in exchange traded derivatives.

Chairman and Chief Executive's Statement

The group has delivered a resilient performance in a year which has been as eventful and challenging as any in the history of Close Brothers.

Operating profit before exceptional items, goodwill impairment and tax ("adjusted operating profit") was £137.5 million (2007: £172.8 million), down 20% on last year's record performance. Adjusted earnings per share was down 19% from 82.8p to 67.3p.

Strone Macpherson **Chairman**

Exceptional items in 2008 were £10.0 million of costs, half of which related to advisers' fees incurred during the offer period and half of which related to the implementation of cost saving initiatives across the group. In 2007 exceptional items were £21.1 million of income relating to investment gains and performance fees derived from one private equity transaction which was exceptional by its size as well as its nature. This was part of the £43 million unusually high investment gains and performance fees we benefited from last year. The result this year is not impacted by goodwill impairment (2007: £3.7 million).

Operating profit before tax was £127.5 million (2007: £190.2 million) and basic earnings per share was 61.5p (2007: 90.4p).

The board is recommending a final dividend of 25.5p per share (2007: 25p), payable in cash, making a total ordinary dividend for the year of 39p per share (2007: 37p), up 5% on last year. This reflects our commitment to progressive dividend growth. The dividend will be payable on 14 November 2008 to shareholders on the register at the close of business on 10 October 2008.

Trading Overview

Against the background of an unusually challenging trading, credit and market environment, our high quality businesses, with their experienced management, have delivered a resilient performance.

Our capital base remains strong and comfortably above regulatory requirements. The Tier 1 capital ratio for the group at 31 July 2008 was 14.4%. Our balance sheet is a source of strength in current turbulent markets. We remain soundly and conservatively funded from a diverse range of sources. During the year we have extended our range of long term committed facilities and our deposit base has grown by 15% to £2.6 billion.

Adjusted operating profit for the divisions was as follows:

	2008		2007	
	£ million	**%**	£ million	%
Asset Management	**32.6**	**21**	56.6	29
Banking	**74.5**	**48**	71.7	36
Corporate Finance	**10.0**	**6**	22.5	12
Securities	**38.7**	**25**	44.1	23
	155.8	**100**	194.9	100
Group	**(18.3)**		(22.1)	
Adjusted operating profit	**137.5**		172.8	

> “Our high quality businesses, with their experienced management, have delivered a resilient performance.”

Market factors have affected performance in our **Asset Management** division where Funds under Management (“FuM”) were down 10% to £8.2 billion, adjusted operating profit was down 42% to £32.6 million and adjusted operating margin at 24% was down from 32% last year. This performance reflects weak financial markets in 2008 and compares to a particularly strong private equity performance in 2007.

Our core business is wealth and investment management for private clients, from mass affluent to high net worth, both onshore and offshore, supported by a multi-asset investment approach and distribution through several channels. We also have a specialist property team and will expand our hedge fund and multi-manager capabilities where we see both institutional and retail growth and benefits from greater scale.

As anticipated, our **Banking** division has performed well over the last twelve months. Our loan book grew by 14% to £2.2 billion and adjusted operating profit was up 4% to £74.5 million. Net interest margin declined slightly to 8.6% and the bad debt ratio was up at 1.3% (2007: 1.1%).

For the first time in a number of years we see real opportunities for both organic and acquired growth in our Banking division. With our strong capital position, we are well equipped to take advantage of any such opportunity. This is illustrated by the steadily increasing demand for our banking services and the fact that in the last six months we have added over £200 million to our loan book by acquiring assets at what we believe to be attractive prices.

We will continue to manage risk and liquidity carefully and keep costs under close review. Our strategic focus remains clear and consistent; to push for growth and to be the specialist, secured lender of choice in our chosen sectors of the Small and Medium sized Enterprise (“SME”), professional and consumer markets.

Adjusted operating profit in our **Corporate Finance** division was down 56% to £10.0 million reflecting weaker market conditions in the UK. In Corporate Finance we continue to maintain our position as a high quality mid-market house with particular expertise in corporate restructuring and debt advisory. We will continue to consolidate our European position and, following the acquisition of the remaining management held minority interest in our French business, we have recently acquired the 55% management interest of our Spanish associate, Atlas Capital.

Performance in our **Securities** division was also adversely affected by market conditions and adjusted operating profit at £38.7 million was down 12% on last year.

In Securities our priority is to retain Winterflood’s position as the leading retail service provider in the UK. For the first time, we are also starting to use the strength of our retail platform and liquidity to move into some of the higher growth areas of the market. New initiatives include offering direct market access to institutions, developing our algorithmic trading offering and executing corporate share schemes on a market-making basis for a number of large corporate customers.

In a weak trading environment in Germany, our market-making business, Seydler, has focused on keeping costs under control and on retaining our leading position in the area of designated sponsorships where we have some 160 corporate relationships with small and mid-sized German listed companies. We have also established a new team in London specialising in marketing small and mid-cap German securities to London based institutional investors. When the German market returns to a more normal level of activity we will be well placed to service our clients.

Our new associate Mako, a market-maker in exchange traded derivatives, performed well delivering an annualised return on our initial investment of over 15%.

Unsolicited Takeover Approach

In November 2007 we received an unsolicited takeover approach for the group. This led to us receiving a number of other approaches and holding detailed discussions with several parties. In the event none of the parties was able to deliver a firm, fully funded offer for the group and all discussions ended in March 2008. These events, coupled with the unfolding credit crunch and worsening markets generally has meant this has been a difficult year for our employees. We would like to take this opportunity to thank them all for their continuing hard work, dedication and support.

Chairman and Chief Executive's Statement

Acquisitions

We made a number of acquisitions during the year.

In August 2007 we announced the purchase of a 49.9% shareholding in Mako, a market-maker in exchange traded derivatives. This transaction completed in October 2007.

In March 2008 we announced the acquisition of two niche lending businesses; Commercial Acceptances Group, a specialist short term bridging lender, with a loan book on acquisition of £80 million and Amber Credit, a specialist insurance premium finance business with a loan book on acquisition of £65 million.

Shortly after the financial year end we purchased Kaupthing Singer & Friedlander Premium Finance, another specialist insurance premium finance business, with a loan book on acquisition of approximately £80 million.

We continue to actively manage the group's portfolio of businesses and to evaluate opportunities to deliver increased shareholder value. The events of the past six months have sharpened our appreciation of where opportunities for growth lie and we see development potential in a number of areas.

Colin Keogh Chief Executive

Across the group we seek to maximise our return on capital and we will be looking to reallocate capital to higher margin growth areas with a focus, in the short term, on the Banking division. We retain a disciplined focus on costs at all levels whilst investing for future growth and we continue to look for ways to improve operational and financial efficiency across all our divisions. Reflecting the current trading environment we have made headcount reductions in each of our divisions and the associated one off £5.0 million cost has been shown as an exceptional item.

Board Changes

As separately announced, Colin Keogh, who has been with Close Brothers Group plc for 23 years and Chief Executive for the last six, will be stepping down once a suitable successor has been found. Colin Keogh has played an important part in the growth and success of Close Brothers over many years and will continue to lead the group until the search process is concluded.

There have been a number of other board changes at both non-executive and executive level during the year, all of which have been previously announced. We would like to express our thanks to all our departing directors for their contribution to the group over many years.

Peter Winkworth, joint managing director responsible for finance and David Pusinelli, corporate development director, both stepped down as executive directors during the year. Jonathan Howell joined the board in February 2008 as finance director, having previously held the same role at the London Stock Exchange Group plc. Michael Hines, chief executive of Winterflood, retired at the end of this financial year.

Peter Buckley, Michael McLintock and James Williams each retired as non-executive directors during the year. Jamie Cayzer-Colvin, a director of Caledonia Investments plc, our largest shareholder, replaced Peter Buckley on 1 January 2008. A search for two new independent non-executive directors is under way to provide balance to the board and to assist Bruce Carnegie-Brown and Douglas Paterson with their non-executive duties.

In June 2008 Rod Kent stepped down as chairman because of an unexpected and significant increase in his responsibilities elsewhere. He was succeeded by Strone Macpherson who was previously deputy chairman and senior independent director.

"Our strong market and robust financial positions mean that we are well placed to take advantage of better conditions when financial markets recover."

Outlook

We expect difficult market conditions to continue to affect the group's performance in the current financial year.

In Asset Management, we expect performance to continue to be affected by volatile market conditions and weak market sentiment, although our recent cost reduction initiatives will provide some offsetting benefit. We believe many of our businesses offer good platforms for long-term growth, and will be looking over time to increase our focus on those areas where we see benefits from scale and operational gearing.

In the Banking division, we believe there are good opportunities for further growth in the loan book both organically and through acquisition, although we may see a further increase in bad debts in the short term.

Performance of our Corporate Finance division is being affected by overall levels of mid-market M&A activity. We believe our move towards a more unified European franchise will create a solid platform for medium-term growth in this area.

Performance in our Securities businesses will continue to reflect the overall direction, volume and volatility of the financial markets. Winterflood made a satisfactory start to the new financial year. We expect performance at Seydler to remain muted until we see a renewed pickup in German retail market activity.

Looking further out, our strong market and robust financial positions mean that we are well placed to take advantage of better conditions when financial markets recover.

The Board

1 COLIN KEOGH
Chief Executive
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 our Corporate Finance and Asset Management divisions. Aged 55.

2 JONATHAN HOWELL
Finance Director
Joined Close Brothers as Finance Director in February 2008 having previously held the same role at the London Stock Exchange Group plc since 1999. Prior to that he was at Price Waterhouse. Aged 46.

3 STEPHEN HODGES
Managing Director
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 managing director in November 2002.
Aged 54.

Chairman and Non-Executive Directors

1 STRONE MACPHERSON
Chairman
Appointed a director in March 2003, senior independent director in September 2004, deputy chairman in November 2006 and chairman in June 2008. He is chairman of the Nomination and Governance Committee. He is chairman of British Empire Securities and General Trust plc, Tribal Group plc and JP Morgan Smaller Companies Investment Trust plc and a non-executive director of Kleinwort Benson Private Bank Limited. Formerly a director of Flemings, executive deputy chairman of Misys and non-executive director of AXA UK plc. Aged 60.

2 BRUCE CARNEGIE-BROWN
Senior Independent Director
Appointed a director in June 2006, senior independent director in June 2008 and is chairman of the Remuneration Committee. He is the managing partner of 3i Group's Quoted Private Equity division and a non-executive director of Jelf Group plc. Previously with JP Morgan where he became head of debt capital markets in Europe and Asia, and after that Marsh Limited for three years as its chief executive. Aged 48.

3 DOUGLAS PATERSON
Non-executive Director
Appointed a director in July 2004 and is chairman of the Audit Committee. Within the Goldman Sachs Group he is a director of Goldman Sachs International Bank and of Rothesay Life Limited and is a non-executive officer of Generation Investment Management LLP. Formerly a senior partner in the banking and capital markets division of PricewaterhouseCoopers. Aged 64.

4 JAMIE CAYZER-COLVIN
Non-executive Director
Appointed a director in January 2008. He is a director of Caledonia Investments plc and a non-executive director of Polar Capital Holdings plc and India Capital Growth Fund. Previously with Whitbread and GEC and a former director of Rathbone Brothers plc. Aged 43.

Overview

Financial Highlights

	2008 £ million	2007 £ million	Change %
Adjusted operating income	**509.2**	585.7	(13)
Adjusted operating expenses	**(344.2)**	(391.4)	(12)
Impairment losses on loans and advances	**(27.5)**	(21.5)	28
Adjusted operating profit	**137.5**	172.8	(20)
Exceptional income*	**–**	21.1	
Exceptional expenses*	**(10.0)**	–	
Impairment losses on goodwill	**–**	(3.7)	
Operating profit before tax	**127.5**	190.2	(33)
Adjusted earnings per share	**67.3p**	82.8p	(19)
Basic earnings per share	**61.5p**	90.4p	(32)
Ordinary dividends per share	**39.0p**	37.0p	5

*A full segmental analysis of exceptional items can be found in note 2 to the financial statements.

Income Statement

Operating income before exceptional items ("adjusted operating income") was £509.2 million (2007: £585.7 million), a 13% decline. On a statutory basis the decline was 16% (2007: £606.8 million, including £21.1 million of exceptional investment gains and private equity performance fees). Net interest income increased marginally to £153.3 million (2007: £147.4 million), accounting for 30% (2007: 25%) of adjusted operating income, while non-interest income declined 19% to £355.9 million (2007: £438.3 million).

Operating expenses excluding exceptional expenses and impairment losses on loans and advances ("adjusted operating expenses") declined by 12% to £344.2 million, reflecting lower variable remuneration costs. The expense/income ratio remained broadly steady at 69% (2007: 67%) as did the compensation ratio for the year at 45% (2007: 43%).

Impairment losses on loans and advances increased to £27.5 million (2007: £21.5 million) reflecting the deteriorating economic climate.

Operating profit before exceptional items, goodwill impairment and tax ("adjusted operating profit") was £137.5 million (2007: £172.8 million), down 20%. This corresponded to an operating margin of 26% (2007: 29%). Exceptional items in the period comprised £5.0 million of advisers' fees incurred during the offer period and £5.0 million of restructuring costs relating to cost saving initiatives across the group. On a statutory basis, operating profit before tax was £127.5 million, down 33% (2007: £190.2 million). Operating profit for 2007 included investment gains and private equity performance fees of £43 million, of which £21.1 million was treated as exceptional.

The tax charge for the year was £34.9 million (2007: £53.5 million), corresponding to an effective tax rate of 27.4% (2007: 28.1%).

Basic earnings per share was 61.5p (2007: 90.4p). Adjusted earnings per share was 67.3p (2007: 82.8p).

The board is recommending a final dividend of 25.5p per share (2007: 25p), resulting in a total dividend for the year of 39p (2007: 37p excluding a special dividend of 25p), up 5% on 2007. This reflects our commitment to progressive dividend growth.

Divisional Performance

After an exceptional year in 2007, adjusted operating profit in our Asset Management division was down 42% to £32.6 million (2007: £56.6 million). While our broad mix of asset classes provides some comfort, it has been a challenging market both for attracting new money and for retaining existing funds.

The Banking division had a solid year, and was the single largest contributor to adjusted operating profit in 2008, accounting for 48% of the total prior to group expenses. Adjusted operating profit for this division was £74.5 million (2007: £71.7 million), a 4% increase.

Adjusted operating profit in the Corporate Finance division, which has been affected by the overall downturn in the M&A market, especially in the UK, was down 56% to £10.0 million (2007: £22.5 million).

In the Securities division, adjusted operating profit declined by 12% to £38.7 million (2007: £44.1 million), with difficult trading conditions at Winterflood and Seydler partly offset by a strong initial contribution from Mako.

Divisional Adjusted Operating Profit

	2008		2007		Change
	£ million	%	£ million	%	%
Asset Management	**32.6**	**21**	56.6	29	(42)
Banking	**74.5**	**48**	71.7	36	4
Corporate Finance	**10.0**	**6**	22.5	12	(56)
Securities	**38.7**	**25**	44.1	23	(12)

Note: Divisional adjusted operating profit excludes group net costs of £18.3 million in 2008 (2007: £22.1 million). The operating profit before tax for each division can be found in note 2 to the financial statements.

"We believe our strong capital position is a core strength in the current market environment, and leaves us well positioned to take advantage of organic and acquisition growth opportunities."

Balance Sheet

Our loan book increased by 14% to £2,232 million as at 31 July 2008 (2007: £1,963 million). This includes a £145 million impact from the acquisition of Commercial Acceptances Group and Amber Credit in March 2008.

Total borrowings were £1,242 million (2007: £1,036 million) and comprised loans and overdrafts from banks, promissory notes and other debt securities, non-recourse borrowings and subordinated loan capital. At the year end we had a total of £1,808 million of committed facilities in place with an average term of 30 months, of which £588 million were undrawn. An agreement for a new €390 million syndicated term loan facility has been signed since the financial year end.

Customer deposits increased steadily during the year by 15% to £2,642 million (2007: £2,303 million) and have remained at similar levels since the financial year end. We placed the majority of our customer deposits in high quality money market instruments and as a consequence our total cash and cash equivalents increased by 11% to £2,385 million (2007: £2,149 million). This includes cash and balances at central banks, loans and advances to banks, floating rate notes classified as available for sale ("FRNs") and certificates of deposit classified as loans and receivables. Our diversified portfolio of FRNs of £751.3 million, a significant majority of which are rated AA, are issued by a range of financial institutions and have been marked to market resulting in a net charge to equity reserves during the year of £15.7 million. Since the financial year end an additional net charge of £7.0 million has been made to equity reserves in respect of this FRN portfolio.

Total equity as at 31 July 2008 was £720.4 million (2007: £752.6 million).

Capital

During the year we completed our transition to Basel II. As expected, there was no major impact on our regulatory capital requirement from the transition. Total regulatory capital was £613.6 million at 31 July 2008 (2007: £702.1 million), equivalent to 16.1% (2007: 20.4%) of notional risk weighted assets.

	31 July 2008 Basel II Pro forma £ million	31 July 2007 Basel II Pro forma £ million	31 July 2007 Basel I Pro forma £ million
Risk weighted assets (notional)	**3,804.0**	3,449.5	2,776.6
Total regulatory capital	**613.6**	702.1	702.1
Total capital ratio	**16.1%**	20.4%	25.3%

The notional risk weighted assets increased primarily as a result of increases in the loan book by 14% to £2,232 million (2007: £1,963 million) and cash and cash equivalents placed with banks by 11% to £2,385 million (2007: £2,149 million). Notional risk weighted assets calculated under Basel II also include a notional adjustment for operational and market risk requirements.

The deployment of our regulatory capital resources in 2008 was:

		2008 £ million
Dividend payments		**92.7**
Investment in:		
Associates	**49.7**	
Own shares	**16.0**	
Intangible assets	**13.9**	
		79.6
Other regulatory adjustments		**6.2**
		178.5
Retained earnings		**(90.0)**
Net decrease in regulatory capital		**88.5**

We believe our strong capital position is a core strength in the current market environment, and leaves us well positioned to take advantage of organic and acquisition growth opportunities.

Our credit ratings were recently reaffirmed at A2/P1 by Moody's and A/F1 by Fitch, both with a stable outlook.

Treasury Shares

Close Brothers Group plc held 2,048,555 of its ordinary shares in Treasury for the purposes of satisfying option grants and share awards made under employee share plans as at 31 July 2008. Since that date a further 2,300,271 ordinary shares have been purchased by the company resulting in a total of 4,348,826 of the company's ordinary shares being held in Treasury.

Key Performance Indicators ("KPIs")

	2008	2007
Operating margin[1]	**26%**	29%
Expense/income ratio[2]	**69%**	67%
Compensation ratio[3]	**45%**	43%
Return on opening capital[4]	**12%**	18%

[1] Adjusted operating profit on adjusted operating income.

[2] Adjusted operating expenses on adjusted operating income.

[3] Total staff costs excluding exceptional items on adjusted operating income.

[4] Adjusted operating profit after tax and minority interests on opening total equity.

Note: All KPIs exclude associate income, exceptional items and goodwill impairment.

Asset Management

- Funds under Management at £8.2 billion (down 10%)
- Adjusted operating profit down 42% to £32.6 million
- Management fees/average FuM marginally down at 92 bps

"Performance in our Asset Management division has been affected by the difficult financial markets and general negative sentiment during the year."

"The large majority of our high net worth private client portfolios outperformed the respective APCIMS indices."

Key Divisional Metrics

	2008 £ million	2007 £ million	Change %
Adjusted operating income	**133.5**	177.5	(25)
Management fees on FuM	**79.5**	80.4	(1)
Income on Assets under Administration and deposits	**41.8**	41.0	2
Performance fees and investment income	**12.2**	56.1	(78)
Adjusted operating expenses	**(100.9)**	(120.9)	(17)
Adjusted operating profit	**32.6**	56.6	(42)
Management fees/average FuM (bps)	**92**	93	(1)
Closing FuM	**8,195**	9,148	(10)
Average FuM	**8,672**	8,680	–

Note: For the year ended 31 July 2007, the statutory operating profit of the Asset Management division included non-recurring investment gains and private equity performance fees of £43 million of which £21.1 million were treated as exceptional.

Performance in our Asset Management division has been affected by the difficult financial markets and general negative sentiment during the year. This has resulted in a 10% decline in Funds under Management to £8.2 billion, as a result of adverse market movements and negative net new funds.

Adjusted operating income for the year was £133.5 million (2007: £177.5 million), a decline of 25%, excluding £21.1 million of exceptional income related to private equity performance fees and investment gains in 2007.

The level of management fees on FuM declined by 1% to £79.5 million (2007: £80.4 million). The average FuM was stable at £8.7 billion and management fees on average FuM declined marginally to 92 bps (2007: 93 bps).

Income on Assets under Administration and deposits increased by 2% to £41.8 million (2007: £41.0 million). Performance fees and investment income, which benefited from an exceptionally strong private equity performance in 2007 reduced by 78% to £12.2 million (2007: £56.1 million excluding exceptional income).

Adjusted operating expenses were reduced by 17% to £100.9 million primarily as a result of lower variable salary costs, but the expense/income ratio (before exceptional items) increased to 76% (2007: 68%) as lower costs were more than offset by the reduction in performance fees and investment income. We have taken steps to further reduce the cost base of the division to reflect the weaker market conditions which has resulted in £2.1 million of restructuring costs which have been recorded as an exceptional item in 2008.

Adjusted operating profit for the year declined by 42% to £32.6 million (2007: £56.6 million). This resulted in a decline in the operating margin (before exceptional items) from 32% to 24%.

Funds under Management

	Private Clients £ million	Funds £ million	Total £ million
As at 1 August 2007	3,588	5,560	**9,148**
New funds raised	436	742	**1,178**
Redemptions, realisations and withdrawals	(481)	(1,064)	**(1,545)**
Net new funds	(45)	(322)	**(367)**
Market movement	(227)	(359)	**(586)**
As at 31 July 2008	**3,316**	**4,879**	**8,195**
Change	**(8)%**	**(12)%**	**(10)%**

Funds under Management declined by 10% to £8,195 million (2007: £9,148 million). Private Clients FuM declined by 8% to £3,316 million (2007: £3,588 million) while Funds FuM declined by 12% to £4,879 million (2007: £5,560 million). £586 million of the decline was the result of market movements, which affected both the Private Clients and Funds businesses. Net new funds were negative £367 million as new funds raised of £1,178 million were not sufficient to offset redemptions, realisations and withdrawals. Nevertheless, our broad mix of asset classes has provided some insulation against the volatile market conditions. The FTSE All-Share was down 16% over the twelve months to 31 July 2008.

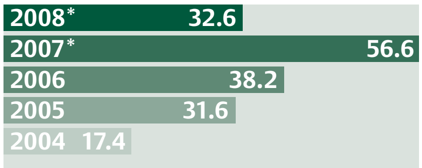
Although equity and property markets were down over the year, the large majority of our high net worth private client portfolios outperformed the respective APCIMS indices and over 80% of our hedge fund, specialist and structured product Funds under Management outperformed their respective benchmarks.

