



Close Brothers

PROFILE

Close Brothers Group plc is an independent merchant banking group listed on the London Stock Exchange. Founded in the City of London 125 years ago, Close Brothers is amongst the 200 largest companies by market capitalisation listed on the London Stock Exchange and employs over 1,900 people.

The group's activities comprise asset management, banking, corporate finance and market-making.

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

Close Brothers' strategy is to provide a diverse range of specialist financial services where we believe we can offer added value to our clients as a result of our particular expertise. We are dedicated to developing continuity in our relationships with clients through excellent service, objective advice and uncompromising professionalism.

We have concentrated on building up a balanced mix of activities in the financial sector and our aim is to deliver to our shareholders, over time, a consistent and increasing stream of profits and dividends.

HIGHLIGHTS

	2003	2002
Profit before taxation and goodwill amortisation	£85.4m	£75.1m
Earnings per share before goodwill amortisation	41.1p	37.2p
Profit before taxation	£77.9m	£68.4m
Earnings per share	35.8p	32.3p
Dividends per share	26.0p	26.0p
Shareholders' funds	£487m	£472m
Total assets	£3.6bn	£3.1bn



Close Brothers

BOARD AND ADVISERS

Board Members' Biographies

Sir David Scholey, C.B.E. (68) #

Chairman

Previously chairman of the SG Warburg Group and is a senior adviser to UBS AG. Other directorships include Anglo American plc, Vodafone Group plc and The Chubb Corporation. Appointed a director in March 1999. Chairman of the Nomination Committee.

C.D. Keogh, M.B.A., Barrister, A.T.I.I. (50) + *

Chief Executive

Appointed chief executive in November 2002. Joined Close Brothers in 1985 having previously been employed by Saudi International Bank and Arthur Andersen. Appointed a director in August 1995.

M.J. Barley, A.C.I.B. (46) *

Chief executive of the asset finance division. Joined Close Brothers in 1999 having previously been chief executive of Wagon Finance and an executive manager at Abbey National. Appointed a member of the management board in August 2003.

P.N. Buckley, C.A. (61) #

Chairman of Caledonia Investments plc, which has an 18 per cent. shareholding in the company. Other directorships include Offshore Logistics Inc. and Kerzner International Hotels Limited. Appointed a director in November 1995. His alternate is Michael Wyatt (66), a non-executive director of Caledonia Investments plc.

A.H. Farley, Solicitor (57) #

One of the founding partners of City solicitors, Watson, Farley and Williams, to whom he is now senior adviser. Non-executive director of Opus Trust Limited and Opus Portfolio Limited. Appointed a director in September 1993. Chairman of the Audit Committees.

R.S. Grainger, A.C.A. (43) *

Chief executive of the corporate finance division. Joined Close Brothers in 1996 on its acquisition of Hill Samuel corporate finance, which he joined in 1987 after qualifying with Price Waterhouse. Appointed a member of the management board in August 2003.

M.A. Hines, M.S.I. (54) + *

Joined Close Brothers in 1993 on the acquisition of Winterflood Securities, of which he is now joint chief executive, and was appointed a director in March 2002. Previously employed by Bisgood Bishop.

S.R. Hodges, Barrister (49) + *

Joint Managing Director

Appointed joint managing director in November 2002 with responsibility for the banking division. Joined Close Brothers in 1985 having previously been employed by Hambros. Appointed a director in August 1995.

R.D. Kent, M.B.A., M.S.I. (56) #

Managing director of Close Brothers until October 2002 when he became a non-executive director and consultant. Joined Close Brothers in 1974, led the management buy-out in 1979 and was appointed a director in August 1984. Non-executive chairman of Grosvenor Limited and Bradford & Bingley Group plc and a non-executive director of Whitbread plc.

P.S.S. Macpherson, M.B.A. (55) #

Formerly a director of Flemings and executive deputy chairman of Misys plc. Other directorships include AXA UK PLC and Kleinwort Benson Private Bank Limited. Appointed a director in March 2003.

M.G.A. McLintock (42) #

Chief executive of M&G and a director of Prudential plc. Prior to joining M&G worked for Barings and Morgan Grenfell. Appointed a director in May 2001.

D.C. Pusinelli, A.C.A. (47) + *

Appointed a director in September 2002. Having previously qualified with Coopers & Lybrand he joined the corporate finance division of Close Brothers in 1986. Responsible for corporate development.

P.S. Wilmot-Sitwell (68) #

Formerly senior partner of Rowe and Pitman and then chairman of SG Warburg Securities and vice chairman of the SG Warburg Group. Chairman of Mercury World Mining Trust plc. Appointed a director in November 1995. Senior independent director and chairman of the Remuneration Committee.

P.L. Winkworth, F.C.A., A.T.I.I., M.S.I. (55) + *

Finance Director & Joint Managing Director
Appointed joint managing director in November 2002 with responsibility for finance. Employed by KPMG and Barings, before joining Close Brothers in 1977. Partner in the management buy-out of Close Brothers in 1979 and was appointed a director in August 1984.

Secretary

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

Auditors

Deloitte & Touche LLP.

Ernst & Young LLP (Close Brothers Limited group).

Solicitors

Freshfields Bruckhaus Deringer.

