Close Brothers Group plc

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CLOSE BROTHERS GROUP plc

ANNOUNCEMENT OF PRELIMINARY RESULTS

FOR THE YEAR ENDED 31 JULY 2008

Financial Highlights	**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.

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

"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.

Our largest division, Banking, delivered solid results and is well positioned for further growth.

We remain confident that our experienced management teams, high quality businesses, strong balance sheet and sound strategies will see us through the challenging financial markets."

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A presentation to analysts and investors will be held at 9.30 am BST at our offices at 10 Crown Place, London EC2A 4FT. A listen-only dial-in facility will be available by dialling +44 (0) 1296 311600, access code 233998. A recording of this call will be available for replay for two days starting 12.00 pm BST by dialling 0800 032 9687 (UK only) or +44 (0) 20 7136 9233 (UK and International), access code 66078502.

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

Results and Dividends

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.

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	

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.

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

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 focussed 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.

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.

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

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.

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.

REVIEW OF OPERATIONS

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 this announcement.

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.

REVIEW OF OPERATIONS

Overview continued

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 this announcement.

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).

REVIEW OF OPERATIONS

Overview continued

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 held in Treasury.

REVIEW OF OPERATIONS

Overview continued

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.

REVIEW OF OPERATIONS

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

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%.

REVIEW OF OPERATIONS

Asset Management continued

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.

REVIEW OF OPERATIONS

Banking

- 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

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 excludes £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.

REVIEW OF OPERATIONS

Banking continued

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.

REVIEW OF OPERATIONS

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)

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.

REVIEW OF OPERATIONS

Securities

· Adjusted operating profit down 12% to £38.7 million
· Winterflood income per bargain decreased 22% to £11.58
· 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.

REVIEW OF OPERATIONS

Securities continued

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.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 July 2008

	Note	**2008 £ million**	2007 £ million
Interest income		**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	3	**-**	21.1
Operating income		**509.2**	606.8
Administrative expenses		**337.6**	376.3
Depreciation and amortisation		**16.6**	15.1
Impairment losses on loans and advances	7	**27.5**	21.5
Impairment losses on goodwill		**-**	3.7
Total operating expenses before exceptional items and goodwill impairment		**371.7**	412.9
Exceptional expenses	3	**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	3	**(10.0)**	21.1
Impairment losses on goodwill		**-**	(3.7)
Operating profit before tax		**127.5**	190.2
Tax	4	**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	5	**61.5p**	90.4p
Diluted earnings per share	5	**60.7p**	89.8p
Ordinary dividend per share	6	**39.0p**	37.0p
Special dividend per share	6	**-**	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	7	**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	8	**784.3**	775.2
Equity shares valued at fair value	8	**16.2**	16.6
Certificates of deposit classified as loans and receivables	8	**1,324.2**	823.6
Floating rate notes held to maturity	8	**23.4**	27.9
Loans to money brokers against stock advanced		**106.8**	114.3
Intangible assets: goodwill		**126.8**	113.2
Intangible assets: other		**7.6**	7.3
Property, plant and equipment		**32.6**	37.4
Interests in associates		**73.2**	1.5
Deferred tax assets		**29.0**	27.8
Prepayments and accrued income		**89.9**	82.4
Other receivables		**36.3**	56.4
Derivative financial instruments		**10.9**	7.7
Total assets		**5,752.7**	5,374.9
Liabilities			
Settlement accounts		**451.4**	484.5
Deposits by customers	9	**2,641.7**	2,302.7
Deposits by banks	9	**298.2**	160.6
Loans and overdrafts from banks	9	**981.8**	457.8
Promissory notes and other debt securities	9	**19.7**	353.0
Debt securities and equity shares: short trading positions		**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		**75.0**	75.0
Other liabilities		**155.3**	192.4
Current tax liabilities		**2.4**	29.3
Accruals and deferred income		**134.4**	145.0
Derivative financial instruments		**1.9**	20.0
Total liabilities		**5,032.3**	4,622.3
Equity			
Called up share capital	10	**37.3**	36.8
Share premium account	10	**274.1**	264.6
Profit and loss account	10	**432.0**	432.4
Other reserves and minority interests	10	**(23.0)**	18.8
Total equity		**720.4**	752.6
Total liabilities and equity		**5,752.7**	5,374.9

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	12(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	12(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

THE NOTES

1. Basis of preparation and accounting policies

The financial information contained in this announcement does not constitute statutory accounts for the year ended 31 July 2008 within the meaning of section 240 of the Companies Act 1985, but is derived from those accounts, on which the auditors have yet to sign their report. The accounting policies used are consistent with those set out in the Annual Report 2007. In addition an accounting policy to define exceptional items will be included in the Annual Report 2008 as follows:

"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."

While the financial information has been computed in accordance with International Financial Reporting Standards ("IFRS"), this announcement does not itself comply with IFRS. The company expects to publish full financial statements that comply with IFRS by 13 October 2008.

The financial information for the year ended 31 July 2007 has been derived from the audited financial statements of Close Brothers Group plc for that year, which have been reported on by Deloitte & Touche LLP and delivered to the Registrar of Companies. The report of the auditors on those statutory accounts was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

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 Review of Operations.

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.

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 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.

Summary Pro forma Balance Sheet at 31 July 2008

	Asset Management £ million	Banking £ million	Corporate Finance £ million	Securities £ million	Group £ million	Total £ million
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

THE NOTES

3. 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

4. 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

THE NOTES

5. 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

6. 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

7. 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

8. 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

8. Non-trading financial instruments continued

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.

9. 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**

9. Financial liabilities continued

	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

10. Share premium and equity reserves

Share premium and profit and loss account

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

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	Total £ million
At 1 August 2007	12.1	(2.3)	0.2	1.5	7.3	**18.8**
Charge to the income statement	-	2.3	-	-	2.6	**4.9**
Transfer to the profit and loss account	-	(3.4)	-	-	-	**(3.4)**
Shares purchased	-	(19.2)	-	-	-	**(19.2)**
Shares released	-	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)**
At 31 July 2008	**(12.3)**	**(19.4)**	**2.3**	**1.4**	**5.0**	**(23.0)**

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11. Capital management

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.

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12. 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 impairment losses and goodwill	**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
(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)
(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
(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.