Asset Management KPIs

	2008	2007
Operating margin	**24%**	32%
Expense/income ratio	**76%**	68%
Compensation ratio	**48%**	48%
Net new funds/opening FuM	**(4.0)%**	4.4%

Note: All KPIs exclude exceptional items.

Asset management operating profit £ million



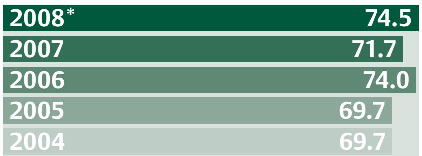
*Pre exceptional items.

FuM by asset class 31 July 2008 (2007 in brackets)

- 37% Equities (43%)
- 23% Fixed income and cash (19%)
- 15% Property (15%)
- 9% Private equity and venture capital (9%)
- 8% Hedge funds (8%)
- 8% Structured funds (6%)

Banking

Banking operating profit £ million



*Pre exceptional items.

- A resilient performance based on a disciplined lending approach
- 14% growth in loans and advances to customers to £2.2 billion
- 4% increase in adjusted operating profit to £74.5 million
- Bad debt ratio increased to 1.3%
- Funding position remains strong

Analysis of group loan book by asset security 31 July 2008 (2007 in brackets)

- 21% Transport, engineering and plant (21%)
- 21% Property (16%)
- 18% Insurance premiums (18%)
- 18% Motor vehicles (20%)
- 9% Invoice receivables (9%)
- 5% Printing machinery (7%)
- 8% Other assets (9%)

Key Divisional Metrics

	2008 £ million	2007 £ million	Change %
Adjusted operating income	**207.1**	197.8	5
Net interest and fees on loan book	**180.3**	170.1	6
Treasury and other non-lending income	**26.8**	27.7	(3)
Adjusted operating expenses	**(105.1)**	(104.6)	–
Impairment losses on loans and advances	**(27.5)**	(21.5)	28
Adjusted operating profit	**74.5**	71.7	4
Net interest margin[1]	**8.6%**	8.9%	
Bad debt ratio[2]	**1.3%**	1.1%	

[1] Net interest and fees on average net loans and advances to customers

[2] Impairment losses on average net loans and advances to customers

Our Banking division performed well against a backdrop of increasing economic uncertainty and reduced market liquidity, and we achieved steady growth in the loan book. During the year we have seen signs of an increase in demand for our specialist lending services and products in some areas as a result of the credit crunch, although we have also seen a rise in impairment losses on loans and advances ("bad debts") as a result of the weaker macroeconomic environment.

Adjusted operating income for the year increased by 5% to £207.1 million (2007: £197.8 million). This was primarily the result of growth in loans and advances to customers ("the loan book"), with net interest margin slightly lower at 8.6% (2007: 8.9%) for the year. Income from treasury and other non-lending businesses reduced marginally, primarily as a result of lower levels of activity in our non-lending businesses.

This translated into a 4% increase in adjusted operating profit to £74.5 million (2007: £71.7 million), with operating expenses broadly flat at £105.1 million (2007: £104.6 million) and bad debt charges of £27.5 million (2007: £21.5 million).

Adjusted operating expenses exclude £0.3 million of exceptional items in 2008 related to restructuring costs.

Our bad debt ratio increased to 1.3% (2007: 1.1%) of the average net loan book as we experienced a rise in bad debt in the latter part of the year as a result of the weakening macroeconomic environment. We continue to apply prudent, consistent criteria to our lending decisions and bad debt provisioning.

The ratio of adjusted operating profit to the average net loan book reduced slightly to 3.6% (2007: 3.7%), and our operating margin remained constant at 36%.

Our loan book grew by 14% to £2.23 billion as at 31 July 2008 (2007: £1.96 billion). Organic growth was 6%, broadly spread across all our lending businesses. In addition, in March 2008 we acquired two niche lending businesses, Commercial Acceptances Group, a leading UK short-term and bridging lender, and Amber Credit, a specialist insurance premium finance business, with a combined loan book value of £145 million, for a combined premium to net assets of circa £9 million.

Our funding position continues to be strong against a backdrop of reduced market liquidity. As at 31 July 2008 we had £1.8 billion of committed facilities of which over £1.0 billion had a maturity over twelve months. Our deposit base continued to show steady growth through the year, posting a 15% increase to £2.64 billion as at 31 July 2008 (2007: £2.30 billion) including £787 million of offshore customer deposits attributed to the Asset Management division for segmental reporting purposes. However, the availability of funds in the market remains tight and consequently, we have seen some increase in funding costs.

We have no exposure to Special Investment Vehicles (“SIVs”), Collateralised Debt Obligations (“CDOs”) or other structured products. The portion of our customer deposits that is not used to fund the loan book continues to be invested in high quality money market instruments. Our £751.3 million FRNs were marked to market during the year resulting in a net charge to equity reserves of £15.7 million as at 31 July 2008.

Banking KPIs

	2008	2007
Operating margin	**36%**	36%
Expense/income ratio	**51%**	53%
Compensation ratio	**30%**	30%
Return on opening capital[1]	**18%**	20%
Return on net loan book[2]	**3.6%**	3.7%

[1] Adjusted operating profit after tax and minority interests on opening total equity.
[2] Banking division adjusted operating profit before tax on the average net loan book.
Note: All KPIs exclude exceptional items.

“Our Banking division performed well against a backdrop of increasing economic uncertainty and reduced market liquidity.”

“Our loan book grew by 14% to £2.23 billion as at 31 July 2008 (2007: £1.96 billion). Organic growth was 6%, broadly spread across all our lending businesses.”

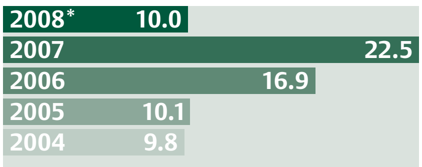
Corporate Finance

- Adjusted operating profit down 56% to £10.0 million, reflecting weaker market conditions in the UK
- Strong performance from French and German businesses
- Advised on 89 transactions (2007: 115 transactions)
- 82% of operating income from M&A activity

Key Divisional Metrics

	2008 £ million	2007 £ million	Change %
Adjusted operating income	**56.5**	77.2	(27)
Adjusted operating expenses	**(46.5)**	(54.7)	(15)
Adjusted operating profit	**10.0**	22.5	(56)
Number of transactions	**89**	115	(23)

Corporate Finance operating profit £ million



*Pre exceptional items

The last twelve months have seen a slowdown in mergers and acquisitions in the UK, and this has affected the performance of the division in the period. However, this has been partly offset by a strong performance from our French and German operations.

Adjusted operating income for the year was £56.5 million, a 27% decline compared to 2007 (£77.2 million). During the year we advised on a total of 89 transactions (2007: 115) across our businesses, a 23% decline year on year. Income per transaction was also impacted by a return to more normal pricing conditions relative to the higher, success based, fees seen in the strong M&A market of the last two years.

Adjusted operating profit was £10.0 million, a 56% decline on 2007 (£22.5 million), as a 15% reduction in adjusted operating expenses was more than offset by lower fee income. The overall expense/income ratio increased to 83% (2007: 72%) reflecting the impact of fixed non-staff costs. Steps have been taken to reduce our cost base.

Adjusted operating expenses excludes £0.9 million of exceptional items in 2008 related to restructuring costs.

Business mix continued to be weighted towards M&A activity, which accounted for 82% of total income for the year (2007: 73%). Our debt advisory business had a successful year profiting from testing conditions in the leveraged finance market, although our restructuring business had a slower year. As a result of the slowdown of activity in the UK, income from this region declined to 47% of the total (2007: 71%). Our French and German operations accounted for 36% and 17% respectively (2007: 29% combined).

As part of our strategy of building a unified, strong European franchise, we acquired the remaining 17% in our French subsidiary in April 2008. We also increased our equity investment in our Spanish associate, Atlas Capital Close Brothers, from 20% to 45% in December 2007 and, post the year end, acquired the balance in September 2008.

Corporate Finance KPIs

	2008	2007
Operating margin	**17%**	28%
Expense/income ratio	**83%**	72%
Compensation ratio	**60%**	57%

Note: All KPIs exclude associate income and exceptional items.

Securities

- Adjusted operating profit down 12% to £38.7 million
- Strong initial contribution from Mako of £7.2 million
- Seydler affected by weak market conditions

Key Divisional Metrics

	2008 £ million	2007 £ million	Change %
Adjusted operating income	**110.0**	128.0	(14)
Adjusted operating expenses	**(71.3)**	(83.9)	(15)
Adjusted operating profit	**38.7**	44.1	(12)

Note: 2008 adjusted operating income and adjusted operating profit include £7.2 million of post tax associate income (2007: nil) from Mako.

During the year, our Securities division has been impacted by the difficult market conditions, as evidenced by falling stock markets and a slowdown in retail trading volumes, particularly in Germany. This has led to a decline in income and profit at Winterflood, and a deteriorating performance at Seydler through the year. This was partly offset by a strong initial contribution from Mako.

Total adjusted operating income for the division declined by 14% to £110.0 million (2007: £128.0 million). Total adjusted operating profit for the division was £38.7 million (2007: £44.1 million), a 12% decline, including an initial £7.2 million contribution from Mako.

Adjusted operating expenses excludes £1.3 million of exceptional items in 2008 related to restructuring costs.

Key Winterflood Metrics

	2008 £ million	2007 £ million	Change %
Adjusted operating income	**81.0**	102.6	(21)
Adjusted operating expenses	**(57.5)**	(62.5)	(8)
Adjusted operating profit	**23.5**	40.1	(41)
Number of bargains (million)	**6.996**	6.934	1
Average bargains per trading day	**27,437**	27,407	–
Income per bargain	**£11.58**	£14.80	(22)

Winterflood is a leading UK based liquidity provider to the retail private client broker community and institutional asset managers, and makes markets in UK equities, blue chip international equities and gilts and bonds.

Bargain numbers continued to average over 27,000 per trading day in 2008 but a decline in average income per bargain to £11.58 (2007: £14.80), as a result of volatile trading conditions in falling markets, resulted in adjusted operating income declining by 21% to £81.0 million (2007: £102.6 million). Winterflood adjusted operating profit was £23.5 million (2007: £40.1 million), down 41% as an 8% reduction in expenses was more than offset by the lower level of income.

Key Seydler Metrics

	2008 £ million	2007 £ million	Change %
Adjusted operating income	**21.8**	25.4	(14)
Adjusted operating expenses	**(13.8)**	(21.4)	(36)
Adjusted operating profit	**8.0**	4.0	100

Seydler is a Frankfurt based broker dealer in domestic German and international bonds and equities. It is also a designated sponsor of small and mid-sized German companies with some 160 corporate relationships.

Adjusted operating income at Seydler was £21.8 million (2007: £25.4 million), down 14% with most of the decline occurring in the second half of the year as a result of a rapid and general slowdown in German retail market volumes. Corporate sponsorship income also weakened as a result of fewer companies coming to market during the period. Seydler adjusted operating profit was £8.0 million (2007: £4.0 million), including the reversal of a £4.1 million provision originally charged in the prior two years. Underlying profitability at Seydler was heavily skewed to the first half of the financial year.

In October 2007 we acquired 49.9% of **Mako**, a leading market-maker in exchange-traded equity, fixed income and commodity index derivatives. Mako made an initial contribution of £7.2 million of associate income over the ten months from October, benefiting from market volatility during the period.

During the year we undertook several new initiatives at Winterflood, including the execution of corporate share schemes on a market-making basis for a number of large cap corporate customers. In December 2007 we also launched Close Brothers Seydler Limited, a London based stock broking company specialising in marketing small and mid cap German securities to London-based institutional investors.

Securities KPIs

	2008	2007
Operating margin	**31%**	34%
Expense/income ratio	**69%**	66%
Compensation ratio	**45%**	35%

Note: All KPIs exclude associate income and exceptional items.

Risk Management

Risk management is the process of identifying the principal business risks, including regulatory compliance 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 risk management framework is based on the concept of "three lines of defence":

- Risk management: Primary responsibility for strategy, performance and risk management lies with the board, the chief executive and the heads of each division and operating business.
- Risk oversight: Risk oversight is provided by the Group Risk and Compliance Committee ("GRCC") and the head of Group Risk working with counterparts in the divisions and operating businesses and with Group Compliance. This is supplemented by a range of risk related committees at divisional and operating business levels which are described further below.
- Independent assurance: Independent assurance on the effectiveness of the risk management systems is provided by Group Internal Audit reporting to the Audit Committee.

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. The group's risk management framework requires that all of the group's divisions and operating businesses establish a process for identifying, evaluating and managing the key risks that they face.

The composition and duties of the Audit Committee are described on page 26. The GRCC is a committee established by the chief executive to assist him in the discharge of his responsibility for the group wide management of risk comprising the executives of the group board supported by the head of Group Risk, the head of Group Compliance and the head of Group Internal Audit. It meets monthly and is responsible for:

- recommending for board approval the group's risk appetite;
- the group's risk management strategy, approach and policy;
- the approval of group wide policies in respect of risk management and regulatory compliance; and
- receiving regular reports on significant risk management, regulatory compliance and internal control issues and for monitoring their analysis and resolution.

The heads of Group Risk and Group Compliance report to the chief executive and are responsible for the oversight of risk management and regulatory compliance around the group. The head of Group Internal Audit has a primary functional reporting line to the chairman of the Audit Committee with a secondary reporting line to the chief executive for administrative purposes.

The board considers the principal risks and uncertainties facing the group to comprise reputational, strategic, credit, market, liquidity, operational and regulatory compliance.

Reputational Risk

The board considers a loss of reputation to be the most significant risk to a business operating in the financial services sector but that this risk would crystallise only as a consequence of a failure in managing the group's other principal risks.

"Our policy is to be able to finance our customer loans and advances by capital and reserves, longer term deposits and committed facilities with only limited financing from shorter term deposits."

Strategic Risk

Strategic risk results from external factors and inadequate senior management processes that could lead to a significant failure of the effectiveness of the strategy of the group as whole, or of its divisions and businesses. This 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 challenge at divisional and board level to ensure that the group has adequate capital to meet its business and regulatory needs.

Credit Risk

Credit risk is the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion and arises mainly from the lending and treasury activities of our Banking division. Our loan book is well spread, short term, secured and with a low average loan size in order to avoid concentration risk. Credit risk resulting from our lending activities is controlled by a number of local credit committees within centrally set limits of authority. For transactions above such limits, there is a group level credit committee. 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. These counterparties have, almost exclusively, a credit rating of "AA" or better.

Credit risk in our Securities division is limited as our businesses in that division trade in the cash markets with regulated counterparties on a delivery versus payment basis such that any credit exposure is limited to price movements in the underlying securities. Counterparty exposure and settlement failure monitoring controls are in place.

Market Risk

Market risk is the risk that arises from adverse movements in equity, bond, interest rate, foreign exchange or other traded markets and arises primarily in our Securities division.

The Securities division is exposed to the market risk deriving from trading in equity and fixed income securities. Senior management 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. Real time controls on the size and risk profile of trading books and of individual books within these are maintained.

Our treasury operations do not trade actively in money market instruments although they are held for liquidity and yield purposes. Nor do we trade speculatively in derivatives as a principal. Interest rate mismatch and currency exposure policies are established by the Treasury Committee with compliance monitored daily. 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. 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.

We have immaterial currency exposures, 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. Our currency exposure resulting from our investment in overseas subsidiaries, although increased, is relatively small. The extent to which the group's profit and consolidated balance sheet is affected by movements in exchange rates is minimal.

Risk Management

Liquidity Risk
Liquidity risk is the risk of not being able to meet liabilities as they fall due and arises mainly in our Banking division. Each of our operations is responsible for its own liquidity within specified guidelines. Each is capitalised at a level required to meet its business and regulatory needs and, where necessary, has appropriate borrowing facilities from the company, treasury or external lenders. The liquidity of each division is reviewed at its monthly board meeting and the overall funding position is reported to the group board each month.

In the Banking division our policy is to be able to finance our customer loans and advances by capital and reserves, longer term deposits and committed facilities with only limited financing from shorter term deposits. This policy is kept under review by the Treasury Committee with compliance monitored daily.

Operational Risk
Operational risk is the risk of material adverse impact resulting from inadequate internal processes, people or systems or from external events and is inherent in all our businesses. Each of our main operations is managed separately and has its own financial control, operations and IT departments with operational risk management carried out by the local management. Consequently there is little or no integration of systems, management or processes, which mitigates systemic operational risk.

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

The principal operational risks to which our Corporate Finance division is exposed are controlled and monitored by the Risk Committee in which senior management of both Corporate Finance and group participate.

Regulatory Compliance Risk
Regulatory compliance risk is the risk of material adverse impact resulting from failure to comply with laws, regulations, codes of conduct or standards of good practice governing the financial services sectors in which we operate. Each of our regulated businesses has a dedicated compliance officer reporting to the chief executive of that business who is responsible for supporting the business in meeting its regulatory compliance objectives and for executing risk-based monitoring programmes to confirm compliance. The activities of these compliance professionals is co-ordinated and overseen on a group-wide basis by the head of Group Compliance.

Report of the Directors

The directors present their report and the audited financial statements for the year ended 31 July 2008.

Business Review and Principal Activities

Close Brothers Group plc is the parent company of a group of companies engaged in financial services. The principal subsidiary undertakings as at 31 July 2008 and their principal activities are listed in note 22 on page 68 to these financial statements.

The information that fulfils the requirements of the Business Review can be found in the following sections of the Annual Report, which are incorporated into this Report of the Directors by reference:

(a) 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 and Chief Executive's Statement on pages 4 to 7 and the Business Review on pages 10 to 20.

(b) Principal risks and uncertainties facing the company and its subsidiary undertakings and how they are controlled are described on pages 18 to 20.

(c) Information relating to the environment and staff matters are given in the Social Responsibility statement on pages 29 to 30.

Results and Dividends

The consolidated results for the year are shown on page 44. The directors recommend a final dividend for 2008 of 25.5p (2007: 25p) on each ordinary share which, together with the interim dividend of 13.5p (2007: 12p), makes an ordinary distribution for the year of 39p (2007: 37p) 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 IFRS accounts, IAS 1 requires that financial statements present fairly for each financial year the group'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 group's financial position and financial performance; and prepare the accounts on a going concern basis unless, having assessed the ability of the group to continue as a going concern, management either intends to liquidate the group or to cease trading, or have no realistic alternative but to do so.

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 judgements 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; and prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements. The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and the company and to enable them to ensure that the group financial statements comply with the Companies Act 1985 and Article 4 of the International Accounting Standards Regulation and that the company financial statements and the Directors' Remuneration Report comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

Report of the Directors

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
As at 31 July 2008 the company had 149.4 million ordinary shares in issue with a nominal value of 25p each. Details of changes in the company's ordinary share capital during the year are given in note 19 on page 65 to these financial statements. During the year the company issued 2.1 million ordinary shares of 25p each in satisfaction of option exercises. Full details of the options exercised, including the year of grant, option exercise price and average market price on day of exercise can be found in note 27 on page 73. Each share carries the right to one vote at general meetings of the company. No person has any special rights of control over the company's share capital and all shares are fully paid.

During the year ended 31 July 2008, the company made market purchases of 2.1 million of its own shares ("Treasury Shares"), representing 1.4% of the issued share capital and for an aggregate consideration excluding stamp duty of £11.7 million. All purchases of Treasury Shares were market purchases through an agent. The company's policy is to hold Treasury Shares for the purpose of satisfying option grants and share awards under the company's employee share plans. In addition, during the year ended 31 July 2008, 0.1 million Treasury Shares were transferred out to satisfy share option awards, for a total consideration of £0.4 million. The maximum number of Treasury Shares held at any time during the year was 2.0 million with a nominal value of £0.5 million.

Restrictions on the transfer of shares
There are no specific restrictions on the transfer of the company's shares, although the Articles of Association contain provisions whereby the directors may refuse to register a transfer of a certificated share which is not fully paid, provided that such refusal does not prevent dealings in the share from taking place on an open and proper basis. The directors may also refuse to register the transfer of a certificated share unless it is: (i) lodged, duly stamped, at the registered office or at such other place as the directors may appoint, accompanied by the certificate for the shares to which it relates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer; (ii) in respect of only one class of shares; and (iii) in favour of not more than four transferees.

The directors may suspend the registration of transfers of shares or of transfers of any class of shares at such times and for such periods (not exceeding 30 days in any year) as the board may determine, except that they may not suspend the registration of transfers of any uncertificated shares without the consent of CREST.

The directors may refuse to register a transfer of shares if a shareholder has not supplied information to the company in default of a request duly served under section 793 of the Companies Act 2006 and such shares represent at least 0.25% of the class of shares concerned.

The company is unaware of any arrangements between its shareholders that may result in restrictions on the transfer of shares and/or voting rights.

New issues of share capital
Under the Companies Acts, the directors of a company are, within certain exceptions, unable to allot any equity securities without express authorisation, which may be contained in a company's Articles of Association or given by its shareholders in general meeting, but which in either event cannot last more than five years. Under the Companies Acts, the board may also not allot shares for cash (otherwise than pursuant to an employee share scheme) without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by a special resolution of the shareholders.

Purchase of own share capital
At the company's 2007 Annual General Meeting ("AGM") shareholder authority was given to purchase up to 15% of the issued share capital. The directors intend to seek shareholder approval to renew this authority.

Subject to authorisation by shareholder resolution, the company may purchase its own shares in accordance with the Companies Acts. Any shares which have been bought back may be held as Treasury Shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of issued share capital. The directors currently have shareholder authority to buy back up to 22.0 million ordinary shares during the period up to the forthcoming AGM. The minimum price which must be paid for such shares is 25p and the maximum price is the higher of: (i) an amount equal to 5% above the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days before the purchase is made; and (ii) an amount equal to the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange Daily Official List at the time the purchase is carried out.

Significant Contracts

A change of control of the company following a takeover bid may cause a number of agreements to which the company is party to take effect, alter or terminate. These include certain insurance policies, bank facility agreements and employee share plans.

The group has committed facilities totalling £1.2 billion as at 31 July 2008 which contain clauses which require lender consent for any change of control. Should consent not be given, a change of control would trigger mandatory prepayment of the facility.

All of the company's employee share plans contain provisions relating to a change of control. Outstanding awards and options may vest and become exercisable on change of control, subject where appropriate to the satisfaction of any performance conditions at that time and pro-rating of awards. In the context of the company as a whole, these agreements are not considered to be significant.

Substantial Interests

At 15 September 2008 the following shareholders had notified the company that they were interested in 3% or more of the issued share capital of the company:

	Ordinary shares million	Voting rights %
Caledonia Investments plc	19.6	13.5
Prudential plc	15.1	10.4
Aberdeen Asset Management PLC	8.4	5.8
Aviva plc	7.8	5.4
Lloyds TSB Group plc	7.4	5.1
Legal & General plc	6.4	4.4

Directors and Interests

The directors are responsible for the management of the business and may exercise all powers of the company subject to UK legislation, any directions given by special resolution and the Memorandum and Articles of Association.

(a) The present directors of the company, all of whom served throughout the year except for Messrs. J.M.B. Cayzer-Colvin and J.A.G. Howell who were appointed on 1 January and 4 February 2008 respectively, are shown on pages 8 and 9.