Stockbrokers

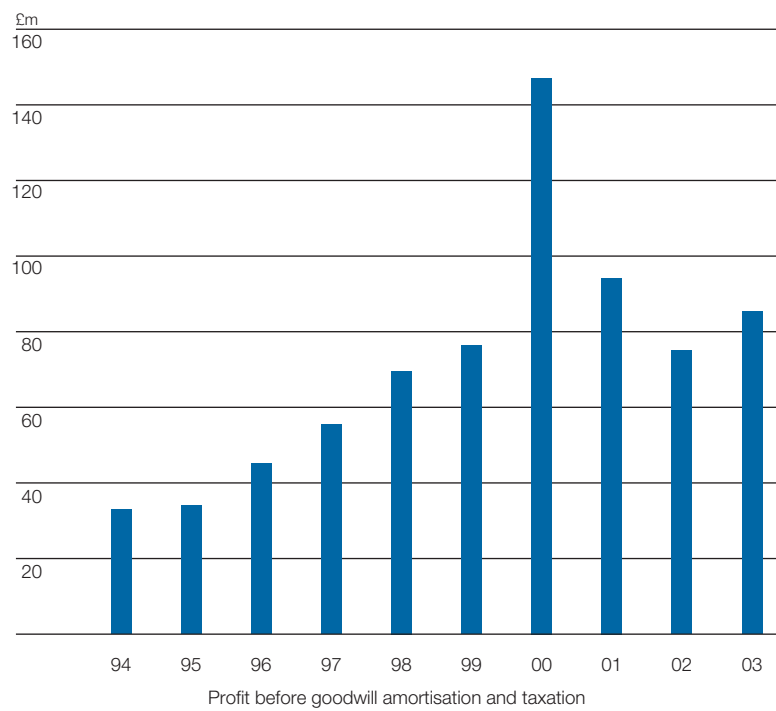
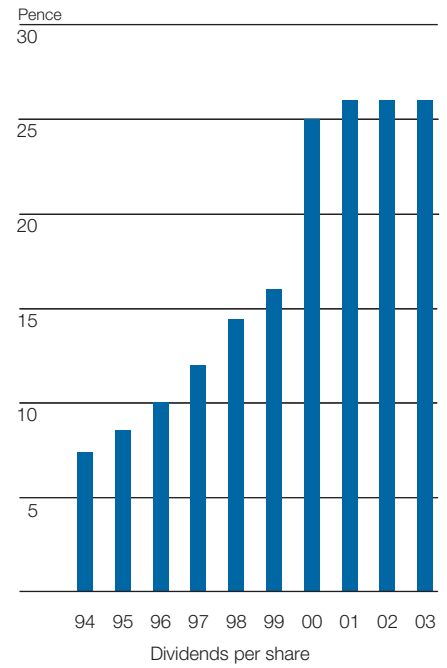
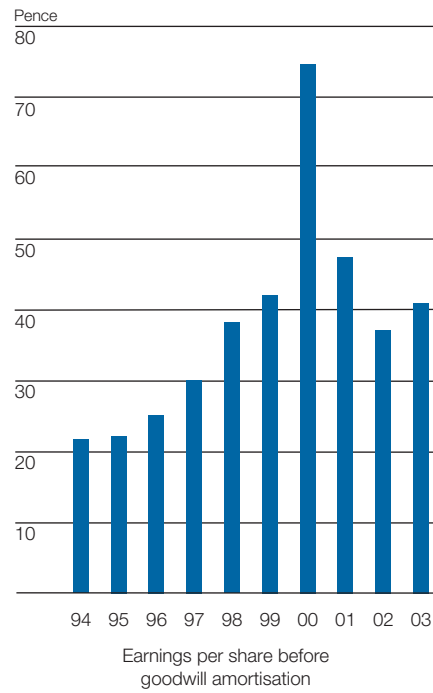
UBS Investment Banking.

+ executive director

* management board member

non-executive director

HISTORICAL TRENDS





Close Brothers

CHAIRMAN'S STATEMENT

RESULTS

The operating profit on ordinary activities before taxation and goodwill amortisation was £85.4 million, compared to £75.1 million last year, an increase of 14 per cent. Earnings per share, on the same basis, were 41.1p compared to 37.2p, an increase of 10 per cent.

After deducting a charge for goodwill amortisation of £7.5 million (2002 — £6.7 million), the operating profit on ordinary activities before taxation was £77.9 million (2002 — £68.4 million) and earnings per share, on the same basis, were 35.8p (2002 — 32.3p).

The board is recommending a final dividend of 17p per share which, together with the interim dividend, gives a total dividend for the year of 26p per share. This is the same as last year's total dividend and, based on earnings per share of 41.1p, is covered some 1.6 times.

OVERVIEW

Trading conditions for most of our financial year continued to be testing, particularly for our investment banking businesses. Falling stock markets in the second half of 2002 and early 2003 preceded the war in Iraq and continued the long bear phase. However, since the spring, there has been a healthy and, so far, sustained bounce in market confidence and activity, which has benefited our results.

The better market conditions have led to a noticeable fillip in the last quarter in particular for our market-making division. They also meant that our corporate finance division progressed during the year. However, although our asset management division has benefited from the recent market upturn, its profits are significantly down year on year.

Overall the profit of our investment banking activity was 6 per cent. ahead of that for last year.

Our banking activity has once again had a good year, with profit, loan book and customer deposits all up 14 per cent. The division performed well in almost all key areas with another particularly strong showing from our insurance premium financing business. Bad debt levels remain broadly unchanged from last year.

The resilience of our profit once again demonstrates the soundness of our strategy of specialisation and diversification.

Analysis of Operating Profit

	2001 %	2002 %	2003 %
<i>Asset Management</i>	23	18	8
<i>Corporate Finance</i>	12	2	5
<i>Market-Making</i>	26	19	24
Investment Banking	61	39	37
Banking	39	61	63
	<u>100</u>	<u>100</u>	<u>100</u>

TRADING

Investment Banking

Asset Management

The profit of £8.1 million was sharply down from last year's £15.9 million, although the second half of the current year was level with the first half. Whilst this result was disappointing, if understandable, it was pleasing that our funds under management held steady at the half year (£3.1 billion) and advanced to £3.7 billion at the year end. Almost all of this increase of 19 per cent. arose from net new funds raised, some £450 million, with the remainder coming from market movement.

In addition to generally difficult market conditions, there are specific reasons behind the fall in profit which we foreshadowed last year. First, in the Channel Islands, in addition to increased costs for new premises and a new computer system (now installed and operational), we suffered from the more difficult business environment generally including lower margins in our cash management business. Secondly, although we did well in raising new money this came with a lower up front margin than historically. However, there were some bright spots. We benefited from a strong performance by our private equity business, and from the continued growth of our property funds.

A few weeks prior to the year end Jonathan Sieff joined us from Old Mutual-Gerrard as head of our asset management division, with a mission to expand its scope, scale and profitability. As a first step we have recently purchased, subject to Financial Services Authority approval, Nelson Money Managers, which operates in the "mass affluent" market. With more than £900 million of funds under management, this business complements the activities of Close Wealth Management and is a substantial boost for our onshore private client business.

CHAIRMAN'S STATEMENT

Corporate Finance

Trading conditions for this division were subdued for much of the year but we experienced increased activity in the last quarter, when a number of deals which had been long in gestation completed ahead of the summer holiday period. This was particularly noticeable in the UK, where debt advice and restructuring accounted for a large segment of our work. In France too we had a good end to the year but in Germany our business was depressed.

All of this resulted in operating income increasing by 27 per cent. to £33.3 million and profits more than doubling to £5.3 million.

We continue to focus on mid-market companies with growth potential and there are signs that the worst may be behind us. Richard Grainger, head of our corporate finance division, has joined our new Management Board.

Market-Making

After approximately three years of severe bear market conditions, both the UK and world markets picked up significantly in the spring of this year. Our broader business base (developed during the bear market) meant that we were able to take full advantage of improving market conditions. As a result, profit increased by 40 per cent. from £16.8 million to £23.5 million, with the second half representing some 60 per cent. (2002 — 43 per cent.) of the total.

During the year we steadily increased our market share, with the result that, by number and value of deals executed, we were consistently among the top three most active transactors of principal to agent business in the London equity market.

Part of this increase arose from the continued development of our FTSE-100 business which, whilst at lower margins than our traditional small-cap business, nevertheless broadened the service that we are providing to the retail investor. Our fixed interest business also expanded and, in addition, the investment trust team which joined at the beginning of the year has had a positive impact.

This division has made an encouraging start to the new financial year.

Banking

The good progress of our lending businesses in recent years, continued throughout the year. Profit again grew steadily, by 14 per cent., from £55.1 million to £62.9 million. At the same time our gross loan book grew by a similar percentage, from £1.4 billion to £1.6 billion, as did our customer deposits.

This commendable performance was achieved in reasonably benign market conditions where, in particular, bad debt levels remained steady — in our case demonstrated by the charge to profit, once again, of 1.5 per cent. of our average loan book.

Our insurance premium financing business was the outstanding performer, increasing its profit by 48 per cent. This business benefited from strong organic growth, from our increasing move into the personal lines market, and from the continued hardening of commercial insurance premiums — which may not persist for much longer.

Against the background of a somewhat less buoyant market, especially in Central London, our property lending business has continued its good performance with a well spread and well secured loan book. Our invoice finance and credit management businesses have done well, as has our mortgage broking business which had a record year arranging some £4.9 billion (2002 — £2.2 billion) of mortgages for 35,000 (2002 — 25,000) borrowers. Our central treasury, whilst finding the low interest rate environment challenging, has been active in raising additional facilities at attractive rates to provide for our planned future growth.

Our asset financing businesses, representing 44 per cent. of the banking division's profit, on the whole continued to prosper with a particularly good performance from our car finance company, where profits increased 83 per cent., and from our specialist finance company in Jersey, which had a record year. We saw encouraging levels of growth and profitability in the machine tool, transport and healthcare sectors. Conversely the market for printing machinery was as difficult as it has been for some while, and the outlook for this segment remains patchy. Our military services business had a more testing year, particularly in the last few months with many of its customers on duty in Iraq.



Close Brothers

CHAIRMAN'S STATEMENT

Mike Barley, who joined us in 1999 from Wagon Finance-Abbey National, has joined our Management Board having been appointed chief executive of our asset finance division on 31st July, 2003 on the retirement of David Hardisty.

DIRECTORS AND MANAGEMENT

Following the appointment of our new chief executive last November, we have made some changes to our management structure. We have created a Management Board whose main function is to assist the chief executive both in developing strategy and business objectives, and with the day to day management of the group.

The Management Board is chaired by Colin Keogh, and includes Mike Barley, Richard Grainger, Mike Hines, Stephen Hodges, David Pusinelli and Peter Winkworth, all executives of the group.

On 31st July, 2003, David Hardisty retired as a director of the company and David Macnamara, while remaining joint chief executive of Winterflood Securities, ceased to be an alternate director.

David Hardisty has been the team leader of our asset financing division, which we backed in 1987 with initial capital of £1.2 million. Then specialising in print finance and employing some nine people, the business is now broadly based, with 140 employees and a loan book of almost £600 million. We thank him for his energetic commitment and look forward to continuing to benefit from his wisdom and experience as a consultant on asset finance.

We welcome Strone Macpherson who was appointed a non-executive director on 3rd March, 2003.

OUTLOOK

The long storm in the Stock Market appears to have blown out, presenting a more positive outlook for our three investment banking divisions. However, the general economic situation remains uncertain. In these circumstances, we remain prudently cautious about the prospects for our investment banking activity, while expecting some improvement in the immediate trading environment in which we operate.

With regard to our lending businesses, there is as yet no evidence of any significant adverse change in the bad debt environment; indeed interest rates remain at historically low levels, consumer spending continues quite strongly and unemployment remains low. Against this background the outlook for our banking activity remains good.

A key challenge is the development of our asset management division. This will take time and, while we continue to encourage and review all relevant acquisition opportunities, we shall approach this task in our usual careful and thorough way.

Our clear strategy of diversification and specialisation has seen us through what was, hopefully, the worst of the market downturn and, whilst retaining our natural caution, we look forward with considerably more confidence than for some time.