(b) The directors who left the company during the course of the year were:

	Date of leaving
P.N. Buckley	31 December 2007
M.A. Hines	31 July 2008
R.D. Kent	2 June 2008
M.G.A. McLintock	29 May 2008
D.C. Pusinelli	30 June 2008
J.P. Williams	1 November 2007
P.L. Winkworth	28 September 2007

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

	Ordinary shares	
	31 July 2008	1 August* 2007
B.N. Carnegie-Brown	**10,000**	–
J.M.B. Cayzer-Colvin	**–**	–
S.R. Hodges	**693,469**	455,462
J.A.G. Howell	**–**	–
C.D. Keogh	**571,405**	386,251
P.S.S. Macpherson	**–**	–
D.G.J. Paterson	**12,000**	10,000

*or date of appointment if later

Mr. J.M.B. Cayzer-Colvin is a director of Caledonia Investments plc, which had an interest in 19.6 million ordinary shares of the company at 31 July 2008 (1 August 2007: 18.0 million).

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 31 to 41. The beneficial interests of the directors in the share capital of the company have remained unchanged since 31 July 2008.

(d) With regard to the appointment and replacement of directors, the company is governed by its Articles of Association, the Companies Acts and related legislation. The Articles of Association may be amended by special resolution of the shareholders.

(e) Directors may be elected by members in general meeting or appointed by the board of directors in accordance with the provisions of the Articles of Association. At each AGM at least one third of the directors, representing those directors who have been in office the longest since their election and, in addition, any directors appointed by the board of directors since the last AGM are required to resign and are then reconsidered for election, assuming they wish to stand for re-election. Accordingly, Messrs. C.D. Keogh and B.N. Carnegie-Brown, retire by rotation. Biographical details of these directors are given on pages 8 and 9.

Messrs. Keogh and Carnegie-Brown, being eligible, offer themselves for re-election. Mr. Keogh has a service contract which can be terminated upon twelve months' notice. Mr. Carnegie-Brown is a non-executive director and, as such, does not have a service contract. The chairman of the board confirms that following formal performance evaluation, Mr. Carnegie-Brown continues to be effective and to demonstrate commitment to the role including time for board and committee meetings and other duties. Consequently, the board recommends his re-election.

Report of the Directors

Messrs. J.M.B. Cayzer-Colvin and J.A.G. Howell, having been elected since the last AGM, retire in accordance with the Articles of Association and, being eligible, offer themselves for re-election. Mr. Cayzer-Colvin is a non-executive director and as such does not have a service contract. The board does not consider Mr. Cayzer-Colvin independent for the purposes of the Combined Code. Mr. Howell has a service contract which can be terminated upon twelve months' notice.

(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 3.0 million (2007: 2.4 million) shares in the company, all of which are conditionally earmarked for share awards. The trust acquired these shares at an average cost of 722.1p (2007: 726.4p) per share compared to a market value of 597.5p per share at 31 July 2008. Dividends have been waived on these shares. The trustees of the employee benefit trust retain the voting rights over the shares held in the trust and exercise these rights independent of the interests of the company.

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.

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 22 (2007: 24).

Auditors

Resolutions to re-appoint Deloitte & Touche LLP as the company's auditors and to give the directors the authority to determine the auditors' remuneration 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 will expire at the conclusion of the AGM. 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 21.7 million 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 the higher of: (i) 105% of the average of the middle market quotations of an ordinary share of the company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased; and (ii) an amount equal to the higher of the price of the last independent trade of a share as derived from the London Stock Exchange and the highest current independent bid on the London Stock Exchange Official List at the time the purchase is carried out. The minimum price will be the par value. 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 2009 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 2009 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 £12.0 million, 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 £1.8 million 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.

Articles of Association

The company's Articles of Association can only be amended by special resolution at a general meeting of shareholders.

It is proposed to adopt new Articles of Association at the AGM. Since the directors are proposing a large number of changes, to take account of developments in law and practice applicable to companies since the current Articles of Association were adopted in 2000, it is more appropriate to adopt new Articles of Association, rather than amend the existing ones.

A circular to shareholders will be sent with the Notice of Annual General Meeting containing a summary of principal changes proposed and the reasons for these changes.

By order of the board

R.D. Sellers
Company Secretary

29 September 2008

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 31 to 41 and the Report of the Directors on pages 21 to 24, this statement explains how the company has applied the principles of good governance contained in the Combined Code on Corporate Governance published in June 2006 by the Financial Reporting Council ("the Combined Code") for the year ended 31 July 2008.

Compliance with the Combined Code
The company has complied with the Combined Code throughout the year ended 31 July 2008, except that:
- At least half the board excluding the chairman were not independent. Two independent non-executive directors are being recruited to correct this exception.
- The Remuneration Committee and the Audit Committee consisted of only two independent directors. A third independent director will be appointed following the recruitment of the two non-executive directors referred to above.
- The membership of the Remuneration Committee included Mr. R.D. Kent between August 2007 and January 2008, who under the Combined Code was not independent. The board were of the opinion that his membership of this Committee was necessary and justified by his knowledge and experience of remuneration issues in financial services.

Board Responsibilities
The board has a formal schedule of matters reserved for its decision. The schedule is reviewed annually and includes:
- setting and monitoring strategy;
- reviewing performance;
- risk management;
- regulatory compliance and internal control;
- ensuring adequate financial resources; and
- reporting to shareholders.

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.

All directors have direct access to the advice and services of the company secretary who is responsible for ensuring that the board procedures and applicable rules and regulations are observed. Directors are able to take independent outside professional advice as necessary, at the company's expense.

Meetings of the Board
The principal matters considered by the board during the year included:
- the group strategic plan;
- takeover approaches;
- trading;
- share price and shareholder perceptions;
- independence of non-executive directors;
- the interim and final results as well as the interim management statements; and
- capital management.

In addition, the board considered succession planning to ensure continuity and that the company continues to meet its objectives.

Chairman and Chief Executive
Mr. P.S.S. Macpherson was appointed chairman on 2 June 2008 following the resignation of Mr. R.D. Kent who resigned because of an unexpected and significant increase in his responsibilities elsewhere. Mr. Macpherson, as deputy chairman at that time, was the planned successor in these circumstances. Consequently, neither open advertising nor the services of an external search consultancy were used prior to Mr. Macpherson's appointment.

The roles of the chairman and chief executive are separated and their responsibilities are clearly established. The division of responsibilities between the chief executive and chairman is clearly documented and has been approved by the board. The chairman is responsible for the running of the board and the chief executive is responsible for the running of the company's business.

The significant commitments of the chairman, Mr. Macpherson, are set out in his biography on page 9. The board is satisfied that his other commitments do not unduly restrict him from carrying out his duties effectively.

In accordance with the Combined Code, the non-executive directors led by the senior independent director, assessed the performance of the chairman. This included discussions with executive directors and shareholders and an assessment of the chairman's other commitments.

Senior Independent Director
The senior independent director until June 2008 was Mr. P.S.S. Macpherson. Mr. B.N. Carnegie-Brown was appointed senior independent director in June 2008 when Mr. Macpherson became chairman.

Corporate Governance

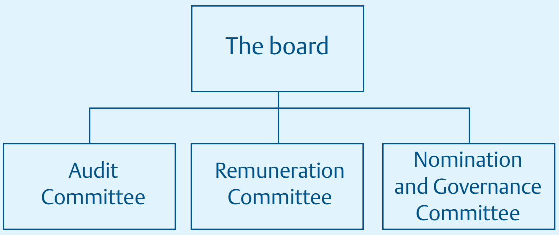
Attendance at Meetings
The attendance of directors at board meetings held during the year which they were eligible to attend is shown in the table below:

	Meetings attended[1]
Executive	
S.R. Hodges	9
J.A.G. Howell[2]	4
C.D. Keogh	9
Non-executive	
B.N. Carnegie-Brown	8
J.M.B. Cayzer-Colvin (or alternate P.N. Buckley)[3]	6
P.S.S. Macpherson	9
D.G.J. Paterson	9

[1] The number of scheduled meetings held in the year was nine.
[2] On 4 February 2008 Mr. J.A.G. Howell was appointed to the board.
[3] On 1 January 2008 Mr. J.M.B. Cayzer-Colvin was appointed to the board.

In addition the chairman and non-executive directors meet regularly without the executive directors present.

Board Committees
The board has appointed the following committees, whose members are all non-executive directors. Terms of reference for each committee are available on the company's website.



Audit Committee
The membership of the Audit Committee during the year, together with a record of attendance at meetings members were eligible to attend, is set out below:

	Appointed	Resigned	Meetings attended*
D.G.J. Paterson (Chairman)	April 2004		8
B.N. Carnegie-Brown	September 2006		7
P.S.S. Macpherson	May 2003	June 2008	5
J.P. Williams	September 2004	October 2007	1

*The number of meetings held in the year was eight.

Membership
Mr. D.G.J. Paterson, the chairman of the Audit Committee, as a senior partner in the banking and capital markets division of PricewaterhouseCoopers until 2004 and as a non-executive director of Goldman Sachs International Bank has, in the view of the board, the appropriate level of recent and relevant financial experience as required by the Combined Code. The company secretary, or his nominee, acts as secretary to the Committee. The chief executive, finance director and heads of Group Finance, Risk, Compliance and Internal Audit attend by invitation. Representatives of the external auditors also generally attend the meetings at least twice a year. The Committee also meet regularly without members of management present.

Role
The role of the Committee includes:
- monitoring the integrity of the financial statements of the company and the form and content of published announcements;
- reviewing accounting policies, accounting treatments, judgements and disclosures in financial reports;
- reviewing the adequacy of the group's system of risk management, regulatory compliance and internal control;
- reviewing the group's whistleblowing procedures;
- monitoring and reviewing the effectiveness of Group Internal Audit; and
- making recommendations to the board as to the appointment or re-appointment and remuneration of the external auditors, including assessing independence and objectivity, approving their terms of engagement and reviewing their findings and performance and overseeing the relationship with them.

The Committee reports to the board on all these issues identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.

External auditors
As in previous years, the Committee conducted a review of the service provided by the group's external auditors. The results of this review were shared with the external auditors to provide a basis for our recommendation as to their re-appointment.

In respect of the subsidiaries in the Banking division, the Committee decided to appoint Deloitte & Touche LLP to replace Ernst & Young LLP as the auditors of these companies during the year. Consequently Deloitte & Touche LLP now audit almost all companies in the group.

Non-audit services policy
The Committee have agreed a clear policy on the engagement of our external auditors for non-audit services. Where work is closely related to the audit, for example accounting advice or stock exchange reporting, work may be awarded to the external auditors. If the work is of a nature such that a detailed understanding of the group is necessary, or where significant benefit can be gained from work previously conducted, for example tax advice or due diligence on transactions, the work may be awarded to the external auditors, except that if it exceeds £100,000 in value, it must first be approved by the Committee. The Committee believe that this policy

provides a more relevant measure of auditor independence than the monetary ratios and guidelines followed by some investors. A breakdown of the fees paid to our auditors in respect of audit and non-audit work is included in note 5 on page 55.

Remuneration Committee

The membership of the Remuneration Committee during the year, together with a record of attendance at meetings members were eligible to attend, is set out below:

	Appointed	Resigned	Meetings attended*
B.N. Carnegie-Brown (Chairman)	November 2007		5
M.G.A. McLintock	November 2004	November 2007	3
R.D. Kent	March 2007	January 2008	1
P.S.S. Macpherson	September 2004	June 2008	7
D.G.J. Paterson	June 2008		1

*The number of meetings held in the year was eight.

The role, policies and workings of the Committee are detailed in the Report of the Board on Directors' Remuneration on pages 31 to 41.

The Committee's key role is 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

The membership of the Nomination and Governance Committee during the year, together with a record of attendance at meetings members were eligible to attend, is set out below:

	Appointed	Resigned	Meetings attended*
P.S.S. Macpherson (Chairman)	November 2005		2
R.D. Kent	November 2006	June 2008	1
B.N. Carnegie-Brown	November 2007		2
M.G.A. McLintock	September 2004	May 2008	1
D.G.J. Paterson	November 2005		2
J.P. Williams	November 2005	October 2007	–

*The number of meetings held in the year was two.

Role

The role of the Committee includes:
- considering the appointment or retirement of directors;
- reviewing 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;
- regular reviews of the structure, size and composition of the board;
- considering the leadership needs of the group and succession planning; and
- assessing the contribution of non-executive directors.

During the year the Committee met to consider:
- the appointment of a new finance director;
- Committee membership;
- the size and composition of the board;
- the recruitment of additional non-executive directors;
- succession planning; and
- the appointment of the chairman.

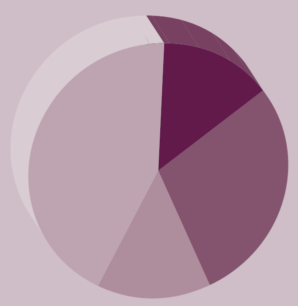
Board Evaluation

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.

In respect of the Audit Committee, the board is satisfied that the chairman of that committee, Mr. D.G.J. Paterson, has recent and relevant financial experience.

Board Balance and Independence

The board currently comprises the chairman, three non-executive directors and three executive directors. One non-executive director, Mr. J.M.B. Cayzer-Colvin, is not regarded as independent as he is an appointee of a significant shareholder. The senior independent director is Mr. B.N. Carnegie-Brown. The composition of the board is set out below:



- Chairman: 1
- Independent non-executive directors: 2
- Non-executive director: 1
- Executive directors: 3

Corporate Governance

The board is of the opinion that each non-executive director acts in an independent and objective manner and therefore, under the Combined Code, is regarded as independent with the exception of Mr. J.M.B. Cayzer-Colvin who is an appointee of a significant shareholder. 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.

The board acknowledges that there are insufficient independent non-executive directors to provide a balanced board under the Combined Code. However two additional independent non-executive directors are being recruited to achieve this balance.

Internal Control

The board has overall responsibility for the group's system of risk management, regulatory compliance and internal control and for reviewing their effectiveness. The systems are designed to ensure that the key 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 Risk Management section on pages 18 to 20 of the Business Review details these key risks and explains how they are controlled.

Group Internal Audit regularly reviews the effectiveness of controls and procedures established by the company and its operating businesses to manage key risks. The Head of Group Internal Audit reports through the Audit Committee to the board, to which he has unrestricted access through the chairman.

The company has complied with the Turnbull Committee's guidance for directors. Identifying, evaluating and managing the group's significant risks is an ongoing process which is regularly reviewed by the board, and which has been in place for the year ended 31 July 2008 and up to the date of the approval of these financial statements.

Auditors' Independence

The auditors of the group are Deloitte & Touche LLP. Ernst & Young LLP resigned as auditors of Close Brothers Seydler AG and the Banking division during the year.

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 partner in the firm and the executive directors, the Audit 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.

Social Responsibility

Introduction

Close Brothers places the highest importance on integrity in all its activities, considers its impact on society and the environment, and seeks to maintain high ethical standards. The board views appropriately addressing those impacts and standards as the group's Social Responsibility ("SR"). The board communicates its SR policy to all group companies and encourages the adoption of key SR principles, whilst recognising the devolved and independent nature of our businesses. In taking collective responsibility for SR, the board obtains and reviews relevant SR data to assess the group's success or otherwise of its SR policies.

The board believes that its main SR focus should be on the group's staff and customers, the local communities where it operates and the environment generally.

Staff

Close Brothers' SR goals with respect to its staff are intended to:
- attract high calibre employees;
- encourage all staff to maximise their talent;
- recognise and reward staff for strong performance and initiative; and
- provide a healthy workplace.

All group companies give appropriate consideration to applications for employment from all sources. As an example, 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.

During 2007 the group commissioned a third party to carry out, for the first time, a group wide employee survey. Benchmark comparisons with other companies were made and a number of initiatives are now being developed as a result. A follow-up survey is planned in 2009.

Operating divisions are encouraged to develop their own consultation policies. For example, many businesses hold 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.

Each business has established procedures appropriate to their particular activities to monitor and improve health and safety standards and the working environment generally.

To address stress in the workplace employees may need support in maintaining their suitable 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), access to medical service during working hours, and health screening, including on-site cholesterol and blood pressure screening. Some group companies offer enhanced maternity and paternity benefits as well as nursery voucher schemes and flexible working arrangements. Other activities offered to employees by subsidiaries include subsidised gym membership, free yoga classes and acupressure and head massages. With respect to stress-related illness, where data is available, it appears considerably less than half a day per employee per year was suffered.

Nearly one third of all staff look to participate directly in the success of the group through membership of its savings related share options and other share-based schemes.

One measure of whether the group is succeeding in satisfying its employees' needs is staff retention. The average length of employee service is well over four years and nearly 35% of staff have been with the group for more than five years.

Customers

Close Brothers' continued success and strong reputation depends on treating all its customers fairly by offering appropriate products and then delivering them effectively throughout their life.

The group considers that Treating Customers Fairly ("TCF") has always been part of its business culture. It ensures its regulated businesses comply with the Financial Services Authority ("FSA") principle that "a firm must pay due regard to the interests of its customers and treat them fairly" and supports the FSA's initiative to embed TCF in a business culture. The group aims to deliver to all customers, for all products and services, fair outcomes based on high standards of conduct and considers that every business has implemented TCF thoroughly.

During the year, all businesses completed a TCF gap analysis to identify any areas for review and developed and adopted a TCF policy statement. Compliance with the FSA's TCF objectives is monitored through management information provided periodically at board meetings. All new products and services are reviewed at inception to ensure those objectives have been addressed. TCF is a continuous process and the group will continue to develop its policies and procedures taking into account best practice guidance which the FSA issues from time to time.

Social Responsibility

Local Community and Environment

Close Brothers looks to encourage employees' charitable activities and donations and to support them performing volunteer work in their work communities. This enhances Close Brothers' reputation and profile in the community and also inspires its staff.

Charitable donations made during the year amounted to £168,000 (2007: £186,000), group contributions being made in two ways. Firstly, staff may have their own charitable fundraising endeavours matched by the group; we continue to look to improve staff awareness of this to encourage participation. Also, group companies contribute to recognised charities where significant humanitarian or environmental incidents have occurred.

Further, the group seeks to encourage staff themselves to make charitable donations by offering, and paying the administration costs of, a Give As You Earn scheme.

The group has implemented processes to manage environmental risks so as to lower its greenhouse gas emissions and reduce and recycle waste materials but also continues to seek improvements. For example, last year the group obtained a guarantee from its electricity provider that all of the electricity supplied to the group's largest office in London, which accommodated over 15% of the workforce, was from renewable sources; and almost all of its confidential paper waste was recycled. Wherever possible old IT equipment is donated to local schools, passed to organisations who can recommission for other countries or reused at our disaster recovery sites. The group continues to be a signatory to the Carbon Disclosure Project, which encourages all businesses to disclose their climate change risks, opportunities and impacts.

Other initiatives introduced around the group to reduce the group's consumption of raw materials and energy include scanners (to reduce the need for printing documents), double-sided printing, automatic shut down of personal computers at night, enhanced video conferencing equipment and communication lines (to reduce the need for travel) and motion sensor light switches.

Where data has been available, the following data suggests that the group's activities are working but also that in every case there is still room for considerable improvement:

	2008	2007
CO_2 emissions (tonnes/thousand square feet)	**14**	17
Paper usage (tonnes/hundred employees)	**6.3**	6.6
Waste recycled (tonnes/hundred employees)	**17**	15
Water usage (cubic metres/thousand square feet)	**44**	52

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 except that the Combined Code requires the Remuneration Committee ("the Committee") to consist of three independent non-executive directors. At certain times during the year the Committee consisted of two independent non-executive directors due to a shortage of such directors to meet this requirement. Steps have been taken to recruit two additional independent non-executive directors to enable the membership of the Committee to comply with the Combined Code in future.

Remuneration Policy
This section of the report explains the remuneration strategy and policy. The policy is essentially unchanged from 2005.

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. The current policy is summarised in the following table:

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 of two independent non-executive directors, namely Messrs. B.N. Carnegie-Brown (chairman), and D.G.J. Paterson. The chairman of the board, Mr P.S.S. Macpherson and the group chief executive, Mr. C.D. Keogh, attend meetings by invitation. The company secretary, or his nominee, acts as secretary of the Committee.

The board regards Messrs. B.N. Carnegie-Brown and D.G.J. Paterson as independent as explained in the Corporate Governance Report on pages 25 to 28. Details of the number of meetings and each member's attendance are set out in the table on page 27.

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. During the year the Committee was advised by PricewaterhouseCoopers in relation to the possible introduction of new equity type incentive arrangements and New Bridge Street Consultants on long term incentive plans.

The terms of reference of the Committee comply with the Combined Code and are available on the company's website.

Strategy	Policy	Package
To provide remuneration arrangements which are: • Fair • Competitive • Motivating	• Motivates executives in the short term whilst linking remuneration to long term performance of the group. • Aligns the interests of executive directors with shareholders through performance related awards partially settled in shares. • Is appropriate in comparison with remuneration of competitors. • Reflects group profit levels and rewards profit growth with performance related awards forming a significant element.	• Basic salary • Car allowance • Other benefits such as life assurance • Annual bonuses • Pension contributions or allowance • Long term incentive arrangements – Executive share option scheme or – Long term incentive plan and – Sharesave plans

In determining directors' remuneration, consideration is given to the following:

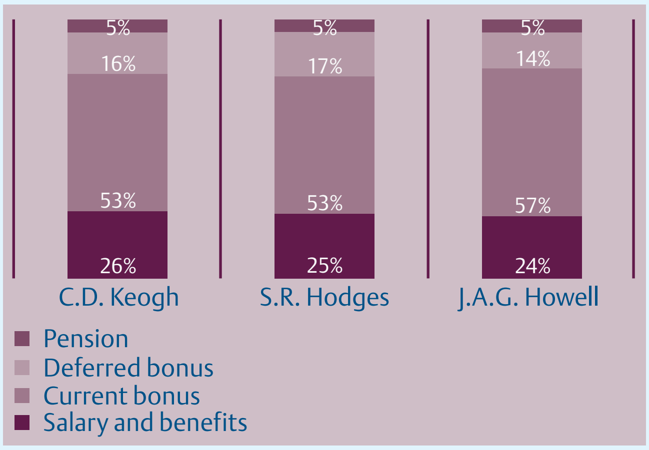
Matters specific to the company	Matters specific to the individual
• Returns to shareholders • Profit and earnings performance (in absolute terms and against budget) • Quality of profit and earnings • Market conditions • Performance across all divisions • Applications of risk controls across the business • Proportion of remuneration to total profit	• Experience • Performance • Areas of responsibility • Remuneration levels throughout the group • Comparable market remuneration

Report of the Board on Directors' Remuneration

Remuneration Mix

An appropriate balance is maintained between fixed and performance related remuneration and between elements linked to short-term financial performance and those linked to longer-term shareholder value criteria.

The mix of the remuneration of the executive directors for the year ended 31 July 2008 is shown below:



The Committee will continue to review the mix of fixed and performance linked remuneration on an annual basis, consistent with its overall philosophy.

Components of Remuneration

Basic salary

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.