Sir David Scholey
Chairman

FINANCIAL REVIEW

Overview

The resilience of the group's operating income reflects the strength of diversification of the group's activities and the continued strong performance of the banking activity. Net dealing income increased as a proportion of the mix reflecting the improved trading conditions for our market-making division, particularly in the last quarter of the financial year.

	2002	2003
	%	%
Net interest income	40	39
Net fee income	42	39
Net dealing income	17	21
Other income	1	1

Expenses continue to be tightly controlled. However our overall expense/income ratio increased during the year mainly because the asset management division continued its investment in systems despite difficult market conditions.

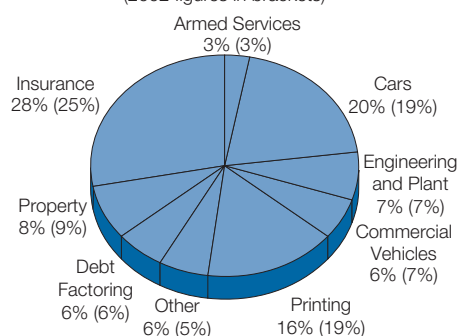
	2002	2003
Operating income	£276m	£323m
Administrative expenses	£174m	£208m
Administrative expenses as % of operating income	63.1%	64.2%
Number of staff at year end	1,840	1,943

Staff numbers increased by some 5 per cent., largely because of organic growth in our banking activity.

Our customer deposits and loans and advances both increased during the period by 14 per cent. Our loan book remains well spread, both by type of asset over which we take security and by number of loans.

Analysis of Group Loan Portfolio

(2002 figures in brackets)



The loan book represents some 379,000 separate advances, only ten of which exceed £3 million, the largest being £6.6 million.

The group remained well capitalised and soundly financed. The consolidated risk asset ratio at 23 per cent. (2002 — 26 per cent.) remained comfortably high.

Risk Management

Liquidity, credit, market and reputational risks are inherent in many of our businesses. Since each of our main operations is managed separately and there is little or no integration of systems, management or customers, risk management is carried out by the local management of each business, is overseen on a regular basis by senior group management supported by group control, an established internal audit and compliance unit, and is reviewed by the audit committees.

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

Our term banking facilities amounted to over £1.6 billion, of which only £964 million was drawn at the year end. We continued our long established policy of broadly matching interest rate liabilities, whereby we swap variable rate financing into fixed rate, particularly in regard to our asset finance book.

Credit risk is controlled by a number of local credit committees within centrally set limits of authority. For transactions above such limits, there is a group credit committee. In general terms, the group avoids the risk of multiple exposure to one counterparty — for example, we do not normally lend to a corporate finance advisory client, nor does one lending subsidiary seek to lend to clients of another lending subsidiary.

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



Close Brothers

CHIEF EXECUTIVE'S REPORT

Our asset management division has a range of controls to support the quality of the investment process, including asset allocation and investment committees, in which senior management of the group participate where appropriate. These are backed up by rigorous operational controls to safeguard client's stock and money.

Our corporate finance division involves reputational and underwriting risk. These are controlled and monitored by the risk committee, in which senior management of both corporate finance and group participate. Underwriting risk is decided upon and monitored by a further specific committee of the bank, which includes group directors who are not directly involved in corporate finance.

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

Our treasury operations do not actively trade in money market instruments, since these are normally held to maturity. Nor do we trade speculatively in derivatives as a principal.

Counterparties with whom we place deposits are monitored by the treasury committee, which establishes specific limits.

As a financial institution, every transaction we undertake, either on behalf of our customers or for ourselves, involves financial instruments. We have described above our long standing policies to manage the risks inherent in these instruments.

The group's capital and reserves are necessarily subject to interest rate fluctuations and as a matter of policy are not hedged, as reflected in the interest rate repricing table shown in note 24.

We have a central internal audit and compliance unit, as well as financial control and compliance functions at subsidiary level. Our central control unit oversees and periodically examines the quality of the operational procedures of our separate businesses. The frequency of examination depends upon the perceived risk and quality within each operation. Our central control unit reports to the appropriate audit committees.

OPERATIONAL REVIEW

Investment Banking

Overall our investment banking activity had a testing year with profits at £36.9 million, ahead of last year (£34.8 million) by 6 per cent. However increased activity in the second half enabled both our market-making and corporate finance divisions to show significant growth compared to last year, of 40 per cent. and 150 per cent. respectively. Conversely the results of our asset management division fell by 50 per cent. as lower levels of activity and, in some of our businesses, higher costs — planned with future development in mind — impacted in the short term.

Asset Management

Many of the themes from last year have been repeated in 2003. Overall it has been a difficult year with a creditable performance in the circumstances. The last four months saw an upward trend in stock markets so that market prices ended close to opening levels. Improvements in sentiment and a number of new product launches in the second half have meant that the overall net value of new funds raised in the year at £456 million is marginally ahead of last year. We finished the year with a record £3.7 billion under management — 19 per cent. up on last year. Overall movements were as follows:

	2002	2003
	£bn	£bn
New funds raised	0.8	0.7
Withdrawals	(0.4)	(0.2)
Net funds raised	0.4	0.5
Market effect	(0.5)	0.1
Acquisition	0.1	—
Total at start of year	3.1	3.1
Total at end of year	3.1	3.7

Unquoted and Property Funds

Our private equity business performed strongly this year with last year's successful fund raising providing a good platform. Healthy progress has been made in investing the new fund and overall investment performance continues to be good. It is particularly pleasing given the market conditions to have achieved a healthy flow of distributions to investors. We are now well on the way to launching our seventh and largest UK mid-market fund.

Notwithstanding the subdued environment for tax-based products, our tax and property based investment business worked hard to achieve another successful year for fundraising. We are a leading manager of Venture Capital Trust funds and have successfully expanded the range of our property funds, including the successful launch of a quoted property investment company, Close High Income Properties PLC ("CHIP").

CHIEF EXECUTIVE'S REPORT

Specialist and Institutional

Our specialist index tracking and protected funds business launched a new fund and won a substantial mandate to track a specialist index. Our long running open ended protected funds (the Escalator series) continued to be popular with investors.

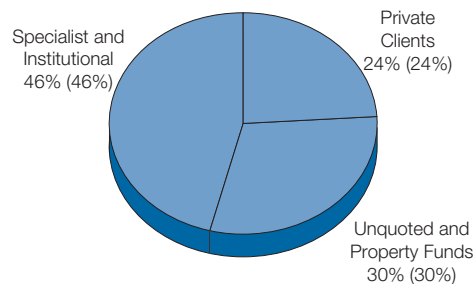
Although OLIM, our specialist institutional business, did not enjoy a repeat of last year's performance fee, its results held up well. Good investment performance and significant new charity mandates took funds under management to record levels.

Relative performance of our specialist investment trust and OEIC funds was good. The technology funds in particular enjoyed a significant bounce from their nadir and we are seeing growing interest in our North American and Far East funds.

Private Clients

Both of our onshore private client teams made further progress in growing their businesses. In an important step we have, since the year end, and subject to Financial Services Authority approval, acquired Nelson Money Managers, a significant competitor to Close Wealth Management with over £900 million of funds under management. We shall be combining the best aspects of each to create a stronger business although the benefits may take some time to come through.

Funds Under Management
(2002 figures in brackets)



Offshore we continued to make the capital investment that is necessary for our businesses to prosper further. This year saw the cost impact of new premises throughout most of our offshore activities and there was also significant resource (human and financial) devoted to the installation of new computer systems. The majority of this work is now behind us, leaving staff free to focus on further improving our client offering and achieving efficiency gains. We also invested heavily in a number of marketing initiatives with mixed results. Building on those that were successful and curtailing those that were not leaves us with a stronger platform for next year.

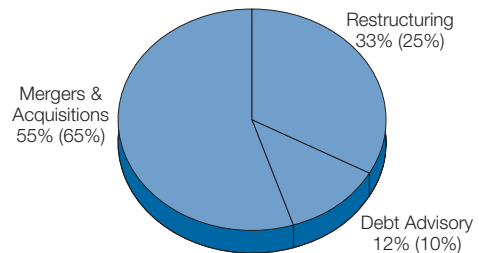
With a new head of our asset management division and a sound group of diverse businesses, we are confident that the work done in 2003 will stand us in good stead in the coming year.

Corporate Finance

Against a generally muted economic background our corporate finance business performed well, with a particularly strong second half. Operating income (£33.3 million) was up 27 per cent. and profit (£5.3 million) was over twice that of last year.

This strong performance comes off a low base but it is also a result of our deliberate policy of increasing the breadth of our advisory business both by geography (one-quarter of operating income was from our non-UK businesses), and by practice areas as shown below:

Corporate Finance Practice Areas
(2002 figures in brackets)



In the year we were engaged in more than 60 fee-paying assignments in the UK. Our restructuring practice worked on 16 mandates relating to £8 billion of debt. Noteworthy examples include acting for Logica in its merger with CMG, acting for Archer Daniels Midland (the US multi-billion dollar agri-business) in its offer for Pura, advising the bondholders in British Energy and advising on the restructuring of the balance sheet of Vantico (the company that acquired the performance polymer business of Ciba).

Dôme Close Brothers in Paris performed well and the increase in our stake in the Madrid-based Atlas Capital Close Brothers was accompanied by their move up the Spanish M&A rankings. Our German business has found market conditions difficult.

Our active presence in the major economies of Europe, coupled with our independence and breadth of business, means that we are ideally placed to provide pan-European corporate finance advice to the mid-market company. Whilst our M&A practice continues to prosper, we expect that our restructuring work in Europe will grow even more strongly. Our geographic reach is further enhanced by our associate network which gives our corporate finance business international coverage, particularly in the USA.



Close Brothers

CHIEF EXECUTIVE'S REPORT

Market-Making

The WINS team did well to hold the business steady during the difficult market conditions which prevailed for most of the year. This meant that we were able to take full advantage of the market upturn and the accompanying increase in activity levels since the spring. As a result WINS profits were up 40 per cent. to £23.5 million (last year £16.8 million) with some 60 per cent. of profits arising in the second half. These pleasing results demonstrate both the resilience of our business and the continued importance of activity levels.

During the year we continued to develop and broaden the base of our business. Importantly, at the start we took on a high quality team which specialise in the investment trust sector. This self-contained unit has an integrated approach, including market-making, research, sales and corporate finance, and has had a successful year. In addition, volumes on Bondscape, our retail bond trading platform, continued to increase.

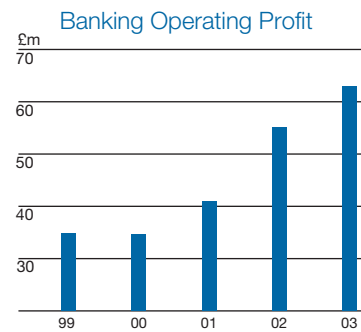
We continue to transact the majority of our equity business in electronic form and during the year added the S&P 500 to our automated trading system, WINNER, bringing the total number of instruments available for trading on this system to over 3,500, well ahead of our competitors. As a result, by the end of our year, we had become one of the three most active houses, measured both by volume and also by value of deals, in the principal to agent business in the London market.

We have also continued to invest in our efficient back office function and our flexible system has the capacity to handle a significant increase in volumes.

The improved trading conditions of the summer have continued into the early autumn. This is further evidence of the gradual return to the market of the private client investor, and the possibility that this might be sustained, even if around a consolidating index, gives more optimism for the immediate future than hitherto.