The table below shows the executive directors' basic salary which are reviewed annually:

	Salary	
Executive director	**1 August 2008**	31 July 2008
C.D. Keogh	**£420,000**	£420,000
S.R. Hodges	**£367,500**	£367,500
J.A.G. Howell	**£360,000**	£360,000

Benefits and allowances

The company also provides executive directors with benefits which consist of healthcare cover, prolonged disability and life assurance cover, a company car or payment of an allowance in lieu thereof and a pension contribution or payment of an allowance in lieu thereof.

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 set out in this report.

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 except in respect of Mr. M.A. Hines, whose performance related award was paid from a formula based profit sharing pool for Winterflood and was therefore directly linked to the performance of that business.

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 usually be paid between 50% and 65% in cash without deferral and between 35% and 50% 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 who retired as a director on 31 July 2008 none of his performance related award this year has been deferred.

Details of the performance related awards in respect of the year ended 31 July 2008 are set out on page 35.

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.

2004 LTIP
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 adjusted 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.

2004 LTIP EPS element vesting criteria

Earnings per share growth per annum	Proportion of maximum award released
Less than RPI +5%	0%
RPI +5%	25%
Between RPI +5% and RPI +10%	Straight line scale between 25% and 100%
RPI +10% or more	100%

2004 LTIP TSR element vesting criteria
For the TSR element, performance is measured against a group of companies drawn from the FTSE-350 General Financial Index and the FTSE-350 Banks Index. This group comprised of 24 companies in respect of LTIP grant years to 2007. For the LTIP grant in 2008, the Committee intend to include all companies in the FTSE-350 General Financial Index and the FTSE-350 Banks Index in the comparator group at the date of grant.

TSR performance within comparator group	Proportion of maximum award release
Below median	0%
Median	25%
Between median and top 20%	Straight line scale between 25% and 100%
Top 20% and above	100%

1995 Scheme
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.

SAYE Scheme
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. M.A. Hines, J.A.G. Howell and P.L. Winkworth participated in defined contribution pension schemes or received an allowance equivalent to the company's pension contribution rate in lieu thereof.

Messrs. S.R. Hodges, C.D. Keogh and D.C. Pusinelli participated in the group's defined benefits pension scheme from which their benefits are described below.

The group's defined benefits pension scheme was closed to new entrants in August 1996, the normal pensionable age is 65, the pension at normal pensionable age is two-thirds of final pensionable salary subject to completion of 30 years' service and there is a 50% 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 1 August 2001 plus increases to reflect RPI to a maximum of 2% per annum from 1 August 2002.

The company contribution rate for the group's defined benefits pension scheme was determined by the scheme actuary and was 29.5% per annum of pensionable salary.

The table at the top of page 34 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.

Report of the Board on Directors' Remuneration

	Transfer value of accrued pension				Accrued pension	
	At 31 July 2007 £'000	Director's contributions £'000	Change during the year £'000	**At 31 July 2008 £'000**	Increase during the year £'000	**At 31 July 2008 £'000**
S.R. Hodges	1,510	16	133	**1,659**	9	**140**
C.D. Keogh	1,529	16	148	**1,693**	9	**140**
D.C. Pusinelli	1,099	13	84	**1,196**	7	**106**

External Appointments

Any external appointments require board approval. Any fees from such appointments will be taken into account when determining the remuneration of an executive director. Mr. Howell was a director of Emap plc until 20 March 2008.

Executive Directors' Service Contracts

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. Contracts do not contain liquidated damages clauses on termination. The notice period stated in the service contract of each executive director, and the date that contract was entered into, are as follows:

	Date of agreement	Notice period
S.R. Hodges	22 January 2001	12 months notice from the company 12 months notice from director
J.A.G. Howell	8 October 2007	12 months notice from the company 12 months notice from director
C.D. Keogh	22 January 2001	12 months notice from the company 12 months notice from director

All of the current executive directors are entitled to 100% of annual salary and the value of other benefits as compensation on termination by the company without notice or cause.

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. J. Cazyer-Colvin and Mr. P.N. Buckley as non-executive directors for the year ended 31 July 2008, Caledonia Investments plc was paid £47,500, as disclosed in the remuneration table on page 35.

The letters of appointment of the chairman and non-executive directors are available for inspection.

The chairman and non-executive directors are not eligible to participate in the share option schemes and their service is not pensionable.

The table below shows the non-executive fees which are reviewed annually:

	Non-executive fees	
	1 August 2008	31 July 2008
Chairman	**£180,000**	£180,000
Non-executive director	**£47,500**	£47,500
Supplements:		
Senior independent director	**£10,000**	£10,000
Chairman of Audit Committee	**£15,000**	£15,000
Chairman of Remuneration Committee	**£10,000**	£10,000
Chairman of Nomination and Governance Committee	**–**	–

Former Executive Directors' Remuneration

Mr. B.M. Winterflood, who retired as a director on 31 January 2002, is non-executive chairman of Winterflood for which he receives an annual fee of £80,000 and benefits of £20,000.

Mr. P.L. Winkworth, who stepped down as a director on 28 September 2007, served the company under a service contract dated 2 August 1984. On stepping down, he became entitled to a compensation payment, payable in instalments, representing the salary, benefits and performance related bonus he would have earned in his twelve month notice period. The amounts paid or payable up to 31 July 2008, including the Committee's assessment of loss of bonus, are disclosed in the Directors' Remuneration table on page 35.

Mr. D.C. Pusinelli, who stepped down as a director on 30 June 2008, served the company under a service contract dated 26 September 2002. He remained employed, on his existing arrangements, until 31 July 2008. On stepping down, he became entitled to a compensation payment, determined in accordance with his service contract, representing twelve months' salary and benefits. The payment is disclosed in the Directors' Remuneration table on page 35. In addition, the company agreed to pay up to £50,000 by way of outplacement fees. Mr. Pusinelli will remain entitled to fees in respect of ongoing roles as Chairman of the Trustees of the Close Brothers Limited (1979) Pension Plan and as a non-executive director of two subsidiary companies. These will be disclosed in the 2009 annual report.

Mr. M.A. Hines, who retired as a director on 31 July 2008, will be entitled to fees in respect of the ongoing role as a non-executive director of a subsidiary company. These will be disclosed in the 2009 annual report.

Directors' Remuneration

The following table shows the remuneration of each director for the year ended 31 July 2008:

	Salaries and fees £'000	Benefits and allowances[1] £'000	Performance related awards in respect of the current year: Current £'000	Performance related awards in respect of the current year: Deferred[2] £'000	Remuneration excluding severance payments: 2008 £'000	Remuneration excluding severance payments: 2007 £'000	Severance payments £'000	Total: 2008 £'000	Total: 2007 £'000	Company pension contributions: 2008 £'000	Company pension contributions: 2007 £'000
Executive											
Current directors											
S.R. Hodges	368	36	876	274	**1,554**	1,737	–	**1,554**	1,737	**90**	88
J.A.G. Howell[3]	178	9	445	105	**737**	–	–	**737**	–	**40**	–
C.D. Keogh	420	61	976	300	**1,757**	2,158	–	**1,757**	2,158	**90**	88
Former directors											
M.A. Hines[4]	225	98	979	–	**1,302**	1,428	–	**1,302**	1,428	**–**	–
D.C. Pusinelli[5]	303	38	750	–	**1,091**	1,400	340	**1,431**	1,400	**68**	73
P.L. Winkworth[6]	58	118	169	–	**345**	1,830	1,333	**1,678**	1,830	**–**	–
Non-executive											
Current directors											
B.N. Carnegie-Brown	57	–	–	–	**57**	40	–	**57**	40	**–**	–
J.M.B. Cayzer-Colvin[7]	28	–	–	–	**28**	–	–	**28**	–	**–**	–
P.S.S. Macpherson	78	–	–	–	**78**	40	–	**78**	40	**–**	–
D.G.J. Paterson	63	–	–	–	**63**	45	–	**63**	45	**–**	–
Retired directors											
P.N. Buckley[8]	20	–	–	–	**20**	40	–	**20**	40	**–**	–
R.D. Kent[9]	150	–	–	–	**150**	159	–	**150**	159	**–**	–
M.G.A. McLintock[10]	40	–	–	–	**40**	45	–	**40**	45	**–**	–
J.P. Williams[11]	12	–	–	–	**12**	40	–	**12**	40	**–**	–
Sir David Scholey	–	–	–	–	**–**	41	–	**–**	41	**–**	–
	2,000	360	4,195	679	**7,234**	9,003	1,673	**8,907**	9,003	**288**	249

[1] Benefits and allowances received by directors consist of healthcare cover, prolonged disability and life assurance cover, a company car or payment of an allowance in lieu thereof and an amount in lieu of pension entitlement.
[2] Deferred performance related awards will be satisfied in shares at a future date as detailed in the table on page 36.
[3] J.A.G. Howell joined on 4 February 2008.
[4] M.A. Hines retired on 31 July 2008.
[5] D.C. Pusinelli stepped down as a director on 30 June 2008.
[6] P.L. Winkworth stepped down as a director on 28 September 2007.
[7] J.M.B. Cayzer-Colvin joined the board on 1 January 2008. He appointed P.N. Buckley as his alternate.
[8] P.N. Buckley retired from the board on 31 December 2007.
[9] R.D. Kent stepped down as chairman and left the board on 2 June 2008.
[10] M.G.A. McLintock retired from the board on 29 May 2008.
[11] J.P. Williams retired from the board on 1 November 2007.

Report of the Board on Directors' Remuneration

Directors' Deferred Share Awards

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 1 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. The deferred share awards held by each director at 31 July 2008 or, in the case of Messrs. Pusinelli and Winkworth, their date of resignation as a director, were:

Grant year	Held at 1 August 2007	Number of shares granted[1]	Number of shares called for	**Held at 31 July 2008[2]**	Earliest vesting date
S.R. Hodges					
2001	13,576	–	(13,576)[3]	**–**	August 2003
2003	40,000	–	–	**40,000**	September 2004
2004	46,841	–	–	**46,841**	September 2006
2005	46,239	–	–	**46,239**	September 2007
2006	50,160	–	–	**50,160**	September 2008
2007	43,591	–	–	**43,591**	September 2009
	240,407	–	(13,576)	**226,831**	
C.D. Keogh					
2003	52,000	–	–	**52,000**	September 2004
2004	62,100	–	–	**62,100**	September 2006
2005	60,110	–	–	**60,110**	September 2007
2006	65,101	–	–	**65,101**	September 2008
2007	56,470	–	–	**56,470**	September 2009
	295,781	–	–	**295,781**	
D.C. Pusinelli[2]					
2004	26,614	–	–	**26,614**	September 2006
2005	29,901	–	–	**29,901**	September 2007
2006	36,552	–	–	**36,552**	September 2008
2007	31,826	–	–	**31,826**	September 2009
	124,893	–	–	**124,893**	
P.L. Winkworth[2]					
2004	46,132	–	–	**46,132**	September 2006
2005	46,239	–	–	**46,239**	September 2007
2006	50,160	–	–	**50,160**	September 2008
	142,531	–	–	**142,531**	

[1] The number of shares granted in 2008 for deferred share awards in respect of deferred performance related awards for the year ended 31 July 2008 will only be determined following publication of this report.
[2] In the case of Messrs. Pusinelli and Winkworth, the number of shares held related to their date of resignation as a director. Awards held by them were preserved on their resignation as directors.
[3] The closing mid-market price on the date deferred share award was called for was 636.0p.

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 "2004 LTIP" on page 33 were:

Grant year	Held at 1 August 2007[1]	Number of shares granted	Number of shares called for	Lapses	**Held at 31 July 2008[2]**	Market price upon grant	Earliest vesting date[3]
M.A. Hines[2]							
2004	28,735	–	(19,157)[4]	(9,578)	**–**	654.0p	28 October 2007
2005	22,771	–	–	–	**22,771**	841.0p	3 October 2008
2006	18,812	–	–	–	**18,812**	1008.5p	2 October 2009
2007	–	26,281	–	–	**26,281**	823.0p	2 October 2010
	70,318	26,281	(19,157)	(9,578)	**67,864**		
S.R. Hodges							
2004	96,398	–	(64,265)[5]	(32,133)	**–**	654.0p	28 October 2007
2005	63,760	–	–	–	**63,760**	841.0p	3 October 2008
2006	52,673	–	–	–	**52,673**	1008.5p	2 October 2009
2007	–	86,069	–	–	**86,069**	823.0p	2 October 2010
	212,831	86,069	(64,265)	(32,133)	**202,502**		
J.A.G. Howell							
2007	–	113,207	–	–	**113,207**	612.0p	4 March 2011
	–	113,207	–	–	**113,207**		
C.D. Keogh							
2004	114,942	–	(76,628)[5]	(38,314)	**–**	654.0p	28 October 2007
2005	85,013	–	–	–	**85,013**	841.0p	3 October 2008
2006	70,231	–	–	–	**70,231**	1008.5p	2 October 2009
2007	–	98,364	–	–	**98,364**	823.0p	2 October 2010
	270,186	98,364	(76,628)	(38,314)	**253,608**		
D.C. Pusinelli[2]							
2004	73,754	–	(49,169)[5]	(24,585)	**–**	654.0p	28 October 2007
2005	57,384	–	–	–	**57,384**	841.0p	3 October 2008
2006	47,406	–	–	–	**47,406**	1008.5p	2 October 2009
2007	–	77,462	–	–	**77,462**	823.0p	2 October 2010
	178,544	77,462	(49,169)	(24,585)	**182,252**		
P.L. Winkworth[2]							
2004	99,233	–	–	–	**99,233**	654.0p	28 October 2007
2005	63,760	–	–	–	**63,760**	841.0p	3 October 2008
2006	52,673	–	–	–	**52,673**	1008.5p	2 October 2009
	215,666	–	–	–	**215,666**		

Or at date of appointment if later.
[2] In the case of Messrs. Hines, Pusinelli and Winkworth, the number of share awards held related to their date of resignation as a director. Awards granted to all three individuals were preserved until the performance criteria can be tested in the normal course; the number of shares vesting will be pro-rated for service in certain cases.
[3] Those LTIP awards which satisfy their performance criteria may be called by the director within twelve months following the vesting date, after which they will lapse.
[4] The closing mid-market price on the date the shares were called for was 593.5p.
[5] The closing mid-market price on the date the shares were called for was 636.0p.

Report of the Board on Directors' Remuneration

Directors' Share Option Entitlements

Share option entitlements, other than SAYE options, are subject to the performance criteria described in this report under "1995 Scheme" on page 33. Unexercised options over ordinary shares held by directors under the 1995 Scheme and SAYE Scheme were:

Grant year	Held at 1 August 2007	Adjustment[1]	Number of options granted/ (exercised)	**Held at 31 July 2008[2]**	Exercise price	Earliest exercise date	Expiry date
M.A. Hines[2]							
1999	17,500	(15,576)	–	**1,924**	779.5p	3 November 2002	2 November 2009
1999	–	16,064	–	**16,064**	755.8p	3 November 2002	2 November 2009
1999	17,500	(15,576)	–	**1,924**	779.5p	3 November 2004	2 November 2009
1999	–	16,064	–	**16,064**	755.8p	3 November 2004	2 November 2009
2000	22,200	(22,200)	–	**–**	1125.0p	23 October 2003	22 October 2010
2000	–	22,896	–	**22,896**	1090.8p	23 October 2003	22 October 2010
2000	22,200	(22,200)	–	**–**	1125.0p	23 October 2005	22 October 2010
2000	–	22,896	–	**22,896**	1090.8p	23 October 2005	22 October 2010
2001	12,500	(12,500)	–	**–**	560.0p	26 September 2006	25 September 2011
2001	–	12,892	–	**12,892**	542.9p	26 September 2006	25 September 2011
2002	7,500	(7,500)	–	**–**	450.0p	8 October 2007	7 October 2012
2002	–	7,735	–	**7,735**	436.3p	8 October 2007	7 October 2012
2003	25,000	(25,000)	–	**–**	732.5p	7 October 2006	6 October 2013
2003	–	25,784	–	**25,784**	710.2p	7 October 2006	6 October 2013
2003	25,000	(25,000)	–	**–**	732.5p	7 October 2008	6 October 2013
2003	–	25,784	–	**25,784**	710.2p	7 October 2008	6 October 2013
2005 SAYE	1,414	–	–	**1,414**	586.0p	1 December 2008	31 May 2009
	150,814	4,563	–	**155,377**			
S.R. Hodges							
1997	22,500	–	(22,500)[3]	**–**	482.5p	30 October 2002	29 October 2007
1998	42,500	(42,500)	–	**–**	417.5p	7 October 2001	6 October 2008
1998	–	43,833	(43,833)[4]	**–**	404.8p	7 October 2001	6 October 2008
1998	42,500	(42,500)	–	**–**	417.5p	7 October 2003	6 October 2008
1998	–	43,833	(43,833)[4]	**–**	404.8p	7 October 2003	6 October 2008
1999	37,500	(37,500)	–	**–**	779.5p	3 November 2002	2 November 2009
1999	–	38,676	–	**38,676**	755.8p	3 November 2002	2 November 2009
1999	37,500	(37,500)	–	**–**	779.5p	3 November 2004	2 November 2009
1999	–	38,676	–	**38,676**	755.8p	3 November 2004	2 November 2009
2000	26,665	(25,332)	–	**1,333**	1125.0p	23 October 2003	22 October 2010
2000	–	26,126	–	**26,126**	1090.8p	23 October 2003	22 October 2010
2000	26,665	(25,332)	–	**1,333**	1125.0p	23 October 2005	22 October 2010
2000	–	26,126	–	**26,126**	1090.8p	23 October 2005	22 October 2010
2001	35,000	(35,000)	–	**–**	560.0p	26 September 2004	25 September 2011
2001	–	36,097	–	**36,097**	542.9p	26 September 2004	25 September 2011
2001	35,000	(35,000)	–	**–**	560.0p	26 September 2006	25 September 2011
2001	–	36,097	–	**36,097**	542.9p	26 September 2006	25 September 2011
2002	45,000	(45,000)	–	**–**	450.0p	8 October 2005	7 October 2012
2002	–	46,411	–	**46,411**	436.3p	8 October 2005	7 October 2012
2002	45,000	(45,000)	–	**–**	450.0p	8 October 2007	7 October 2012
2002	–	46,411	–	**46,411**	436.3p	8 October 2007	7 October 2012
2003	55,000	(55,000)	–	**–**	732.5p	7 October 2006	6 October 2013
2003	–	56,724	–	**56,724**	710.2p	7 October 2006	6 October 2013
2003	55,000	(55,000)	–	**–**	732.5p	7 October 2008	6 October 2013
2003	–	56,724	–	**56,724**	710.2p	7 October 2008	6 October 2013
2005 SAYE	1,414	–	–	**1,414**	661.0p	1 December 2008	31 May 2009
	507,244	15,070	(110,166)	**412,148**			

Directors' Share Option Entitlements continued

Grant year	Held at 1 August 2007	Adjustment[1]	Number of options granted/ (exercised)	**Held at 31 July 2008[2]**	Exercise price	Earliest exercise date	Expiry date
R.D. Kent[2]							
1997	75,000	–	(75,000)[3]	**–**	482.5p	30 October 2002	29 October 2007
1998	55,000	–	(55,000)[3]	**–**	417.5p	7 October 2003	6 October 2008
1999	50,000	–	(50,000)[3]	**–**	779.5p	3 November 2004	2 November 2009
2000	33,330	(33,330)	–	**–**	1125.0p	23 October 2003	22 October 2010
2000	–	34,375	–	**34,375**	1090.8p	23 October 2003	22 October 2010
2000	33,330	(33,330)	–	**–**	1125.0p	23 October 2005	22 October 2010
2000	–	34,375	–	**34,375**	1090.8p	23 October 2005	22 October 2010
2001	37,500	–	(37,500)[3]	**–**	560.0p	26 September 2006	25 September 2011
	284,160	2,090	(217,500)	**68,750**			
C.D. Keogh							
1997	17,500	–	(17,500)[3]	**–**	482.5p	30 October 2002	29 October 2007
1998	42,500	(42,500)	–	**–**	417.5p	7 October 2001	6 October 2008
1998	–	43,833	(43,833)[4]	**–**	404.8p	7 October 2001	6 October 2008
1998	42,500	(42,500)	–	**–**	417.5p	7 October 2003	6 October 2008
1998	–	43,833	(43,833)[4]	**–**	404.8p	7 October 2003	6 October 2008
1999	37,500	(37,500)	–	**–**	779.5p	3 November 2002	2 November 2009
1999	–	38,676	–	**38,676**	755.8p	3 November 2002	2 November 2009
1999	37,500	(37,500)	–	**–**	779.5p	3 November 2004	2 November 2009
1999	–	38,676	–	**38,676**	755.8p	3 November 2004	2 November 2009
2000	26,665	(25,332)	–	**1,333**	1125.0p	23 October 2003	22 October 2010
2000	–	26,126	–	**26,126**	1090.8p	23 October 2003	22 October 2010
2000	26,665	(25,332)	–	**1,333**	1125.0p	23 October 2005	22 October 2010
2000	–	26,126	–	**26,126**	1090.8p	23 October 2005	22 October 2010
2001	35,000	(35,000)	–	**–**	560.0p	26 September 2004	25 September 2011
2001	–	36,097	–	**36,097**	542.9p	26 September 2004	25 September 2011
2001	35,000	(35,000)	–	**–**	560.0p	26 September 2006	25 September 2011
2001	–	36,097	–	**36,097**	542.9p	26 September 2006	25 September 2011
2002	56,250	(56,250)	–	**–**	450.0p	8 October 2005	7 October 2012
2002	–	58,014	–	**58,014**	436.3p	8 October 2005	7 October 2012
2002	56,250	(56,250)	–	**–**	450.0p	8 October 2007	7 October 2012
2002	–	58,014	–	**58,014**	436.3p	8 October 2007	7 October 2012
2002 SAYE	3,360	–	(3,360)[5]	**–**	391.0p	1 December 2007	31 May 2008
2003	60,000	(60,000)	–	**–**	732.5p	7 October 2006	6 October 2013
2003	–	61,881	–	**61,881**	710.2p	7 October 2006	6 October 2013
2003	60,000	(60,000)	–	**–**	732.5p	7 October 2008	6 October 2013
2003	–	61,881	–	**61,881**	710.2p	7 October 2008	6 October 2013
2003 SAYE	540	–	–	**540**	586.0p	1 December 2008	31 May 2009
2007 SAYE	–	–	1,238	**1,238**	620.0p	1 December 2010	31 May 2011
	537,230	16,090	(107,288)	**446,032**			