Banking

Our banking activity is comprised mainly of a number of specialist lending businesses together with our central treasury, which operate as part of our bank, Close Brothers Limited. It produced another year of strong organic growth with profit up by 14 per cent. to £62.9 million. Customer deposits were up by the same amount as was the loan book which ended the year at £1.6 billion including securitised receivables.



The growth was achieved without diluting our underwriting criteria, and this was reflected in our bad debt experience. Net provisions made during the year, expressed as a percentage of the average loan book, were 1.5 per cent., the same as in the previous year. The pre-tax return on operating income and net assets was 40 per cent. and 30 per cent. respectively. No acquisitions were made during the year.

Treasury

Our Treasury operation achieved steady growth in customer deposits, which ended the year at a record total of £1.4 billion, up some 14 per cent. on the previous year end. We launched a number of special deposits aimed at affinity groups and benefited from our transparent base-rate related pricing. During the year we increased our securitisation facilities and renewed a number of bilateral and syndicated funding lines. This process was assisted by our continuing strong credit rating.

Specialist Financing

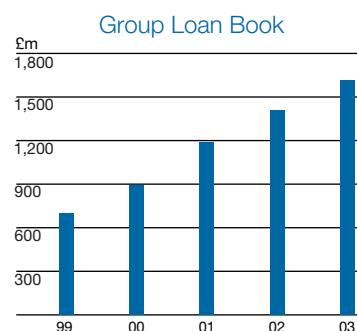
Close Property Finance had a good year. It continued to focus on commercial pre-let and residential development finance and new business was able to keep pace with the accelerating rate of repayment generated by a favourable housing market. Cooling in London and some other parts of the residential market was apparent towards our year end, but we remain well spread, both geographically and also by number of borrowers, and we have avoided high value residential units where illiquidity might lead to more significant price fluctuations.

Close Premium Finance, our insurance premium financing business, saw another year of impressive growth. Its profits grew by 48 per cent. and its loan book grew by 30 per cent. to £443 million. Although assisted by the increase in commercial premiums during the year, it also increased the number of borrowers by 32 per cent. to 454,000. A highlight of the year was the contribution made by non-commercial business. Personal lines, solicitors' professional indemnity schemes and our business in Eire all grew materially as we deliberately diversified our operations. We continue to invest in technology and to improve the services which we are able to provide to our introducing brokers.

Close Invoice Finance, our invoice discounting business, had a steady year although many of its clients, particularly those involved in or exposed to the manufacturing sector, found trading conditions difficult. Despite this, margins and fee income held up well. During the year we opened a northern office based in Manchester and this has been well received by our clients and business introducers. We believe we are well positioned to grow as a leading independent participant in the invoice finance market.

Close Credit Management, our debt collection business, had another record year, benefiting particularly from its specialist Close Assistance product aimed at the motor market. We invested in new systems, which enable us to deal more efficiently with increased levels of business and which will provide us with improved operational flexibility.

Mortgage Intelligence, our residential mortgage broking business, also had a record year. Its network arranged some 35,000 mortgages with a market value of £4.9 billion. We are well advanced with plans to develop the business in the light of Financial Services Authority regulation, which will impact mortgage brokers in 2004. These plans will enable us to offer a wider range of products and services to participating brokers.



Asset Financing

Our asset financing business, which contributed 44 per cent. of the profits of our banking activity and accounted for 59 per cent. of the total loan book, had a steady if somewhat mixed year. Our four key operations comprise commercial asset finance, consumer finance, services to the Armed Forces and our Channel Islands business.

Receivables of Close Asset Finance, our commercial asset finance business, grew by 8 per cent. to over £570 million and we continued to diversify our loan portfolio. The proportion of non-print assets of this company has now risen to 55 per cent. compared to some 37 per cent. five years ago. We enjoyed satisfactory trading conditions in the commercial vehicles, healthcare, engineering, machine tools, contractors plant and light aircraft sectors. In particular the healthcare division made further progress during the year, with our business of financing assets for NHS Trusts growing steadily and with Braemar Finance, aimed at dentists, vets and opticians, beginning to achieve its potential.



Close Brothers

CHIEF EXECUTIVE'S REPORT

The print market however has been difficult throughout the year. The downturn in general advertising activity and the continued low level of corporate finance related work generated by the City both had a significant effect. For the time being, this market is over-supplied and this is leading to a higher than usual rate of failure amongst printers and reduced investment in new equipment. The market for used printing equipment is also affected, but not to the same extent, and our business volumes in this area have been good. Our core skills of tight underwriting, knowledge of the sector and hands-on management of arrears continue to stand us in good stead in this difficult market.

Close Motor Finance (previously Close Consumer Finance) had a record year and profits were up by over 80 per cent. in a buoyant market. We specialise in financing mainly used cars, motorcycles and light commercial vehicles on a secured basis. New business for the year exceeded £210 million. Underwriting quality is being maintained and arrears are low. Significant investment is being made in systems to improve efficiency further.

Close Brothers Military Services, our 80 per cent. joint venture with the NAAFI, made further progress despite the difficulties caused to our customer base by the war in Iraq. During the year we launched a new range of financial products aimed specifically at commissioned officers. Initial results are encouraging.

Close Finance (CI), our commercial and consumer finance business operating in Jersey and Guernsey, had an excellent year. Operating profits grew and the experience of our senior management team in this specialist business enabled us to keep bad debts to a very low level.

Outlook

When commencing my new job as chief executive last November, the stock market and the economy were both at a low ebb. Since the Iraq war, stock markets have picked up noticeably but the UK economic outlook is still unclear.

Against this backdrop we achieved a good performance in 02/03, the 125th year since the formation of the business by Mr. W.B. Close and his brothers in 1878. The outlook for our banking activity remains good, and while that for our investment banking activity has undoubtedly improved, we think it is sensible to temper our growing confidence with caution.

C.D. Keogh
Chief Executive

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31st July, 2003.