Report of the Board on Directors' Remuneration

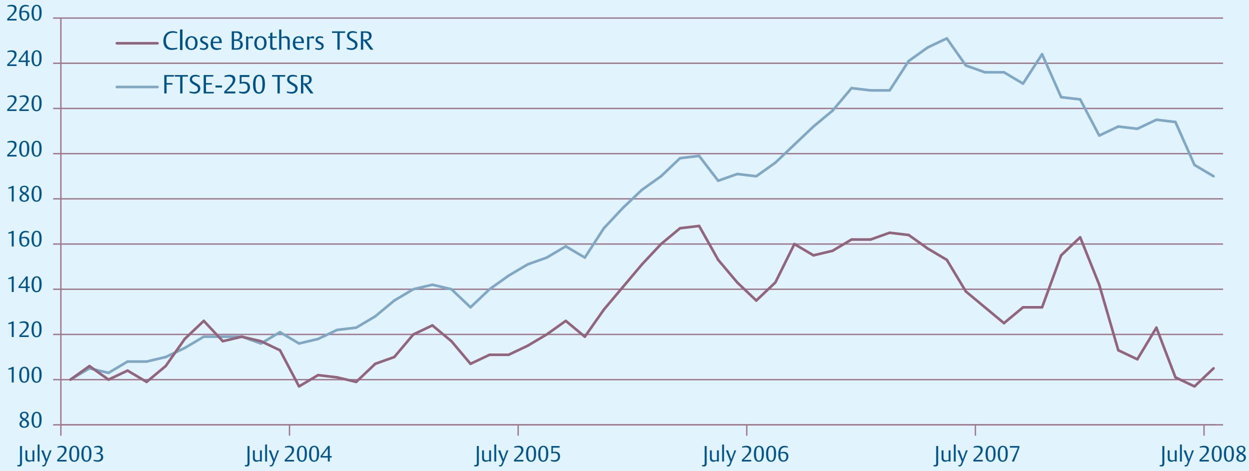
Directors' Share Option Entitlements continued

Grant year	Held at 1 August 2007	Adjustment[1]	Number of options granted/ (exercised)	**Held at 31 July 2008[2]**	Exercise price	Earliest exercise date	Expiry date
D.C. Pusinelli[2]							
1997	12,500	–	(12,500)[3]	**–**	482.5p	30 October 2002	29 October 2007
1998	15,000	(15,000)	–	**–**	417.5p	7 October 2001	6 October 2008
1998	–	15,470	–	**15,470**	404.8p	7 October 2001	6 October 2008
1998	15,000	(15,000)	–	**–**	417.5p	7 October 2003	6 October 2008
1998	–	15,470	–	**15,470**	404.8p	7 October 2003	6 October 2008
1999	30,000	(30,000)	–	**–**	779.5p	3 November 2002	2 November 2009
1999	–	30,941	–	**30,941**	755.8p	3 November 2002	2 November 2009
1999	30,000	(30,000)	–	**–**	779.5p	3 November 2004	2 November 2009
1999	–	30,941	–	**30,941**	755.8p	3 November 2004	2 November 2009
2000	15,550	(14,217)	–	**1,333**	1125.0p	23 October 2003	22 October 2010
2000	–	14,663	–	**14,663**	1090.8p	23 October 2003	22 October 2010
2000	15,550	(14,217)	–	**1,333**	1125.0p	23 October 2005	22 October 2010
2000	–	14,663	–	**14,663**	1090.8p	23 October 2005	22 October 2010
2001	15,000	(15,000)	–	**–**	560.0p	26 September 2004	25 September 2011
2001	–	15,470	–	**15,470**	542.9p	26 September 2004	25 September 2011
2001	15,000	(15,000)	–	**–**	560.0p	26 September 2006	25 September 2011
2001	–	15,470	–	**15,470**	542.9p	26 September 2006	25 September 2011
2002	22,500	(22,500)	–	**–**	450.0p	8 October 2005	7 October 2012
2002	–	23,205	–	**23,205**	436.3p	8 October 2005	7 October 2012
2002	22,500	(22,500)	–	**–**	450.0p	8 October 2007	7 October 2012
2002	–	23,205	–	**23,205**	436.3p	8 October 2007	7 October 2012
2002 SAYE	4,200	–	(4,200)[5]	**–**	391.0p	1 December 2007	31 May 2008
2003	42,500	(42,500)	–	**–**	732.5p	7 October 2006	6 October 2013
2003	–	43,833	–	**43,833**	710.2p	7 October 2006	6 October 2013
2003	42,500	(42,500)	–	**–**	732.5p	7 October 2008	6 October 2013
2003	–	43,833	–	**43,833**	710.2p	7 October 2008	6 October 2013
2007 SAYE	–	–	2,709	**2,709**	661.0p	1 December 2012	31 May 2013
	297,800	8,730	(13,991)	**292,539**			
P.L. Winkworth[2]							
1997	70,000	–	–	**70,000**	482.5p	30 October 2002	29 October 2007
1998	50,000	–	–	**50,000**	417.5p	7 October 2003	6 October 2008
1999	45,000	–	–	**45,000**	779.5p	3 November 2002	2 November 2009
1999	45,000	–	–	**45,000**	779.5p	3 November 2004	2 November 2009
2000	30,000	–	–	**30,000**	1125.0p	23 October 2003	22 October 2010
2000	30,000	–	–	**30,000**	1125.0p	23 October 2005	22 October 2010
2001	37,500	–	–	**37,500**	560.0p	26 September 2006	25 September 2011
2002	45,000	–	–	**45,000**	450.0p	8 October 2007	7 October 2012
2003	55,000	–	–	**55,000**	732.5p	7 October 2006	6 October 2013
2003	55,000	–	–	**55,000**	732.5p	7 October 2008	6 October 2013
2005 SAYE	1,414	–	–	**1,414**	620.0p	1 December 2008	31 May 2009
	463,914	–	–	**463,914**			

[1] The adjustment to share option entitlements results from the payment of a special dividend on 6 November 2007. Options under the company's 1995 Executive Share Option Scheme (other than options under HM Revenue and Customs approved section of that Scheme) have been adjusted by the Committee to take account of the depreciatory effect of the special dividend. The aggregate amount payable on exercise of these options and the latent gain per share will be unaltered, subject to normal market factors.
[2] In the case of Messrs. Hines, Kent, Pusinelli and Winkworth the number of options held relates to the date of resignation as a director. Options held by these individuals are generally exercisable for a period of twelve months following resignation, subject to satisfaction of applicable performance criteria.
[3] The closing mid-market price on the date the options were exercised was 775.5p.
[4] The closing mid-market price on the date the options were exercised was 636.0p.
[5] The closing mid-market price on the date the options were exercised was 891.5p.

Total Shareholder Return

The graph below shows a comparison of TSR for the company's shares for the five years ended 31 July 2008 against the TSR for the companies comprising the FTSE-250 Index. TSR has been calculated assuming that all dividends are re-invested 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

The closing mid-market price of the company's shares on 31 July 2008 was 597.5p and the range during the year was 486p to 995p.

Audit

Directors' remuneration information disclosed on pages 31 to 41, together with the table disclosing directors' benefits from the defined benefits pension scheme on page 34, are required to be, and have been, audited by the company's auditors, Deloitte & Touche LLP.

On behalf of the board

B.N. Carnegie-Brown
Chairman of the Remuneration Committee

29 September 2008

Report of the Auditors

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

We have audited the group and parent company financial statements (the "financial statements") of Close Brothers Group plc for the year ended 31 July 2008 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes 1 to 30. 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 IFRS as adopted by the European Union, and for preparing the parent 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 to be audited in accordance with relevant 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 and whether the financial statements and the part of the Directors' Remuneration Report to be 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 also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes the Chairman and Chief Executive's Statement, Review of Operations and Social Responsibility statement that is cross referenced from the Business Review section of the Directors' Report.

In addition we 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 review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 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 other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 to be 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 group's and 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 to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 31 July 2008 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 parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 July 2008;
- the parent company financial statements and the part of the Directors' Remuneration Report to be 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.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, UK

29 September 2008

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on 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 31 July 2008

	Note	2008 £ million	2007 £ million
Interest income	3	**366.4**	313.0
Interest expense		**(213.1)**	(165.6)
Net interest income		**153.3**	147.4
Fee and commission income		**286.3**	360.8
Fee and commission expense		**(42.8)**	(54.1)
Gains less losses arising from dealing in securities		**89.8**	115.5
Share of profit of associates		**8.1**	0.9
Other income		**14.5**	36.3
Non-interest income		**355.9**	459.4
Operating income before exceptional items		**509.2**	585.7
Exceptional income	4	**–**	21.1
Operating income		**509.2**	606.8
Administrative expenses	3	**337.6**	376.3
Depreciation and amortisation	13	**16.6**	15.1
Impairment losses on loans and advances	9	**27.5**	21.5
Impairment losses on goodwill	12	**–**	3.7
Total operating expenses before exceptional items and goodwill impairment		**371.7**	412.9
Exceptional expenses	4	**10.0**	–
Impairment losses on goodwill		**–**	3.7
Total operating expenses		**381.7**	416.6
Operating profit before exceptional items, goodwill impairment and tax		**137.5**	172.8
Exceptional items	4	**(10.0)**	21.1
Impairment losses on goodwill		**–**	(3.7)
Operating profit before tax		**127.5**	190.2
Tax	6	**34.9**	53.5
Profit after tax		**92.6**	136.7
Profit attributable to minority interests		**2.6**	3.8
Profit attributable to the shareholders of the company		**90.0**	132.9
Basic earnings per share	7	**61.5p**	90.4p
Diluted earnings per share	7	**60.7p**	89.8p
Ordinary dividend per share	8	**39.0p**	37.0p
Special dividend per share	8	**–**	25.0p

All income and profit are in respect of continuing operations.

Consolidated Balance Sheet

at 31 July 2008

	Note	2008 £ million	2007 £ million
Assets			
Cash and balances at central banks		**1.5**	1.6
Settlement accounts		**450.0**	624.9
Loans and advances to customers	9	**2,232.2**	1,962.5
Loans and advances to banks	10	**307.8**	577.9
Debt securities and equity shares: long trading positions	30	**100.0**	116.7
Financial instruments classified as available for sale	11	**784.3**	775.2
Equity shares valued at fair value	11	**16.2**	16.6
Certificates of deposit classified as loans and receivables	11	**1,324.2**	823.6
Floating rate notes held to maturity	11	**23.4**	27.9
Loans to money brokers against stock advanced		**106.8**	114.3
Intangible assets: goodwill	12	**126.8**	113.2
Intangible assets: other	13	**7.6**	7.3
Property, plant and equipment	13	**32.6**	37.4
Interests in associates	23	**73.2**	1.5
Deferred tax assets	15	**29.0**	27.8
Prepayments and accrued income		**89.9**	82.4
Other receivables	14	**36.3**	56.4
Derivative financial instruments	16	**10.9**	7.7
Total assets		**5,752.7**	5,374.9
Liabilities			
Settlement accounts		**451.4**	484.5
Deposits by customers	17	**2,641.7**	2,302.7
Deposits by banks	17	**298.2**	160.6
Loans and overdrafts from banks	17	**981.8**	457.8
Promissory notes and other debt securities	17	**19.7**	353.0
Debt securities and equity shares: short trading positions	30	**38.5**	67.0
Loans from money brokers against stock advanced		**67.0**	185.0
Non-recourse borrowings		**165.0**	150.0
Subordinated loan capital	18	**75.0**	75.0
Other liabilities	14	**155.3**	192.4
Current tax liabilities		**2.4**	29.3
Accruals and deferred income		**134.4**	145.0
Derivative financial instruments	16	**1.9**	20.0
Total liabilities		**5,032.3**	4,622.3
Equity			
Called up share capital	19	**37.3**	36.8
Share premium account	20	**274.1**	264.6
Profit and loss account	20	**432.0**	432.4
Other reserves and minority interests	20	**(23.0)**	18.8
Total equity		**720.4**	752.6
Total liabilities and equity		**5,752.7**	5,374.9

Approved and authorised for issue by the Board of Directors on 29 September 2008 and signed on its behalf by:

P.S.S. Macpherson
Chairman

C.D. Keogh
Chief Executive

Consolidated Statement of Recognised Income and Expense

for the year ended 31 July 2008

	2008 £ million	2007 £ million
Profit after tax	**92.6**	136.7
Currency translation differences	**2.1**	(0.7)
Cash flow hedging	**(0.1)**	1.4
Share-based transactions	**(1.1)**	0.4
Movement on financial instruments classified as available for sale:		
Floating rate notes	**(15.7)**	(0.8)
Equity shares	**(8.7)**	5.6
	(23.5)	5.9
	69.1	142.6
Of which, attributable to:		
Minority interests	**2.6**	3.8
Shareholders	**66.5**	138.8
	69.1	142.6

Consolidated Cash Flow Statement

for the year ended 31 July 2008

	Note	2008 £ million	2007 £ million
Net cash inflow from operating activities	28(a)	**482.0**	581.9
Net cash outflow from investing activities:			
Dividends paid to minority interests		**(1.4)**	(1.9)
Purchase of:			
Assets let under operating leases		**(3.8)**	(5.7)
Property, plant and equipment		**(8.5)**	(9.6)
Intangible assets		**(2.6)**	(1.8)
Equity shares held for investment		**(22.2)**	(25.1)
Own shares for employee share award schemes		**(19.2)**	(9.0)
Minority interests		**(9.6)**	(10.2)
Subsidiaries and associates	28(b)	**(111.2)**	(12.4)
Sale of:			
Property, plant and equipment		**6.4**	6.9
Equity shares held for investment		**8.3**	45.3
		(163.8)	(23.5)
Net cash inflow before financing		**318.2**	558.4
Financing activities:			
Issue of ordinary share capital		**10.0**	5.0
Equity dividends paid		**(92.7)**	(49.3)
Interest paid on subordinated loan capital		**(5.6)**	(5.6)
Net increase in cash		**229.9**	508.5

Company Balance Sheet
at 31 July 2008

	Note	2008 £ million	2007 £ million
Fixed assets			
Property, plant and equipment	13	**1.9**	2.1
Investments in subsidiaries	22	**287.0**	320.7
Interest free loan to subsidiary		**413.0**	–
		701.9	322.8
Current assets:			
Cash at bank		**0.6**	0.1
Amounts owed by subsidiaries		**276.0**	190.9
Other investments		**16.0**	–
Corporation tax receivable		**1.7**	2.0
Deferred tax asset	15	**5.4**	4.4
Other debtors		**3.2**	1.7
		302.9	199.1
Creditors: Amounts falling due within one year:			
Amounts owed to subsidiaries		**8.6**	10.3
Accruals and deferred income		**7.4**	10.6
Provisions	14	**6.6**	7.1
Bank loans and overdrafts		**130.8**	–
Other creditors		**16.0**	10.2
		169.4	38.2
Net current assets		**133.5**	160.9
Total assets less current liabilities		**835.4**	483.7
Creditors: Amounts falling due after more than one year:			
Interest free loan from subsidiary with no fixed repayment date		**17.9**	27.1
Net assets		**817.5**	456.6
Capital and reserves			
Share capital	19	**37.3**	36.8
Share premium account		**274.1**	264.6
Profit and loss account	20	**525.5**	157.5
Other reserves		**(19.4)**	(2.3)
Total equity shareholders' funds		**817.5**	456.6

Approved and authorised for issue by the Board of Directors on 29 September 2008 and signed on its behalf by:

P.S.S. Macpherson
Chairman

C.D. Keogh
Chief Executive

The Notes

1. Accounting policies

(a) Compliance with financial reporting standards

The consolidated financial statements ("the consolidated accounts") have been prepared and approved by the directors in accordance with all relevant International Financial Reporting Standards adopted by the European Union ("IFRS").

In the current year, the group has adopted IFRS 7 "Financial Instruments: Disclosures" which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 "Presentation of Financial Statements". The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the group's financial instruments and management of capital (see notes 21 and 30). At the date of approval of these financial statements, IFRS 8 "Operating segments" was in issue but not yet effective. The directors anticipate that the adoption of IFRS 8 in future periods will have no material impact on the financial statements of the group except for additional segmental disclosures when it comes into effect for periods commencing on or after 1 January 2009.

The company financial statements ("the company accounts") have been prepared and approved by the directors in accordance with Section 226 of, and Schedule 4 to, the Companies Act 1985 and with all relevant UK accounting standards. The company has taken advantage of the exemption in s230 of the Companies Act 1985 not to present its company income statement and related notes.

(b) Accounting convention

The consolidated accounts have been prepared under the historical cost convention, except for the revaluation of financial assets and liabilities held at fair value through profit or loss, available for sale financial assets and all derivative financial instruments ("derivatives").

The company accounts have been prepared under the historical cost convention.

The financial statements are presented in pounds sterling, which is the currency of the group's and company's primary operating environment and their functional currency.

(c) Basis of consolidation

Subsidiaries

The consolidated accounts incorporate the financial statements of the company and the entities it controls ("subsidiaries") using the acquisition method of accounting. Control exists where the company has the power to govern an entity's financial and operating policies. The results of subsidiaries are included in the consolidated income statement from the date control transfers to the company to the date control transfers from the company.

Under the acquisition method of accounting, 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 capitalised as goodwill. All intra-group balances, transactions, income and expenses are eliminated. As allowed by IFRS 1 "First Time Adoption of International Financial Reporting Standards"), the company has not restated to IFRS fair values those acquisitions that took place before 1 August 2004.

Associates

The consolidated accounts also incorporate the financial statements of entities that are neither subsidiaries nor joint ventures but over which the company has significant influence ("associates"), using the equity method of accounting. Significant influence applies where the company and its subsidiaries ("the group") hold 20% or more of an entity's voting power, unless it can be clearly demonstrated that this is not the case. The group's share of an associate's results is included in the consolidated income statement from the date it becomes an associate to the date it stops being so.

Under the equity method of accounting, the investment in an associate is initially recognised at cost. This carrying amount subsequently decreases for the group's share of any losses or distributions received and increases for the group's share of any profit. The carrying amount is also reviewed annually for impairment.

(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 ("EIR") method.

The EIR method applies a rate that discounts estimated future cash payments or receipts relating to a financial instrument to its net carrying amount. 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.

(e) Net fee and commission income
Where fees that have not been included within the EIR method 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. In particular, upfront commissions paid in respect of managing, as opposed to originating, fund products are initially included within "prepayments and accrued income" and then recognised as revenue as the services are provided. 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) Share-based awards
The group operates three long term equity based incentive arrangements ("Incentive Schemes"); the 2004 Long Term Incentive Plan ("LTIP"), the 1995 Executive Share Option Scheme and the Inland Revenue approved Savings Related Share Option Scheme. As allowed by IFRS 1, the company has not applied IFRS 2 "Share-based Payment" to grants under these Incentive Schemes before 8 November 2002.

The cost of these Incentive Schemes is based on the fair value of awards on the date of grant. Fair values are determined using a stochastic (Monte Carlo simulation) pricing model for the LTIP and the Black-Scholes pricing model for the others. Both models 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 shares in each award such that the amount recognised reflects the number that are expected to, and then actually do, vest. The fair value is expensed in the income statement on a straight line basis over the vesting period, with a corresponding credit to the share-based awards reserve. At the end of the vesting period, or upon exercise, lapse or forfeit if earlier, this credit is transferred to retained reserves.

(h) Depreciation and amortisation
Property, plant and equipment, including freehold investment properties held for long term investment, and computer software classified as "intangible assets – other", are stated at cost less accumulated depreciation or amortisation, less provisions for any impairment. 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
Computer software	20% to 33%

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

(i) Impairment losses on goodwill
Goodwill arising on the acquisition of business assets before 1 August 1998 has been written off to reserves. From that date such goodwill arising was capitalised as an intangible asset and amortised, in equal annual instalments,

The Notes

1. Accounting policies continued

unless there has been impairment, over its estimated useful life of up to 20 years. From 1 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.

(j) Exceptional items

Items of income and expense that are material by size and/or nature and are non-recurring are classified as exceptional items on the face of the income statement. The separate reporting of these items helps give an indication of the group's underlying performance.

(k) Current tax

Current tax is the expected tax payable on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

(l) Deferred tax

To enable the tax charge to be based on the profit for the year, deferred tax is provided in full on temporary timing differences, at the rates of tax expected to apply when these differences crystallise. Deferred tax 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. All deferred tax liabilities are offset against deferred tax assets in accordance with the provisions of IAS 12.

(m) Settlement accounts

Settlement balance debtors and creditors are the amounts due to and from counterparties in respect of the group's market-making activities. The balances are short term in nature, do not earn interest and are recorded at the amount receivable or payable.

(n) Loans and advances to customers

Loans and advances are recognised when cash is advanced to borrowers at cost including any transaction costs and are classified as loans and receivables under IAS 39 "Financial Instruments: Recognition and Measurement". They are then amortised using the EIR method and recorded net of provisions for impairment losses.

Impairment provisions are made if there is objective evidence of impairment as a result of one or more subsequent events regarding a significant loan or a portfolio of loans ("a loan") and its impact can be reliably estimated.

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 EIR. As the loan amortises over its life, 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 relevant element of the outstanding impairment loss is reversed. Interest on impaired financial assets is recognised at the original EIR applied to the carrying amount as reduced by an allowance for impairment.

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

(o) 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.

(p) Debt securities and equity shares
Fair values of all financial instruments are obtained from independent open market sources, independent professional valuers, discounted cash flow models based on prevailing market rates or option pricing models.

- Financial instruments held for trading
The long and short positions respectively represent the aggregate net bought and net sold positions, held by Winterflood Securities Limited and Close Brothers Seydler AG. They are valued at the dealers' bid and offer prices respectively and are the only financial instruments held for trading. As such they are fair valued through profit or loss and the net gains arising are the only items shown within "gains and losses arising from dealing in securities" in the income statement.

- Other investments designated at inception under the fair value option
These are equity shares and related loans classified thus because they are managed, and their performance evaluated, on a fair value basis in accordance with a documented investment strategy, with results being reported to the company's board. Resulting gains and losses are included in the income statement within "other operating income".

  Listed investments are valued at bid price. Unlisted investments comprise those made by Close Brothers Private Equity LLP and Close Brothers Growth Capital Limited in the limited liability partnerships that they manage. The partnerships themselves typically invest in unquoted entities via equity and loans and value each investment semi-annually in compliance with the International Private Equity and Venture Capital Valuation Guidelines endorsed by The British Private Equity and Venture Capital Association, their valuations being externally audited annually. Each investment is generally valued at cost for the first year; thereafter valuations are typically based on an appropriate multiple of earnings before interest and tax ("EBIT"). If necessary, the partnerships adjust EBIT, in the latest statutory or management accounts as appropriate, to what are considered sustainable levels based on forecast indicators. With respect to the multiple, a comparable quoted company, group of companies, sector or recent transaction is used and discounted for differences in size, operation, product mix, timing and marketability. The group's valuation of the overall portfolio of partnership interests reflects the illiquid nature of the portfolio and the effect of cash distributions and material changes in the business outlook or performance of the individual investments since their last semi-annual valuation.

- Floating rate notes held to maturity
These are investments with fixed or determinable payments that are held with the intention and ability to hold to maturity. They are initially recognised at fair value including direct and incremental transaction costs and subsequently valued at amortised cost. Amortised cost is the initial amount adjusted for subsequent payments, less cumulative amortisation calculated using the EIR method. The resulting balance is reduced for amounts which are considered to be impaired or uncollectible.

- Financial instruments classified as available for sale
These are recognised at fair value plus any directly attributable purchase costs, 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.

- Certificates of deposit classified as loans and receivables under IAS 39
These are purchased for liquidity purposes and normally held to maturity. They are unlisted and due to mature within one year and are valued at amortised cost.

- Equity shares held by the employee benefit trust
These are held at cost and shown within equity as part of "Share-based reserves". Realised surpluses and deficits are not taken to the income statement.

(q) Loans to and from money brokers against stock advanced
Deposits with money brokers and banks against stock borrowed are the cash collateral provided to these institutions for stock borrowing by the group's market-making activities. Interest is paid on the stock borrowed and earned on the cash deposits held. The stock borrowing to which the cash deposits relate is short term in nature and is recorded at the amount payable. Loans from financial institutions against stock advanced are the equivalent cash liabilities and are accounted for in the same way.

(r) Derivatives and hedge accounting
Derivatives are used only to minimise the impact of interest and currency rate changes to the group's financial instruments and meet the IAS 39 criteria for hedge accounting. They are carried on the balance sheet at fair value

The Notes

1. Accounting policies continued

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

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

(s) 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 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 are taken to the exchange movements reserve.

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

(t) Dividends

Dividends payable are recognised in retained earnings once they are appropriately authorised and no longer at the discretion of the company. Dividends receivable are recognised once the right to receive payment is established.

(u) Pensions

A defined contribution scheme is a pension arrangement where the group pays fixed contributions into a fund separate from the group's assets. Contributions are charged in the income statement when they become payable.

A defined benefit scheme is an arrangement where an employee's retirement receipts are defined by factors such as salary, length of service and age. The liabilities of the group's one defined benefit scheme, which was closed to new entrants in 1996, are measured using the projected unit credit method and discounted at a rate that reflects the current rate of return on high quality corporate bonds with a term that matches that of the 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 net deficit or surplus on the plan, comprising the present value of the defined benefit obligation less the fair value of plan assets, is carried on the balance sheet.

(v) Investments in subsidiaries

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

2. Segmental analysis

The directors manage the group primarily by class of business and present the segmental analysis on that basis. The group's activities are organised in four primary divisions namely Asset Management, Banking, Corporate Finance and Securities. A description of the activities of these divisions is given in the Business Review.

Divisions charge market prices for services rendered to other parts of the group. Funding charges between segments are determined by the Banking division's treasury operation having regard to commercial demands. Substantially all of the group's activities and revenue are located within the British Isles.

	Asset Management £ million	Banking £ million	Corporate Finance £ million	Securities £ million	Group £ million	**Total £ million**
Summary Income Statement for the year ended 31 July 2008						
Operating income before exceptional items	**133.5**	**207.1**	**56.5**	**110.0**	**2.1**	**509.2**
Administrative expenses, depreciation and amortisation	**(100.9)**	**(105.1)**	**(46.5)**	**(71.3)**	**(20.4)**	**(344.2)**
Impairment losses on loans and advances	**–**	**(27.5)**	**–**	**–**	**–**	**(27.5)**
Total operating expenses before exceptionals	**(100.9)**	**(132.6)**	**(46.5)**	**(71.3)**	**(20.4)**	**(371.7)**
Operating profit before exceptional items, goodwill impairment and tax	**32.6**	**74.5**	**10.0**	**38.7**	**(18.3)**	**137.5**
Exceptional items: Advisers' fees and restructuring costs	**(2.1)**	**(0.3)**	**(0.9)**	**(1.3)**	**(5.4)**	**(10.0)**
Operating profit before tax	**30.5**	**74.2**	**9.1**	**37.4**	**(23.7)**	**127.5**
Tax	**(5.9)**	**(21.6)**	**(2.8)**	**(8.5)**	**3.9**	**(34.9)**
Minority interests	**(0.6)**	**(0.1)**	**(1.6)**	**–**	**(0.3)**	**(2.6)**
Profit after tax and minority interests	**24.0**	**52.5**	**4.7**	**28.9**	**(20.1)**	**90.0**

For the year ended 31 July 2008, the operating income before exceptional items and the operating profit before tax of the Securities division included £7.2 million relating to its share of profit of associates.

	Asset Management £ million	Banking £ million	Corporate Finance £ million	Securities £ million	Group £ million	**Total £ million**
Summary Pro forma Balance Sheet at 31 July 2008						
Assets						
Cash and cash equivalents	**544.9**	**1,799.4**	**16.3**	**23.6**	**0.6**	**2,384.8**
Settlement accounts	**–**	**–**	**–**	**450.0**	**–**	**450.0**
Loans and advances to customers	**12.2**	**2,220.0**	**–**	**–**	**–**	**2,232.2**
Debt securities and equity shares: long trading positions	**–**	**–**	**–**	**100.0**	**–**	**100.0**
Loans to money brokers	**–**	**–**	**–**	**106.8**	**–**	**106.8**
Intangible assets	**62.7**	**29.9**	**11.5**	**30.3**	**–**	**134.4**
Interests in associates	**0.3**	**–**	**10.5**	**–**	**62.4**	**73.2**
Other assets and receivables	**80.1**	**114.9**	**13.4**	**27.9**	**35.0**	**271.3**
Intercompany balances	**348.4**	**(283.9)**	**6.7**	**(26.7)**	**(44.5)**	**–**
Total assets	**1,048.6**	**3,880.3**	**58.4**	**711.9**	**53.5**	**5,752.7**
Liabilities						
Settlement accounts	**–**	**–**	**–**	**451.4**	**–**	**451.4**
Deposits by customers	**786.7**	**1,855.0**	**–**	**–**	**–**	**2,641.7**
Deposits by banks	**10.0**	**288.2**	**–**	**–**	**–**	**298.2**
Borrowings	**–**	**1,108.2**	**–**	**2.5**	**130.8**	**1,241.5**
Debt securities and equity shares: short trading positions	**–**	**–**	**–**	**38.5**	**–**	**38.5**
Loans from money brokers	**–**	**–**	**–**	**67.0**	**–**	**67.0**
Provisions and other payables	**78.7**	**104.5**	**28.5**	**52.9**	**29.4**	**294.0**
Intercompany balances	**21.7**	**218.9**	**16.7**	**1.0**	**(258.3)**	**–**
Total liabilities	**897.1**	**3,574.8**	**45.2**	**613.3**	**(98.1)**	**5,032.3**
Equity	**151.5**	**305.5**	**13.2**	**98.6**	**151.6**	**720.4**
Total liabilities and equity	**1,048.6**	**3,880.3**	**58.4**	**711.9**	**53.5**	**5,752.7**
Other segmental information for the year ended 31 July 2008						
Property, plant, equipment and intangible asset expenditure	**2.0**	**6.6**	**3.1**	**2.2**	**1.0**	**14.9**
Employees (average number)	**874**	**1,230**	**186**	**266**	**68**	**2,624**

The Notes

2. Segmental analysis continued

	Asset Management £ million	Banking £ million	Corporate Finance £ million	Securities £ million	Group £ million	Total £ million
Summary Income Statement for the year ended 31 July 2007						
Operating income before exceptional items	177.5	197.8	77.2	128.0	5.2	585.7
Administrative expenses, depreciation and amortisation	(120.9)	(104.6)	(54.7)	(83.9)	(27.3)	(391.4)
Impairment losses on loans and advances	–	(21.5)	–	–	–	(21.5)
Total operating expenses before exceptionals	(120.9)	(126.1)	(54.7)	(83.9)	(27.3)	(412.9)
Operating profit before exceptional items, goodwill impairment and tax	56.6	71.7	22.5	44.1	(22.1)	172.8
Exceptional items: Investment gains and private equity performance fees	21.1	–	–	–	–	21.1
Impairment losses on goodwill	–	–	–	–	(3.7)	(3.7)
Operating profit before tax	77.7	71.7	22.5	44.1	(25.8)	190.2
Tax	(20.0)	(16.8)	(7.7)	(14.1)	5.1	(53.5)
Minority interests	(0.7)	(1.0)	(1.8)	–	(0.3)	(3.8)
Profit after tax and minority interests	57.0	53.9	13.0	30.0	(21.0)	132.9
Summary Pro forma Balance Sheet at 31 July 2007						
Assets						
Cash and cash equivalents	584.5	1,532.4	10.1	22.3	0.1	2,149.4
Settlement accounts	–	–	–	624.9	–	624.9
Loans and advances to customers	9.3	1,953.2	–	–	–	1,962.5
Debt securities and equity shares: long trading positions	–	–	–	116.7	–	116.7
Loans to money brokers	–	–	–	114.3	–	114.3
Intangible assets	64.3	17.6	6.2	32.4	–	120.5
Interests in associates	0.1	–	1.4	–	–	1.5
Other assets and receivables	88.4	122.8	19.0	27.5	27.4	285.1
Intercompany balances	310.4	(238.3)	35.1	(26.3)	(80.9)	–
Total assets	1,057.0	3,387.7	71.8	911.8	(53.4)	5,374.9
Liabilities						
Settlement accounts	–	–	–	484.5	–	484.5
Deposits by customers	779.2	1,523.5	–	–	–	2,302.7
Deposits by banks	2.1	158.5	–	–	–	160.6
Borrowings	–	1,026.2	–	9.6	–	1,035.8
Debt securities and equity shares: short trading positions	–	–	–	67.0	–	67.0
Loans from money brokers	–	–	–	185.0	–	185.0
Provisions and other payables	105.7	133.3	43.2	73.2	31.3	386.7
Intercompany balances	18.1	251.1	0.3	0.3	(269.8)	–
Total liabilities	905.1	3,092.6	43.5	819.6	(238.5)	4,622.3
Equity	151.9	295.1	28.3	92.2	185.1	752.6
Total liabilities and equity	1,057.0	3,387.7	71.8	911.8	(53.4)	5,374.9
Other segmental information for the year ended 31 July 2007						
Property, plant, equipment and intangible asset expenditure	2.2	11.3	0.8	2.7	0.1	17.1
Employees (average number)	864	1,207	175	259	66	2,571

3. Operating profit before tax

	2008 £ million	2007 £ million
Interest income comprises:		
Interest and similar income arising from debt and other fixed income securities	**110.5**	68.9
Other	**255.9**	244.1
	366.4	313.0

Fee income and expense (other than amounts calculated using the EIR method) on financial instruments that are not at fair value through profit and loss were £45.7 million (2007: £50.6 million) and £4.8 million (2007: £5.2 million). Fee income and expense arising from trust and other fiduciary activities amounted to £130.0 million (2007: £181.9 million) and £23.0 million (2007: £30.8 million).

	2008 £ million	2007 £ million
Administrative expenses comprise:		
Staff costs:		
Wages and salaries	**191.5**	215.4
Social security costs	**23.9**	25.5
Share-based awards	**2.3**	4.1
Pension costs	**11.0**	7.3
	228.7	252.3
Other administrative expenses	**108.9**	124.0
	337.6	376.3

Operating lease rentals payable, of which £1.3 million (2007: £1.1 million) relate to plant and machinery, amounted to £10.5 million (2007: £8.0 million). Aggregate rentals received in respect of finance leases and hire purchase contracts and in respect of operating leases amounted to £563.2 million (2007: £543.3 million) and £5.2 million (2007: £6.1 million) respectively.

4. Exceptional items

	2008 £ million	2007 £ million
Exceptional income		
Investment gains and private equity performance fees	**–**	21.1
Exceptional expenses		
Advisers' fees in respect of potential offers for the group	**(5.0)**	–
Restructuring costs	**(5.0)**	–
	(10.0)	21.1

5. Information regarding the auditors

	2008 £ million	2007 £ million
Fees payable in respect of:		
Audit of the company's annual accounts	**0.2**	0.2
Audit of the company's subsidiaries pursuant to legislation	**1.3**	1.4
Other services pursuant to legislation	**–**	0.4
Tax services	**0.2**	0.6
Other services	**0.1**	0.3
	1.8	2.9

The auditors of the group are Deloitte & Touche LLP. The audit services of Ernst & Young LLP were also employed in 2007 but not in 2008.

The Notes

6. Tax expense

	2008 £ million	2007 £ million
Tax recognised in the income statement:		
UK corporation tax	**26.1**	63.7
Foreign tax	**6.3**	4.3
Current year tax charge	**32.4**	68.0
Deferred tax expense/(credit)	**2.3**	(6.2)
Prior year tax provision	**0.2**	(8.3)
	34.9	53.5
Tax recognised in equity:		
Current tax relating to:		
Financial instruments classified as available for sale	**(6.5)**	–
Share-based transactions	**(2.1)**	(1.1)
Deferred tax relating to:		
Cash flow hedging	**(0.1)**	0.5
Financial instruments classified as available for sale	**(3.5)**	2.0
Share-based transactions	**0.6**	1.1
	(11.6)	2.5
Reconciliation to tax expense:		
UK corporation tax for the year at 29.3% (2007: 30%) on operating profit	**37.4**	57.1
Goodwill impairment losses disallowed	**–**	1.1
Effect of different tax rates on other jurisdictions	**(2.2)**	(0.9)
Utilisation of losses not previously recognised	**–**	(0.9)
Disallowable items and other permanent differences	**(0.5)**	5.4
Prior year tax provision	**0.2**	(8.3)
	34.9	53.5

The weighted average UK corporation tax rate for the year was 29.3%, being 30% for the eight months to 31 March 2008 and 28% for the four months to 31 July 2008.

7. Earnings per share

Earnings per share is presented on four bases: basic; diluted; adjusted basic; and adjusted diluted. Basic earnings per share is in respect of all activities and diluted earnings per share takes into account the dilution effects which would arise on the conversion or vesting of share options and share awards in issue during the period. Adjusted basic earnings per share excludes exceptional items and impairment losses on goodwill to enable comparison of the underlying earnings of the business with prior periods and adjusted diluted earnings per share takes into account the same dilution effects as for diluted earnings per share described above.

	2008	2007
Earnings per share		
Basic	**61.5p**	90.4p
Diluted	**60.7p**	89.8p
Adjusted basic	**67.3p**	82.8p
Adjusted diluted	**66.4p**	82.3p

	£ million	£ million
Profit attributable to shareholders	**90.0**	132.9
Adjustments:		
Exceptional expense/(income)	**10.0**	(21.1)
Tax effect of exceptional items	**(1.5)**	6.3
Impairment losses on goodwill	**–**	3.7
Adjusted profit attributable to shareholders	**98.5**	121.8

	million	million
Average number of shares		
Basic weighted	**146.4**	147.1
Effect of dilutive share options and awards	**1.9**	0.9
Diluted weighted	**148.3**	148.0

8. Dividends

	2008 £ million	2007 £ million
For each ordinary share:		
Final dividend for previous financial year paid in November 2007: 25p (2006: 22p)	**36.4**	31.9
Special dividend for previous financial year paid in November 2007: 25p	**36.4**	–
Interim dividend for current financial year paid in April 2008: 13.5p (2007: 12p)	**19.9**	17.4
	92.7	49.3

A final dividend relating to the year ended 31 July 2008 of 25.5p, amounting to an estimated £36.2 million, is proposed. This final dividend, which is due to be paid on 14 November 2008, is not reflected in these financial statements.

The Notes

9. Loans and advances to customers

	2008 £ million	2007 £ million
Loans and advances are repayable:		
On demand or at short notice	**151.6**	91.0
Within three months	**633.9**	588.0
Between three months and one year	**738.5**	591.7
Between one and two years	**360.0**	341.1
Between two and five years	**385.5**	376.1
After more than five years	**13.0**	19.0
Impairment provisions	**(50.3)**	(44.4)
	2,232.2	1,962.5
Impairment provisions on loans and advances:		
Opening balance	**44.4**	46.5
Charge for the year	**27.5**	21.5
Amounts written off net of recoveries	**(21.6)**	(23.6)
	50.3	44.4
Loans and advances comprise:		
Hire purchase agreement receivables	**792.0**	735.1
Finance lease receivables	**214.8**	250.5
Other loans and advances	**1,225.4**	976.9
	2,232.2	1,962.5

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

	2008 £ million	2007 £ million
Gross investment in finance leases due:		
Within one year	**539.1**	498.8
Between one and five years	**756.6**	699.4
After more than five years	**8.0**	8.0
	1,303.7	1,206.2
Unearned finance income	**(181.0)**	(167.2)
Present value of minimum lease payments	**1,122.7**	1,039.0
Of which due:		
Within one year	**455.6**	420.5
Between one and five years	**660.2**	611.0
After more than five years	**6.9**	7.5

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £1,896.0 million (2007: £1,827.5 million). The average effective interest rate on finance leases approximates to 11.8% (2007: 11.2%). The fair value of the finance lease receivables as at 31 July 2008 is estimated to be £1,068.5 million (2007: £1,040.6 million) using a 4.2% discount (2007: 4.0%).

10. Loans and advances to banks

	2008 £ million	2007 £ million
Repayable:		
On demand	**271.0**	419.9
Within three months	**36.7**	157.9
Between three months and one year	**0.1**	0.1
	307.8	577.9

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

11. Non-trading financial instruments

	2008 £ million	2007 £ million
Financial instruments classified as available for sale		
Equity shares		
Listed	**17.2**	28.6
Unlisted	**15.8**	0.3
	33.0	28.9
Floating rate notes	**751.3**	746.3
	784.3	775.2
Equity shares valued at fair value		
Listed	**–**	4.6
Unlisted	**16.2**	12.0
	16.2	16.6

	2008		2007	
	Book value £ million	**Fair value £ million**	Book value £ million	Fair value £ million
Certificates of deposit classified as loans and receivables	**1,324.2**	**1,324.0**	823.6	823.4
Floating rate notes held to maturity	**23.4**	**20.8**	27.9	27.9

Movements on the book value of floating rate notes and equity shares held during the year comprise:

	Floating rate notes		Equity shares	
	Available for sale £ million	Held to maturity £ million	Available for sale £ million	Valued at fair value £ million
At 1 August 2007	746.3	27.9	28.9	16.6
Additions	2.5	4.5	15.9	6.3
Disposals	(5.0)	–	(0.6)	(6.9)
Redemptions at maturity	–	(9.9)	–	–
Currency translation differences	29.7	1.5	3.0	–
Impairment	–	(0.6)	–	–
Increase/(decrease) in carrying value of:				
Financial instruments classified as available for sale	(22.2)	–	(14.2)	–
Listed equity shares held at fair value	–	–	–	(0.1)
Unlisted equity shares held at fair value	–	–	–	0.3
At 31 July 2008	**751.3**	**23.4**	**33.0**	**16.2**

In respect of floating rate notes, both classified as available for sale and held to maturity, £21.8 million (2007: £9.7 million) were due to mature within one year and £29.4 million (2007: £29.6 million) have been issued by corporates with the remainder issued by banks and building societies.

The Notes

12. Intangible asset: goodwill

	Net book value £ million
At 1 August 2007 including £163.3 million of original capitalised cost	113.2
Goodwill arising from acquisition of subsidiaries	8.8
Goodwill arising from purchases of minority interests and other movements	4.8
Impairment losses	–
At 31 July 2008	**126.8**

Cumulative goodwill arising from acquisitions before 1 August 1998, of £81.9 million (2007: £81.9 million) 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 acquisition be sold.

All balance sheet goodwill is allocated to individual cash generating units ("CGUs"), which are all at a lower level than our four operating divisions. There are no CGUs in which the goodwill carrying amount is significant in comparison with total goodwill.

All goodwill impairment reviews, which are carried out at least annually at operating division level and then reviewed centrally, were based on CGU cash flows using the most recent budgets, three year plan and forecast and took account of past experience. Generally, differing key assumptions on impacting factors and uncertainties are applied to each CGU but where the recoverable amounts of two or more CGUs are based on the same key assumptions, their related aggregate goodwill carrying amount is still not significant in comparison with total goodwill. Projections were no more than seven years ahead with projected rates falling significantly in later years due to their uncertainty. Management does not believe that a change in assumptions would cause the aggregate goodwill carrying amounts to exceed their aggregate recoverable amounts, without the change being accompanied by a significant loss event.

13. Property, plant and equipment and intangible assets: other

	Land and buildings £ million	Fixtures, fittings and equipment £ million	Assets held under operating leases £ million	Motor vehicles £ million	**Total property, plant and equipment £ million**	Intangible assets: other £ million
Group						
Cost						
At 31 July 2007	9.7	48.3	27.2	3.0	88.2	18.5
Additions	2.2	5.7	3.8	0.6	12.3	2.6
Acquisition of subsidiary	–	0.8	–	–	0.8	3.2
Other disposals	(1.6)	(2.3)	(8.1)	(1.1)	(13.1)	–
At 31 July 2008	**10.3**	**52.5**	**22.9**	**2.5**	**88.2**	**24.3**
Depreciation and amortisation						
At 31 July 2007	4.6	36.0	8.9	1.3	50.8	11.2
Charge for the year	1.0	5.7	3.8	0.6	11.1	5.5
Disposals	(0.3)	(2.3)	(2.9)	(0.8)	(6.3)	–
At 31 July 2008	**5.3**	**39.4**	**9.8**	**1.1**	**55.6**	**16.7**
Net book value at 31 July 2008	**5.0**	**13.1**	**13.1**	**1.4**	**32.6**	**7.6**
Net book value at 31 July 2007	5.1	12.3	18.3	1.7	37.4	7.3

	2008 £ million	2007 £ million
Future minimum lease payments under non-cancellable operating leases due:		
Within one year	**6.3**	6.9
Between one and five years	**8.7**	14.3
	15.0	21.2

	Land and buildings £ million	Fixtures, fittings and equipment £ million	Motor vehicles £ million	Total property, plant and equipment £ million
Company				
Cost				
At 31 July 2007	4.0	3.6	0.2	7.8
Additions	0.5	0.4	0.1	1.0
Disposals	(0.3)	(1.7)	(0.1)	(2.1)
At 31 July 2008	**4.2**	**2.3**	**0.2**	**6.7**
Depreciation				
At 31 July 2007	2.5	3.1	0.1	5.7
Charge for the year	0.6	0.2	–	0.8
Disposals	(0.1)	(1.6)	–	(1.7)
At 31 July 2008	**3.0**	**1.7**	**0.1**	**4.8**
Net book value at 31 July 2008	**1.2**	**0.6**	**0.1**	**1.9**
Net book value at 31 July 2007	1.5	0.5	0.1	2.1

The net book value of land and buildings comprises:

	Group		Company	
	2008 £ million	2007 £ million	2008 £ million	2007 £ million
Freehold	**–**	1.0	**–**	–
Long leasehold	**1.7**	1.8	**–**	–
Short leasehold	**3.3**	2.3	**1.2**	1.5
	5.0	5.1	**1.2**	1.5

The Notes

14. Other receivables and liabilities

	2008 £ million	2007 £ million
Other receivables		
Trade debtors	**14.7**	29.9
Other	**21.6**	26.5
	36.3	56.4
Other liabilities		
Creditors	**108.4**	106.0
Provisions	**24.6**	34.7
Other	**22.3**	51.7
	155.3	192.4

Provisions movement in the year:

	Claims £ million	Property £ million	Other £ million	Total £ million
Group				
At 1 August 2007	17.2	3.9	13.6	34.7
Utilisation	(0.9)	(0.6)	(1.7)	(3.2)
Charge/(release)	(6.2)	0.5	(3.3)	(9.0)
Acquisition of subsidiary	–	–	2.1	2.1
At 31 July 2008	**10.1**	**3.8**	**10.7**	**24.6**

	Property £ million	Other £ million	Total £ million
Company			
At 1 August 2007	3.1	4.0	7.1
Utilisation	(0.5)	(0.4)	(0.9)
Charge/(release)	(1.9)	2.3	0.4
At 31 July 2008	**0.7**	**5.9**	**6.6**

Property provisions are in respect of leaseholds where rents payable exceed the value to Close Brothers Group plc. 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.