Principal Activities

Close Brothers Group plc is the parent company of a group of companies engaged in merchant banking operations. The principal subsidiary companies as at 31st July, 2003 and their principal activities are listed in note 29 to these financial statements. A detailed review of current and future developments is presented in the Chief Executive's Report.

Results and Dividends

The consolidated results for the year are shown on page 27. The directors recommend a final dividend for 2003 of 17.0p (2002 — 17.0p) on each ordinary share which, together with the interim dividend of 9.0p (2002 — 9.0p), makes a total distribution for the year of 26.0p (2002 — 26.0p) per share.

Statement of Responsibilities

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

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

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

Share Capital

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

Substantial Interests

At 15th September, 2003 the following had notified the company that they were interested in 3 per cent. or more of the issued share capital of the company:

	Ordinary shares	%
Caledonia Investments plc	25,400,000	17.64
Prudential plc	11,389,863	7.91
Lloyds TSB Group plc	5,159,198	3.58
Legal and General plc	4,778,630	3.32
The Standard Life Assurance Company	4,679,924	3.25

Directors and Interests

(a) The present directors of the company, all of whom served throughout the year except Messrs. P.S.S. Macpherson and D.C. Pusinelli who were appointed respectively on 3rd March, 2003 and 26th September, 2002, are set out on page 2.

Messrs. D.G. Hardisty and D.J. Macnamara retired from the board on 31st July, 2003.

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

	Ordinary shares	
	31st July, 2003	1st August, 2002*
P.N. Buckley**	—	—
A.H. Farley	9,800	9,800
D.G. Hardisty	30,735	14,157
M.A. Hines	20,177	18,599
S.R. Hodges	402,260	374,586
R.D. Kent	224,770	223,192
C.D. Keogh	319,460	309,512
D.J. Macnamara (alternate)	27,350	25,772
P.S.S. Macpherson	—	—
M.G.A. McLintock***	4,440	4,440
D.C. Pusinelli	227,391	219,468
Sir David Scholey	10,000	10,000
P.S. Wilmot-Sitwell	10,000	10,000
P.L. Winkworth	629,765	628,187
M.G. Wyatt** (alternate)	—	—

*or at date of appointment if later.

**Mr. P.N. Buckley and his alternate Mr. M.G. Wyatt are respectively the chairman and a non-executive director of Caledonia Investments plc, which had an interest in 25,400,000 ordinary shares of the company at 31st July, 2003 (1st August, 2002 — 25,400,000).

***Mr. M.G.A. McLintock is a director of Prudential plc, which had an interest in 14,421,751 ordinary shares of the company at 31st July, 2003 (1st August, 2002 — 11,585,931).

Details of the options to subscribe for shares held by the directors under the company's sharesave and executive share option schemes are given in the report of the board on directors' remuneration on pages 18 to 25. The beneficial interests of the directors in the share capital of the company have remained unchanged since 31st July, 2003.



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REPORT OF THE DIRECTORS

(c) Mr. M.A. Hines is a director and minority shareholder in Winterflood Securities Limited. At 31st July, 2003 he and his spouse were beneficially interested in 1,250 ordinary shares of that company (1st August, 2002 — 1,250).

(d) In accordance with the provisions of the Articles of Association, Messrs. P.N. Buckley, M.G.A. McLintock, S.R. Hodges and P.L. Winkworth, who were appointed in November 1995, May 2001, August 1995 and August 1984 respectively, retire by rotation and, being eligible, offer themselves for re-election. Messrs. P.N. Buckley and M.G.A. McLintock are non-executive directors who do not have a service contract. Messrs. S.R. Hodges and P.L. Winkworth have service contracts which can be terminated on not more than twelve months' notice.

Mr. P.S.S. Macpherson having been elected since the last Annual General Meeting, retires in accordance with the Articles of Association and being eligible offers himself for re-election. Mr. P.S.S. Macpherson is a non-executive director and as such does not have a service contract.

(e) The company has established an employee benefit trust in which all employees of the group, including executive directors, are potential beneficiaries. The trust currently owns 1,231,984 shares in the company, 489,230 of which are conditionally earmarked for deferred bonuses. This trust acquired these shares at an average cost of 384p per share compared to a market value of 712.5p per share at 31st July, 2003. Dividends have been waived on these shares.

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

Corporate Social Responsibility

(a) The Environment

The group's environmental policy is available on the group website. The chief executive is responsible for implementing this policy, supported by a management system with clear roles and responsibilities. The group has collected data on its significant environmental impacts in order to set targets which will be regularly monitored. The group has implemented processes to manage environmental risks so as to lower its greenhouse gas emissions and reduce, reuse and recycle, wherever possible, waste materials. Dialogue with, and support from, Business in the Environment, to whom the group subscribes, has assisted the group in improving its environmental performance, which is a key aim of the policy.

(b) Community Support and Charitable Donations

In August 2002 the company made a charitable investment of £250,000 in BOOST, which is a Government backed project which has as one of its objectives, generating employment in the most deprived areas of East London.

Charitable donations made during the year amounted to £71,000 (2002 — £127,000).

(c) Health and Safety

The maintenance of healthy and safe working conditions is a group objective. Group companies have established procedures appropriate to their particular activities to monitor, maintain and improve their health and safety standards. Often health and safety committees are established, with staff representatives, to provide training and improve the working environment.

(d) Staff

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

It is the group's policy to give appropriate consideration to applications for employment from disabled persons, having regard to their particular aptitudes. 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 employees.

(e) Suppliers' Payments Policy

All banking, market-making and investment transactions are settled in accordance with applicable terms and conditions of business agreed with the counterparty. Average creditor days for all other approved expenses is 24 (2002 — 23).

Special Business at the Annual General Meeting

(a) Authority to purchase own shares

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

REPORT OF THE DIRECTORS

Nevertheless your 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 Annual General Meeting to authorise the company to purchase not more than 21,600,000 of its 25p ordinary shares, being approximately 15 per cent. of the issued share capital of the company.