The group claims provision of £10.1 million includes an amount which has been provided by Winterflood Securities Limited ("Winterflood") to fully cover, together with associated costs, a financial penalty of £4.0 million imposed by the Financial Services Authority ("FSA") in respect of dealings which occurred on the AIM market in 2004. Winterflood has referred the FSA decision to the Financial Services and Markets Tribunal.

15. Deferred tax assets

	Group		Company	
	2008 £ million	2007 £ million	**2008 £ million**	2007 £ million
Capital allowances	**12.1**	10.6	**0.2**	(0.3)
Employee benefits	**12.2**	13.1	**4.0**	3.6
Unrealised capital gains	**0.4**	(3.3)	**–**	–
Other	**4.3**	7.4	**1.2**	1.1
	29.0	27.8	**5.4**	4.4

Movement in the year:

	Group £ million	Company £ million
At 1 August 2007	27.8	4.4
(Expense)/credit to the income statement	(2.3)	1.0
Equity movements	3.5	–
At 31 July 2008	**29.0**	**5.4**

16. Derivative financial instruments

	2008			2007		
	Notional value £ million	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	**100.3**	**3.1**	**0.3**	481.1	0.1	14.4
Interest rate contracts	**1,221.5**	**7.8**	**1.6**	1,772.3	7.6	5.6
	1,321.8	**10.9**	**1.9**	2,253.4	7.7	20.0

Nominal amounts of interest rate contracts totalling £603.3 million (2007: £260.4 million) and exchange rate contracts totalling £19.7 million (2007: £16.8 million) have a residual maturity of more than one year. The group enters into derivative contracts with a number of financial institutions as a principal only to minimise the impact of interest and currency rate changes to its financial instruments. Included in the above are the following IAS 39 cash flow hedges, with the remainder being IAS 39 fair value hedges:

	2008			2007		
	Notional value £ million	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	**19.7**	**–**	**–**	353.8	–	–
Interest rate contracts	**1,208.7**	**6.4**	**1.6**	1,647.5	6.3	5.4
	1,228.4	**6.4**	**1.6**	2,001.3	6.3	5.4

The Notes

16. Derivative financial instruments continued

The group's fair value hedges hedge the interest rate and foreign exchange risks in recognised financial instruments; the net gains on these hedges were £4.2 million (2007: loss of £13.2 million) with immaterial ineffectiveness. 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 seven (2007: eight) years; there was immaterial ineffectiveness.

The cash flow hedge amounts that were removed from equity and included in profit and loss for the years ended 31 July 2007 and 2008 were immaterial.

The amount recognised in equity for cash flow hedges was a debit of £0.1 million (2007: £1.9 million credit).

17. Financial liabilities

	On demand or at short notice £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	**Total £ million**
At 31 July 2008							
Deposits by customers	**842.1**	**1,492.8**	**270.2**	**15.1**	**21.5**	**–**	**2,641.7**
Deposits by banks	**37.7**	**210.1**	**48.4**	**2.0**	**–**	**–**	**298.2**
Loans and overdrafts from banks	**14.2**	**80.6**	**205.1**	**274.4**	**407.5**	**–**	**981.8**
Promissory notes and other debt securities	**–**	**–**	**–**	**–**	**–**	**19.7**	**19.7**
	894.0	**1,783.5**	**523.7**	**291.5**	**429.0**	**19.7**	**3,941.4**

The promissory notes and other debt securities in issue mature on 20 April 2015.

	On demand or at short notice £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
At 31 July 2007							
Deposits by customers	649.6	1,374.2	255.9	11.7	11.3	–	2,302.7
Deposits by banks	35.8	38.9	85.9	–	–	–	160.6
Loans and overdrafts from banks	14.8	20.6	104.3	162.4	155.7	–	457.8
Promissory notes and other debt securities	–	–	336.1	–	–	16.9	353.0
	700.2	1,433.7	782.2	174.1	167.0	16.9	3,274.1

18. Subordinated loan capital

Final maturity date	Prepayment date	Initial interest rate	**2008 £ million**	2007 £ million
2020	2015	7.39%	**30.0**	30.0
2026	2021	7.42%	**15.0**	15.0
2026	2021	7.62%	**30.0**	30.0
			75.0	75.0

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.

19. Share capital

	2008 million	2008 £ million	2007 million	2007 £ million
Authorised				
Ordinary shares of 25p each	**200.0**	**50.0**	200.0	50.0
Allotted, issued and fully paid				
At 1 August 2007	**147.3**	**36.8**	146.4	36.6
Exercise of options	**2.1**	**0.5**	0.9	0.2
At 31 July 2008	**149.4**	**37.3**	147.3	36.8

20. Share premium and equity reserves

Share premium and profit and loss account

	Share premium account £ million	Group Profit and loss account £ million	Company Profit and loss account £ million
At 1 August 2007	264.6	432.4	157.5
Profit attributable to shareholders	–	90.0	459.7
Dividends paid	–	(92.7)	(92.7)
Transfer from share-based reserves	–	3.4	3.4
Exercise of options	9.5	–	–
Other movements	–	(1.1)	(2.4)
At 31 July 2008	**274.1**	**432.0**	**525.5**

Other reserves and minority interests

	Available for sale movements reserve £ million	Share-based reserves £ million	Exchange movements reserve £ million	Cash flow hedging reserve £ million	Minority interests £ million	Group £ million	Company £ million
At 1 August 2007	12.1	(2.3)	0.2	1.5	7.3	18.8	(2.3)
Charge to the income statement	–	2.3	–	–	2.6	4.9	0.2
Transfer to the profit and loss account	–	(3.4)	–	–	–	(3.4)	(3.4)
Shares purchased	–	(19.2)	–	–	–	(19.2)	(19.2)
Shares released	–	3.2	–	–	–	3.2	3.2
Movement on financial instruments classified as available for sale:							
Floating rate notes	(15.7)	–	–	–	–	(15.7)	–
Equity shares	(8.7)	–	–	–	–	(8.7)	–
Other movements	–	–	2.1	(0.1)	(4.9)	(2.9)	2.1
At 31 July 2008	**(12.3)**	**(19.4)**	**2.3**	**1.4**	**5.0**	**(23.0)**	**(19.4)**

The Notes

21. Capital management

Our policy has always been to be well capitalised and soundly financed whilst nonetheless maximising our return on capital. Our approach to capital management is driven by strategy and organisational requirements, while also taking into account the regulatory and commercial environments in which we operate. We believe our strong capital position is a core strength in the current market environment and leaves us well positioned to take advantage of organic and acquisition growth opportunities. We also seek to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity that are possible with greater leverage. In addition to maintaining our strong capital base to support the development of the business it is also important to ensure we meet regulatory capital requirements at all times, as well as maintaining an adequate level of capital in our rated subsidiary, CBL, as determined by rating targets. We would therefore expect to have capital adequacy ratios well in excess of minimum regulatory requirements even before taking account of the need to fund our non regulated activities and small acquisitions.

The board considers both the overall group and each division's capital position and requirements on a regular basis and after taking into account each division's regulatory and operational requirements, excess capital is transferred to group every six months by way of dividend.

The Financial Services Authority ("FSA") supervises the group on a consolidated basis and receives information on the capital adequacy of, and sets capital requirements for, the group as a whole. In addition a number of subsidiaries are directly regulated by the FSA.

We completed our transition to Basel II during the year. As expected there was no major impact on our regulatory capital requirement from the transition. The aim of Basel II is to promote safety and soundness in the financial system. It is structured around three 'pillars': Pillar 1 on minimum capital requirements; Pillar 2 on the supervisory review process; and Pillar 3 on market discipline. Our Pillar 1 information is presented in the table on the next page. Under Pillar 2, we have completed a self assessment of risks not captured by Pillar 1 in a process known as the "Internal Capital Adequacy Assessment Process". This has been reviewed by the FSA and the process culminated in the FSA providing "Individual Capital Guidance" on the level of capital we are required to hold. Pillar 3 aims to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment process. We will provide the required Pillar 3 disclosures on our website by December 2008.

Total regulatory capital under Basel II reduced by £88.5 million during the year to £613.6 million. Whilst we had retained earnings of £90.0 million, this was more than offset by shareholder distributions of £92.7 million, including the special dividend declared in 2007. Our regulatory capital was further reduced by £49.7 million as a result of our investment in associates, principally Mako, and by £16.0 million as a result of investment in our own shares to hedge share based award schemes. Notional risk weighted assets increased by £354.5 million to £3,804.0 million, principally as a result of growth in the loan book and cash and cash equivalents.

The group's individual entities and the group as a whole complied with all of the externally imposed capital requirements to which they are subject for the years ended 31 July 2007 and 2008. The table below summarises the composition of regulatory capital as at those financial year ends.

	At 31 July 2008 Basel II Pro forma £ million	At 31 July 2007 Basel II Pro forma £ million	At 31 July 2007 Basel I Pro forma £ million
Tier 1 capital			
Called up share capital	**37.3**	36.8	36.8
Share premium account	**274.1**	264.6	264.6
Retained earnings and other reserves	**404.7**	314.0	314.0
Current year earnings	**43.3**	132.9	132.9
Minority interests	**5.0**	7.3	7.3
Deductions from tier 1 capital			
Intangible assets	**(134.4)**	(120.5)	(120.5)
Investment in associates	**(49.7)**	–	–
Investment in own shares	**(33.1)**	(17.1)	(17.1)
	547.2	618.0	618.0
Tier 2 capital			
Subordinated debt	**75.0**	75.0	75.0
Unrealised gains on available for sale assets	**4.2**	12.8	12.8
Collective impairment allowances	**2.2**	3.7	3.7
Deductions from tier 2 capital			
Investments that are not qualifying holdings	**(6.5)**	–	–
Other regulatory adjustments	**(8.5)**	(7.4)	(7.4)
	66.4	84.1	84.1
Total regulatory capital	**613.6**	702.1	702.1
Risk weighted assets (notional)			
Credit and counterparty risk	**2,542.8**	2,255.1	–
Operational risk*	**1,099.9**	987.3	–
Market risk*	**161.3**	207.1	–
Banking book	**–**	–	2,524.8
Trading book	**–**	–	251.8
	3,804.0	3,449.5	2,776.6
	%	%	%
Tier 1 capital ratio	**14.4**	17.9	22.3
Total capital ratio	**16.1**	20.4	25.3

* Operational and market risk include a notional adjustment at 8% in order to determine notional risk weighted assets under Basel II.

The Notes

22. Investments in subsidiaries

The group's principal subsidiaries at 31 July 2008 were:

Name of subsidiary	Principal activity	Equity held by group %	Country of registration and operation
Close Asset Finance Limited	Commercial asset financing	100	England
Close Asset Management Holdings Limited	Asset management holding company	100	England
Close Brothers Corporate Finance Limited	Corporate finance advisory services	100	England
Close Brothers Corporate Finance (Holdings) Limited	Corporate finance holding company	100	England
Close Brothers Holdings Limited[1]	Group holding company	100	England
Close Brothers Limited	Treasury, property and insurance premium financing, and banking holding company	100	England
Close International Bank Holdings Limited	Private banking holding company	100	Guernsey
Close Portfolio Management Limited	Investment company	100	England
Winterflood Securities Limited	Market-making	100	England

[1] Direct subsidiary of the company.

During the year, the group purchased four companies. The book value, which equated to the fair value, of the net assets of these acquisitions is shown below:

	£ million
Cash and cash equivalents	1.3
Loans and advances to customers	149.5
Intangible assets	3.2
Property, plant and equipment	0.8
Deferred tax assets	1.2
Prepayments and accrued income	2.3
Other assets	0.6
	158.9
Bank loans and overdrafts	(55.4)
Other liabilities	(73.3)
Current tax liabilities	(1.1)
Provisions	(2.1)
Net assets acquired	27.0
Cash consideration for purchase of shares from shareholders:	
Upon acquisition	35.2
Deferred	0.6
	35.8
Goodwill arising	8.8

During the year, the movement in the company's investments in subsidiaries was as follows:

	£ million
At 1 August 2007	320.7
Additions	292.0
Disposals	(325.7)
At 31 July 2008	**287.0**

23. Investments in associates and joint ventures

Share of net assets/(liabilities)	Associates 2008 £ million	Associates 2007 £ million
Share of profit before tax	**11.3**	0.9
Share of tax	**(3.2)**	(0.3)
Share of profit after tax	**8.1**	0.6
Dividends paid	**(1.1)**	–
Additional investments	**9.8**	–
Acquisitions (including goodwill of £49.7 million)	**55.2**	–
Other liabilities	**(0.3)**	–
	71.7	0.6
At 1 August 2007	**1.5**	0.9
At 31 July 2008	**73.2**	1.5

The group has nine (2007: six) associates. The associates owe £nil (2007: £1.2 million) to the group. The group's share of the aggregated revenue of its associates in the year to 31 July 2008 amounted to £53.6 million (2007: £1.9 million). The group's share of the aggregated assets and liabilities of its associates at 31 July 2008 amounted to £63.2 million (2007: £3.2 million) and £40.0 million (2007: £2.4 million) respectively.

The group has an investment in one (2007: two) joint venture at £nil cost (2007: £nil cost). The group's share of the joint venture's net liabilities is included within "Other receivables" and the group's share of its gross assets is £0.3 million (2007: £0.3 million). The joint venture owed £nil (2007: £0.2 million) to the group. The effect of this investment on the group's results has not been separately disclosed in the profit and loss account and balance sheet because of its immateriality.

The Notes

24. Contingent liabilities and commitments

Contingent liabilities

The group has contingent liabilities in respect of guarantees arising in the normal course of business amounting to £22.7 million (2007: £10.1 million).

The company has given guarantees in respect of subsidiaries' bank facilities of £167.7 million (2007: £103.7 million) and subsidiaries' property leases of £11.2 million (2007: £12.6 million). In addition, the company has given guarantees in respect of the subordinated loan capital set out in note 18 on page 64.

	2008 £ million	2007 £ million
Commitments:		
Memorandum items		
Undrawn facilities, credit lines and other commitments to lend:		
Within one year	**330.5**	356.8
After more than one year	**1.6**	2.4
	332.1	359.2

Other commitments

The group is committed to purchase minority interests in certain subsidiaries at agreed fair valuations. While not material, these minority interests were recognised, where appropriate, in the fair values attributed to the acquisition of the subsidiaries.

Subsidiaries had contracted capital commitments relating to capital expenditure of £0.2 million (2007: £0.3 million) and contracted commitments to invest in private equity funds managed by the group of £8.3 million (2007: £14.6 million).

Future minimum lease payments under non-cancellable operating leases:

	2008		2007	
	Premises £ million	Other £ million	Premises £ million	Other £ million
Expiring:				
Within one year	**11.3**	**1.0**	10.5	1.1
Within two to five years	**41.4**	**1.2**	38.4	1.5
After more than five years	**33.1**	**0.2**	34.6	0.1
	85.8	**2.4**	83.5	2.7

25. 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 8. The directors believe that they exclusively comprise the key management personnel of the company, with the authority and responsibility for planning, directing and controlling, directly or indirectly, its activities.

The remuneration of individual directors is shown in the Report of the Board on Directors' Remuneration on pages 31 to 41.

	2008 £ million	2007 £ million
Directors' emoluments:		
Salaries	**2.0**	2.0
Fees	**–**	0.1
Benefits and allowances	**0.4**	0.4
Performance related awards in respect of the current year:		
Current	**4.2**	5.3
Deferred	**0.6**	1.3
	7.2	9.1
Severance payments	**1.7**	–
Share-based awards	**0.6**	1.9
Gains upon exercise of options	**2.4**	1.1
Company pension contributions	**0.3**	0.2
	12.2	12.3

Key management have banking relationships with group entities which are entered into in the normal course of business. Amounts included in deposits by customers at 31 July 2008 attributable, in aggregate, to key management were £0.8 million (2007: £3.8 million).

Transactions with associates

One of our associates has a banking relationship with a group entity which has been entered into in the normal course of business. Amounts included in deposits by customers relating to this relationship at 31 July 2008 were £6.6 million (2007: £nil).

The Notes

26. 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 £11.0 million (2007: £7.3 million).

Defined benefits pension scheme

The group's only defined benefits pension scheme ("the scheme") was closed to new entrants in August 1996. At 31 July 2008 this scheme had 23 (2007: 27) active members, 73 (2007: 77) deferred members and 12 (2007: four) 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 31 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:

	2008 %	2007 %	2006 %
Inflation	**3.8**	3.1	2.8
Increase in:			
Salaries	**2.0**	2.0	2.0
Pension in payment	**3.8**	3.1	2.8
Discount rate for scheme liabilities	**6.4**	5.8	5.5
Expected return on the scheme's assets:			
Equities	**8.7**	8.0	7.8
Fixed interest gilts	**5.1**	5.2	4.6
Cash	**5.1**	4.9	4.2

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

	2008 £ million	2007 £ million	2006 £ million
Equities	**15.2**	19.3	16.9
Bonds	**4.4**	3.5	3.4
Cash	**3.3**	1.1	1.3
Total market value of scheme assets	**22.9**	23.9	21.6
Present value of scheme liabilities	**(24.4)**	(23.3)	(21.4)
(Deficit)/surplus before tax	**(1.5)**	0.6	0.2
Related deferred tax (liability)/asset	**0.4**	(0.2)	–
Net (deficit)/surplus	**(1.1)**	0.4	0.2

	2008		2007	
	(Charge)/ credit to the group income statement £ million	**Pension scheme (deficit)/ surplus £ million**	(Charge)/ credit to the group income statement £ million	Pension scheme surplus £ million
Opening surplus before tax		**0.6**		0.2
Expected return on scheme assets	**1.8**		1.5	
Expected return on scheme liabilities	**(1.3)**		(1.2)	
Current service cost	**(1.1)**		(0.6)	
Charge to the income statement		**(0.6)**		(0.3)
Contributions		**1.1**		0.9
Net actuarial loss		**(2.6)**		(0.2)
Closing (deficit)/surplus before tax		**(1.5)**		0.6

27. Share-based awards

The following share-based awards have been granted under the Save As You Earn ("SAYE") Scheme, 1995 Executive Share Option Scheme and 2004 Long Term Incentive Plan ("LTIP") to 741 (2007: 764) employees:

Calendar year of grant	Exercise start date	Exercise end date	Exercise price per share	Number of options: At 1 August 2007	Adjustment[1]	Granted	Exercised	Forfeited	Lapsed	**At 31 July 2008**	Market price upon exercise[2]
Executive Share Options											
1997	30 October 2000	29 October 2007	482.5p	29,500	–	–	(29,500)	–	–	**–**	776.0p
1997	30 October 2002	29 October 2007	482.5p	489,750	(97,886)	–	(391,864)	–	–	**–**	780.0p
1997	30 October 2002	29 October 2007	467.8p	–	100,957	–	(100,957)	–	–	**–**	763.0p
1998	7 October 2001	6 October 2008	417.5p	159,408	(133,224)	–	(22,592)	–	–	**3,592**[3]	751.0p
1998	7 October 2001	6 October 2008	404.8p	–	137,401	–	(112,582)	–	–	**24,819**[3]	622.0p
1998	7 October 2003	6 October 2008	417.5p	590,875	(407,915)	–	(179,368)	–	–	**3,592**[3]	763.0p
1998	7 October 2003	6 October 2008	404.8p	–	420,707	–	(248,497)	–	–	**172,210**[3]	717.0p
1998	9 November 2003	8 November 2008	552.5p	6,000	(3,286)	–	–	–	–	**2,714**[3]	
1998	9 November 2003	8 November 2008	535.7p	–	3,389	–	–	–	–	**3,389**[3]	
1999	3 November 2002	2 November 2009	779.5p	334,000	(316,152)	–	(14,000)	–	–	**3,848**[3]	781.0p
1999	3 November 2002	2 November 2009	755.8p	–	326,065	–	–	(22,174)	–	**303,891**[3]	
1999	3 November 2004	2 November 2009	779.5p	558,500	(447,478)	–	(105,250)	–	–	**5,772**[3]	815.0p
1999	3 November 2004	2 November 2009	755.8p	–	461,510	–	(35,324)	(40,223)	–	**385,963**[3]	932.0p
2000	23 October 2003	22 October 2010	1125.0p	413,790	(387,973)	–	–	(3,332)	–	**22,485**[3]	
2000	23 October 2003	22 October 2010	1090.8p	–	400,136	–	–	(54,814)	–	**345,322**[3]	
2000	23 October 2005	22 October 2010	1125.0p	410,240	(384,423)	–	–	(3,332)	–	**22,485**[3]	
2000	23 October 2005	22 October 2010	1090.8p	–	396,475	–	–	(51,153)	–	**345,322**[3]	
2001	26 September 2004	25 September 2011	560.0p	200,644	(180,771)	–	(10,678)	–	–	**9,195**[3]	813.0p
2001	26 September 2004	25 September 2011	543.0p	–	186,436	–	(26,705)	(3,094)	–	**156,637**[3]	794.0p
2001	26 September 2006	25 September 2011	560.0p	512,750	(403,309)	–	(90,712)	–	–	**18,729**[3]	785.0p
2001	26 September 2006	25 September 2011	543.0p	–	421,107	–	(85,309)	–	–	**335,798**[3]	823.0p
2002	8 October 2005	7 October 2012	450.0p	240,862	(221,101)	–	(16,206)	–	–	**3,555**[3]	786.0p
2002	8 October 2005	7 October 2012	436.3p	–	228,031	–	(18,563)	–	–	**209,468**[3]	883.0p
2002	8 October 2007	7 October 2012	450.0p	559,750	(509,206)	–	(10,504)	(2,094)	–	**37,946**[3]	862.0p
2002	8 October 2007	7 October 2012	436.3p	–	530,838	–	(111,895)	(5,318)	–	**413,625**[3]	793.0p
2003	7 October 2006	6 October 2013	732.5p	476,375	(449,538)	–	(16,500)	–	–	**10,337**[3]	819.0p
2003	7 October 2006	6 October 2013	710.2p	–	463,631	–	(14,439)	(2,578)	–	**446,614**[3]	898.0p
2003	7 October 2008	6 October 2013	732.5p	632,250	(598,521)	–	–	–	(875)	**32,854**	
2003	7 October 2008	6 October 2013	710.2p	–	617,286	–	–	–	(13,923)	**603,363**	
2004	7 October 2007	6 October 2014	675.0p	346,000	(311,942)	–	(11,027)	(2,661)	–	**20,370**[3]	930.0p
2004	7 October 2007	6 October 2014	654.5p	–	321,727	–	(32,946)	(8,601)	–	**280,180**[3]	857.0p
2004	7 October 2009	6 October 2014	675.0p	341,000	(306,942)	–	(3,472)	–	(2,661)	**27,925**	858.0p
2004	7 October 2009	6 October 2014	654.5p	–	316,571	–	–	–	(14,045)	**302,526**	
2004	29 November 2007	28 November 2014	713.0p	10,000	(7,897)	–	–	–	–	**2,103**[3]	
2004	29 November 2007	28 November 2014	691.32p	–	8,145	–	–	–	–	**8,145**[3]	
2004	29 November 2009	28 November 2014	713.0p	10,000	(7,897)	–	–	–	–	**2,103**	
2004	29 November 2009	28 November 2014	691.32p	–	8,145	–	–	–	–	**8,145**	
SAYE											
2002	1 December 2007		391.0p	289,380	–	–	(284,317)	–	(5,063)	**–**	888.0p
2003	1 December 2008		586.0p	25,028	–	–	–	(216)	–	**24,812**	
2004	1 December 2007		540.0p	163,254	–	–	(157,818)	–	(5,436)	**–**	891.6p
2004	1 December 2009		540.0p	97,266	–	–	(990)	(9,486)	(846)	**85,944**	868.1p
2005	1 December 2008		661.0p	181,484	–	–	(1,497)	(28,910)	(2,574)	**148,503**	853.1p
2005	1 December 2010		661.0p	57,604	–	–	–	(16,750)	(2,435)	**38,419**	
2006	1 December 2009		807.0p	125,051	–	–	(812)	(61,610)	(1,646)	**60,983**	885.1p
2006	1 December 2011		807.0p	71,543	–	–	(263)	(43,814)	(2,171)	**25,295**	965.5p
2007	1 December 2010		620.0p	–	–	323,604	–	(28,748)	–	**294,856**	
2007	1 December 2012		620.0p	–	–	188,077	–	(7,311)	–	**180,766**	
2004 LTIP											
2004	28 October 2007			505,015	–	–	(336,676)	–	(168,339)	**–**	613.7p
2005	3 October 2008			514,504	–	–	–	–	(4,682)	**509,822**	
2006	2 October 2009			482,325	–	–	–	–	(15,801)	**466,524**	
2007	2 October 2010			–	–	904,025	–	(40,984)	–	**863,041**	
2008	4 March 2011			–	–	113,207	–	–	–	**113,207**	
				8,834,148	173,096	1,528,913	(2,471,263)	(437,203)	(240,497)	**7,387,194**	

[1] The adjustment to share option entitlements results from the payment of a special dividend on 6 November 2007. Options under the company's 1995 Executive Share Option Scheme (other than options under HM Revenue and Customs approved section of that Scheme) have been adjusted by the Remuneration Committee to take account of the depreciatory effect of the special dividend.
The aggregate amount payable on exercise of these options and the latent gain per share will be unaltered, subject to normal market factors.
[2] Determined by the weighted average of the closing mid-market share price on the day of each exercise during the year.
[3] Options exercisable at 31 July 2008.

The Notes

27. Share-based awards continued

For each SAYE and 2004 LTIP issue, the exercise end date is respectively six months and twelve months after the exercise start date. The exercise price of each 2004 LTIP issue is nil. The general terms and conditions for the three schemes are described on pages 32 and 33.

For the share-based awards granted during the year, the weighted average fair value of those options at 31 July 2008 was 458p (2007: 612p). 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
SAYE					
1 December 2010 to 31 May 2011	775.0p	24%	3.0	4.5%	5.0%
1 December 2011 to 31 May 2012	775.0p	25%	5.0	4.5%	5.0%
LTIP					
2 October 2010 to 1 October 2011	823.0p	24%	3.0	4.5%	–
4 March 2011 to 3 March 2012	612.0p	32%	3.0	4.5%	–

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 at 31 July 2008 for share-based payments is £6.8 million (2007: £5.7 million).

28. Consolidated cash flow statement reconciliation

	2008 £ million	2007 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit on ordinary activities before tax	**127.5**	190.2
Tax paid	**(59.0)**	(52.5)
(Increase)/decrease in:		
Interest receivable and prepaid expenses	**(5.2)**	(19.3)
Net settlement accounts	**141.8**	(85.8)
Net money broker loans against stock advanced	**(110.5)**	69.7
Net debt securities and equity shares held for trading	**(11.8)**	(9.3)
Increase/(decrease) in:		
Interest payable and accrued expenses	**(13.2)**	6.6
Depreciation, amortisation and goodwill impairment losses	**16.6**	18.8
Net cash inflow from trading activities	**86.2**	118.4
(Increase)/decrease in:		
Loans and advances to customers	**(120.2)**	(100.4)
Loans and advances to banks not repayable on demand	**4.8**	(3.2)
Floating rate notes held to maturity	**(5.6)**	3.0
Other assets less other liabilities	**(93.4)**	22.7
Increase/(decrease) in:		
Deposits by customers	**339.0**	459.6
Deposits by banks	**137.6**	(7.8)
Loans and overdrafts from banks	**468.6**	94.6
Non-recourse borrowings	**15.0**	–
Promissory notes and other debt securities in issue	**(350.0)**	(5.0)
Net cash inflow from operating activities	**482.0**	581.9

	2008 £ million	2007 £ million
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and associates		
Cash consideration in respect of current year purchases	**(100.1)**	(8.8)
Loan stock redemptions and deferred consideration paid in respect of prior year purchases	**(12.4)**	(6.1)
Net movement in cash balances	**1.3**	2.5
	(111.2)	(12.4)

	2008 £ million	2007 £ million
(c) Analysis of changes in financing		
Share capital (including premium) and subordinated loan capital:		
Opening balance	**376.4**	371.4
Shares issued for cash	**10.0**	5.0
Closing balance	**386.4**	376.4

	2008 £ million	2007 £ million
(d) Analysis of cash and cash equivalent balances		
Cash and balances at central banks	**1.5**	1.6
Loans and advances to banks repayable on demand	**307.6**	573.0
Floating rate notes classified as available for sale	**751.3**	756.5
Certificates of deposit classified as loans and receivables	**1,324.2**	823.6
	2,384.6	2,154.7

Cash and cash equivalents comprise balances which have an original maturity of three months or less, together with highly liquid investments.

The Notes

29. Critical accounting judgements and estimates

The preparation of financial statements under IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the group's accounting policies. Estimates and judgements are kept under continuous evaluation and are based mainly on historical experience and expectations of future events but incorporate other factors. The following are areas which involve a higher degree of judgement or complexity or where assumptions are significant to the financial statements.

Judgements

Financial instrument designations and impairment

Judgement is required both in ascertaining within which category, as prescribed in IAS 39, a financial instrument should be initially designated as well as in determining whether it has been impaired.

Qualifying hedge relationships

In designating a financial instrument as part of a qualifying hedge relationship, the directors have determined that the hedge is expected to be highly effective over the life of the hedging instrument. In accounting for a derivative as a cash flow hedge, the directors have determined that the future cash flows of the hedged exposure are highly probable.

Estimates

Fair value of debt securities

For debt securities carried at fair value, the method for calculating fair value is described in note 1(p) on page 51.

Effective interest rate

At least annually, models are reviewed to assess expected lives of groups of assets based upon actual repayment profiles.

Loan impairment

The directors review loans for impairment at least annually. The factors considered in determining whether assets are impaired are outlined in the accounting policies in note 1(n) on page 50.

Defined benefit obligations

The value of the obligations of the defined benefit scheme is calculated by the scheme's actuaries using the assumptions set out in note 26 on page 72.

Provisions

Provisions are carried in respect of certain known or forecast future expenditure, as described in note 14 on page 62.

30. Financial risk management

As a diversified group of financial services businesses, financial instruments are central to the group's activities. The risks associated with financial instruments represent a significant component of the risks faced by the group and are analysed in more detail below.

The group's financial risk management objectives are summarised in the Risk Management section of the Business Review on pages 18 to 20. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

The group's financial instruments are categorised in the table below:

	Held for trading £ million	Fair value through profit or loss £ million	Held to maturity assets £ million	Available for sale assets £ million	Loans and receivables £ million	Other financial assets/liabilities £ million	**Total £ million**
At 31 July 2008							
Assets							
Cash and balances at central banks	–	–	–	–	1.5	–	**1.5**
Settlement accounts	450.0	–	–	–	–	–	**450.0**
Loans and advances to customers	–	–	–	–	2,232.2	–	**2,232.2**
Loans and advances to banks	–	–	–	–	307.8	–	**307.8**
Debt securities and equity shares: long trading positions	100.0	–	–	–	–	–	**100.0**
Financial instruments classified as available for sale	–	–	–	784.3	–	–	**784.3**
Equity shares valued at fair value	–	16.2	–	–	–	–	**16.2**
Certificates of deposit classified as loans and receivables	–	–	–	–	1,324.2	–	**1,324.2**
Floating rate notes held to maturity	–	–	23.4	–	–	–	**23.4**
Loans to money brokers against stock advanced	–	–	–	–	106.8	–	**106.8**
Derivative financial instruments	–	–	–	–	–	10.9	**10.9**
	550.0	16.2	23.4	784.3	3,972.5	10.9	**5,357.3**
Liabilities							
Settlement accounts	451.4	–	–	–	–	–	**451.4**
Deposits by customers	–	–	–	–	–	2,641.7	**2,641.7**
Deposits by banks	–	–	–	–	–	298.2	**298.2**
Loans and overdrafts from banks	–	–	–	–	–	981.8	**981.8**
Promissory notes and other debt securities	–	–	–	–	–	19.7	**19.7**
Debt securities and equity shares: short trading positions	38.5	–	–	–	–	–	**38.5**
Loans from money brokers against stock advanced	–	–	–	–	–	67.0	**67.0**
Non-recourse borrowings	–	–	–	–	–	165.0	**165.0**
Subordinated loan capital	–	–	–	–	–	75.0	**75.0**
Derivative financial instruments	–	–	–	–	–	1.9	**1.9**
	489.9	–	–	–	–	4,250.3	**4,740.2**

The Notes

30. Financial risk management continued

	Held for trading £ million	Fair value through profit or loss £ million	Held to maturity assets £ million	Available for sale assets £ million	Loans and receivables £ million	Other financial assets/liabilities £ million	Total £ million
At 31 July 2007							
Assets							
Cash and balances at central banks	–	–	–	–	1.6	–	1.6
Settlement accounts	624.9	–	–	–	–	–	624.9
Loans and advances to customers	–	–	–	–	1,962.5	–	1,962.5
Loans and advances to banks	–	–	–	–	577.9	–	577.9
Debt securities and equity shares: long trading positions	116.7	–	–	–	–	–	116.7
Financial instruments classified as available for sale	–	–	–	775.2	–	–	775.2
Equity shares valued at fair value	–	16.6	–	–	–	–	16.6
Certificates of deposit classified as loans and receivables	–	–	–	–	823.6	–	823.6
Floating rate notes held to maturity	–	–	27.9	–	–	–	27.9
Loans to money brokers against stock advanced	–	–	–	–	114.3	–	114.3
Derivative financial instruments	–	–	–	–	–	7.7	7.7
	741.6	16.6	27.9	775.2	3,479.9	7.7	5,048.9
Liabilities							
Settlement accounts	484.5	–	–	–	–	–	484.5
Deposits by customers	–	–	–	–	–	2,302.7	2,302.7
Deposits by banks	–	–	–	–	–	160.6	160.6
Loans and overdrafts from banks	–	–	–	–	–	457.8	457.8
Promissory notes and other debt securities	–	–	–	–	–	353.0	353.0
Debt securities and equity shares: short trading positions	67.0	–	–	–	–	–	67.0
Loans from money brokers against stock advanced	–	–	–	–	–	185.0	185.0
Non-recourse borrowings	–	–	–	–	–	150.0	150.0
Subordinated loan capital	–	–	–	–	–	75.0	75.0
Derivative financial instruments	–	–	–	–	–	20.0	20.0
	551.5	–	–	–	–	3,704.1	4,255.6

Credit risk

The maximum exposure to credit risk at 31 July, before taking account of any collateral, was:

	2008 £ million	2007 £ million
Cash and balances at central banks	**1.5**	1.6
Settlement accounts	**450.0**	624.9
Loans and advances to customers	**2,232.2**	1,962.5
Loans and advances to banks	**307.8**	577.9
Debt securities and equity shares: long trading positions	**100.0**	116.7
Financial instruments classified as available for sale	**784.3**	775.2
Equity shares valued at fair value	**16.2**	16.6
Certificates of deposit classified as loans and receivables	**1,324.2**	823.6
Floating rate notes held to maturity	**23.4**	27.9
Loans to money brokers against stock advanced	**106.8**	114.3
Derivative financial instruments	**10.9**	7.7
Undrawn commitments	**332.1**	359.2
Guarantees	**22.7**	10.1
Total maximum exposure to credit risk	**5,712.1**	5,418.2

Collateral held in respect of financial assets

The majority of the loans and advances to customers is secured against a variety of specific assets as illustrated by the analysis of group loan book by asset security chart in the Business Review on page 14. The quality and level of security are demonstrated by the corresponding levels of historic loan impairment losses which for the last five years have not exceeded 1.5% of the average net loan book.

The group has securitised £172 million (2007: £156 million) of its loans and advances to customers with Cruise Limited ("Cruise") in return for non-refundable finance of £165 million (2007: £150 million). If the receipts from the loans and advances to customers exceed interest and principal loan liabilities due to Cruise, the surplus is due to the group. Should there be a shortfall the group is not obliged, and does not intend, to support any losses and the providers of the funding have agreed to this. The group has the option to replace these securitised loans as they are repaid and to increase the amount of securitised loans and advances to £200 million. At 31 July 2008 the balance sheet of Cruise comprised principally insurance premium loans ands advances to customers of £172 million (2007: £156 million) and borrowings of £165 million (2007: £150 million). The profit and loss account, other recognised gains and losses and cash flows of Cruise are negligible.

The group has entered into a repurchase agreement whereby floating rate notes to the value of £104.9 million have been lent in exchange for cash of £98.0 million. The agreement matures within the next six months. These floating rate notes remain on the group's balance sheet and the group retains the risk and rewards of ownership.

Loans to money brokers against stock advanced are the cash collateral provided to these institutions for stock borrowing by the group's market making activities. The group's accounting policy in respect of these financial assets is further described in Note 1(q) on page 51.

The Notes

30. Financial risk management continued

Financial assets past due but not impaired

	2008			2007		
	Loans and advances to customers £ million	**Settlement accounts £ million**	**Total £ million**	Loans and advances to customers £ million	Settlement accounts £ million	Total £ million
On demand or at short notice	**68.3**	**91.7**	**160.0**	57.9	67.3	125.2
Within three months	**34.4**	**–**	**34.4**	27.5	–	27.5
Between three months and one year	**10.3**	**–**	**10.3**	6.2	–	6.2
Over one year	**1.2**	**–**	**1.2**	0.2	–	0.2
	114.2	**91.7**	**205.9**	91.8	67.3	159.1

Impaired financial assets

	2008 £ million	2007 £ million
Impaired loans and advances	**103.4**	71.3
Allowance for impairment losses	**(41.4)**	(36.3)
	62.0	35.0

The factors considered in determining whether assets are impaired are outlined in the accounting policies in note 1(n) on page 50.

The amount of interest income accrued on impaired loans and advances was £6.1 million (2007: £5.4 million).

Whilst collateral is reviewed on a regular basis in accordance with credit policy, this varies according to the type of lending and collateral involved. It is therefore impracticable to estimate and aggregate current fair values for collateral.

Concentration and quality of financial assets

The group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics if they are connected entities.

The loan book is well spread, short term, secured and with a low average loan size in order to avoid concentration risk. 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.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Market risk

Interest rate risk

The group's exposure to interest rate fluctuations relates primarily to the returns from its capital and reserves which, as a matter of policy, are not hedged. The group has a policy of broadly matching interest rate liabilities on its loans and advances to customers whereby variable rate financing is swapped into fixed rate financing to secure the margin on those loans and advances. These interest rate swaps are disclosed in note 16 on page 63.

The sensitivities below are based upon reasonably possible changes in interest rate scenarios, including parallel shifts in the yield curve. At 31 July 2008 a 1.25% increase or decrease in interest rates compared to actual rates would increase/(decrease) the group's annual net interest income by the following amounts, prior to mitigation:

	2008 £ million	2007 £ million
1.25% increase	**1.7**	2.7
1.25% decrease	**(1.7)**	(2.7)

At 31 July 2008 a 1.25% increase or decrease in interest rates compared to actual rates would increase/(decrease) the group's equity by the following amounts, prior to mitigation:

	2008 £ million	2007 £ million
1.25% increase	**1.2**	1.9
1.25% decrease	**(1.2)**	(1.9)

Foreign currency risk

The group has a number of currency investments in subsidiaries and associates and has chosen not to hedge those exposures. These investments are predominantly in US dollars and euros. In the event of a 10% strengthening in the value of sterling against all currencies the group's equity would decrease by £13 million (2007: £4 million). For a 10% weakening in sterling there would be an equal and opposite impact on the group's equity.

Other than the above the group's exposure to foreign exchange risk is minimal and as such the impact of any reasonably possibly exchange rate fluctuations would not be material. Nonetheless the group does use exchange rate contracts to mitigate the existing risk and details of those contracts are disclosed in note 16 on page 63.

The Notes

30. Financial risk management continued

Other price risks

Trading financial instruments: debt securities and equity shares

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 31 July 2008	Highest exposure £ million	Lowest exposure £ million	Average exposure £ million	**Exposure at 31 July £ million**
Equities:				
Long	74.8	38.4	52.6	**38.6**
Short	34.8	12.2	19.9	**14.4**
			32.7	**24.2**
Debt securities				
Long	81.8	23.6	47.7	**61.4**
Short	75.9	21.5	42.0	**24.1**
			5.7	**37.3**

For the year ended 31 July 2007	Highest exposure £ million	Lowest exposure £ million	Average exposure £ million	Exposure at 31 July £ million
Equities:				
Long	82.2	40.7	54.7	56.5
Short	70.3	14.1	23.3	20.2
			31.4	36.3
Debt securities:				
Long	93.7	40.3	60.5	60.2
Short	102.2	41.4	49.5	46.8
			11.0	13.4

With respect to the long and short positions on debt securities respectively, £0.2 million and £0.3 million (2007: £5.1 million and £0.6 million) were due to mature within one year.

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(p) on page 51.

Based upon the trading book exposure given above, a hypothetical fall of 10% in market prices would result in a £2.4 million (2007: £3.6 million) decrease in the group's income and net assets on the equity trading book and a £3.7 million (2007: £1.3 million) 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.

Non trading financial instruments

Net gains and losses on non trading financial instruments are disclosed in note 11 on page 59.

Liquidity risk
The group measures liquidity risk with a variety of measures including regular stress testing and regular cash flow monitoring, and reporting to both the group and divisional boards.

The following table details the contractual maturities of the group's financial liabilities on an undiscounted cash flow basis:

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	**Total £ million**
At 31 July 2008							
Settlement accounts	**–**	**451.4**	**–**	**–**	**–**	**–**	**451.4**
Deposits by customers	**843.7**	**1,503.9**	**123.6**	**164.8**	**42.1**	**–**	**2,678.1**
Deposits by banks	**37.7**	**210.9**	**1.5**	**49.0**	**2.0**	**–**	**301.1**
Loans and overdrafts from banks	**16.1**	**223.4**	**62.0**	**169.5**	**589.4**	**–**	**1,060.4**
Promissory notes and other debt securities	**–**	**0.3**	**0.3**	**0.5**	**4.1**	**21.5**	**26.7**
Loans from money brokers against stock advanced	**67.0**	**–**	**–**	**–**	**–**	**–**	**67.0**
Non-recourse borrowings	**–**	**93.8**	**74.8**	**–**	**–**	**–**	**168.6**
Subordinated loan capital	**2.3**	**0.6**	**–**	**2.8**	**22.5**	**134.7**	**162.9**
Derivative financial instruments	**0.5**	**76.1**	**7.2**	**2.1**	**1.8**	**–**	**87.7**
Off balance sheet commitments	**–**	**1.1**	**1.2**	**2.2**	**18.2**	**6.8**	**29.5**
	967.3	**2,561.5**	**270.6**	**390.9**	**680.1**	**163.0**	**5,033.4**

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	Total £ million
At 31 July 2007							
Settlement accounts	–	484.5	–	–	–	–	484.5
Deposits by customers	651.6	1,384.3	123.8	145.5	26.7	–	2,331.9
Deposits by banks	35.8	40.2	4.3	84.8	–	–	165.1
Loans and overdrafts from banks	14.9	32.5	30.5	79.4	366.8	–	524.1
Promissory notes and other debt securities	–	5.5	342.4	0.6	4.4	20.2	373.1
Loans from money brokers against stock advanced	185.0	–	–	–	–	–	185.0
Non-recourse borrowings	–	92.7	60.3	–	–	–	153.0
Subordinated loan capital	2.6	0.6	–	2.8	22.5	140.4	168.9
Derivative financial instruments	–	128.0	2.3	6.6	–	–	136.9
Off balance sheet commitments	17.5	0.8	1.2	2.1	18.0	10.6	50.2
	907.4	2,169.1	564.8	321.8	438.4	171.2	4,572.7

Investor Relations

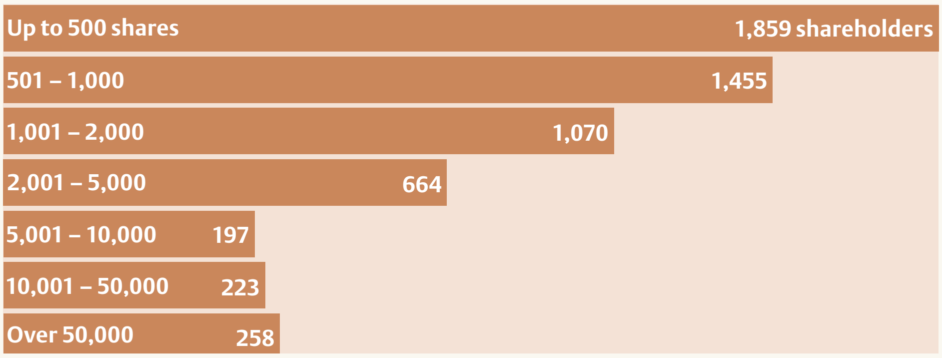
Financial calendar (provisional)

Annual General Meeting	November 2008
First quarter Interim Management Statement	November 2008
Final dividend payment	14 November 2008
Half year end	31 January 2009
Interim Results	March 2009
Interim dividend payment	April 2009
Third quarter Interim Management Statement	May 2009
Pre close trading statement	July 2009
Financial year end	31 July 2009
Preliminary Results	September 2009

The financial calendar is updated on a regular basis throughout the year. Please refer to our website www.closebrothers.co.uk for up to date details.

Shareholder analysis

The number of shareholders analysed by the quantity of shares they held at 31 July 2008 was:



Substantial shareholders

At 15 September 2008 the following had notified the company that they were interested in 3% or more of the voting rights attributable to the issued share capital of the company:

	Ordinary shares million	Voting rights %
Caledonia Investments plc	19.6	13.5
Prudential plc	15.1	10.4
Aberdeen Asset Management PLC	8.4	5.8
Aviva plc	7.8	5.4
Lloyds TSB Group plc	7.4	5.1
Legal & General plc	6.4	4.4

Auditors
Deloitte & Touche LLP

Solicitors
Freshfields Bruckhaus Deringer

Corporate brokers
UBS Investment Banking

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Capita Registrars
The Registry
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