The maximum price which may be paid will not be more than 5 per cent. above the average of the middle market quotations for the ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days before the purchase is made. The minimum price will be the par value. The directors would only begin to purchase shares after considering the criteria referred to above. The authority will expire on whichever date is the earlier of the date eighteen months from the date the special resolution is passed and the date of the 2004 Annual General Meeting. 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 2004 Annual Report.

(b) Directors' authority to allot shares

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

(c) Waiver of pre-emption rights

It is proposed to renew, until the next Annual General Meeting, 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 £900,000 which represents approximately 2½ per cent. of the issued share capital. The directors intend to comply with the guidelines of the investment committees of the Association of British Insurers and the National Association of Pension Funds to the effect that no more than 7½ per cent. of the issued share capital should be allotted for cash on a non pre-emptive basis in any rolling three year period.

(d) Remuneration of non-executive directors

The remuneration of non-executive directors is near to its maximum amount permitted by the Articles of Association. Compliance with the new Combined Code will increase the responsibilities of non-executive directors. Consequently, to allow for future increases, a resolution will be proposed at the next Annual General Meeting to increase the maximum amount of remuneration for non-executive directors in aggregate from £350,000 to £600,000.

Auditors

On 1st August, 2003, Deloitte & Touche, the company's auditors, transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treat the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1st August, 2003 under the provisions of Section 26(5) of the Companies Act 1985. A resolution to re-appoint Deloitte & Touche LLP as the company's auditors will be proposed at the forthcoming Annual General Meeting.

By order of the board

R.D. Sellers
Secretary

29th September, 2003



Close Brothers

CORPORATE GOVERNANCE

The board of the company has reviewed its Corporate Governance practices and, together with relevant information contained in the Report of the Board on Directors' Remuneration on pages 18 to 25 and the Report of the Directors on pages 13 to 15, this statement explains how the company has applied the principles of good governance contained in Section 1 of the Combined Code for the year ended 31st July, 2003.

Board Responsibilities

The board currently comprises five executive directors and seven non-executive directors. The senior independent director is Mr. P.S. Wilmot-Sitwell. Mr. P.N. Buckley is a director of Caledonia Investments plc, which owns approximately 18 per cent. of the issued share capital of the company, Mr. M.G.A. McLintock is a director of Prudential plc, which owns approximately 10 per cent. (including a notifiable interest of approximately 8 per cent.) of the issued share capital of the company, Mr. A.H. Farley has been a non-executive director of the company for just over ten years and Sir David Scholey is a senior adviser to UBS AG, one of whose business groups is UBS Investment Banking, which is financial adviser and stockbroker to the company. Neither Mr. P.N. Buckley nor Mr. M.G.A. McLintock attends board meetings as appointee of his employer. All the non-executive directors are regarded by the board as independent other than Mr. R.D. Kent who was an executive director until 31st October, 2002.

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

The board has appointed the following committees with the following memberships and terms of reference:

Bank Audit Committee (Messrs. A.H. Farley (chairman), P.N. Buckley, P.S.S. Macpherson and P.S. Wilmot-Sitwell (non-executive directors)).

In respect of Close Brothers Limited and its subsidiaries ("the Bank Activities") to review the scope and findings of the internal and external auditors, to commission any additional investigation work, to review the adequacy of controls and procedures including reputational, financial, operational and compliance controls and risk management and to consider the form and content of published announcements and statutory accounts.

Non-Bank Audit Committee (Messrs. A.H. Farley (chairman), P.N. Buckley, P.S.S. Macpherson and M.G.A. McLintock (non-executive directors)).

In respect of all activities of the group, other than the Bank Activities, to review the scope and findings of the internal and external auditors, to commission any additional investigation work, to review the adequacy of controls and procedures including reputational, financial, operational and compliance controls and risk management and to consider the form and content of published announcements and statutory accounts.

Remuneration Committee (Messrs. P.S. Wilmot-Sitwell (chairman), P.N. Buckley and M.G.A. McLintock and Sir David Scholey (non-executive directors)).

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

Nomination Committee (Sir David Scholey (chairman), Messrs. P.N. Buckley and P.S. Wilmot-Sitwell (non-executive directors)).

To consider the appointment or retirement of directors, to review proposed nominations and make recommendations thereon to the board.

Internal Control

The board has overall responsibility for the group's system of internal control and for reviewing its effectiveness. The system of internal control is designed to ensure that the reputational, financial, operational and compliance risks taken by the holding company and

CORPORATE GOVERNANCE

its operating subsidiaries in the conduct of their business are identified and evaluated so that appropriate controls are put in place to manage those risks. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The system of internal control is supported by a well established organisational structure within the group, with clear levels of responsibility and delegation of authority and a strong control culture embedded in the day to day management of each operating company. Each operating company in the group regularly undertakes a review of, and reports to its board on, these controls and procedures, having due regard to its key risks. Where necessary, steps are taken to improve internal control and risk management further following these reviews. The Financial Review Statement on pages 7 and 8 details these key risks and explains how such risks are controlled.

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

The company has complied with the Turnbull Committee's guidance for directors. Identifying, evaluating and managing the group's significant risks is an ongoing process which is regularly reviewed by the board, and which has been in place for the year ended 31st July, 2003 and up to the date of the approval of these financial statements.

Auditors' Independence

The group has employed two firms of auditors for many years. Ernst & Young LLP are the auditors of Close Brothers Limited, our banking subsidiary, and its subsidiaries. Deloitte & Touche LLP are the auditors of the holding company and the remainder of the group.

In addition to their statutory audit responsibilities, the group will typically use the auditors for other work that they are well placed to undertake in 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 careful discussion with the responsible partners in the two firms and the executive directors, the audit committees are satisfied as to the independence of the statutory auditors.

Relations with Shareholders

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

Going Concern

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

Compliance with the Combined Code

The company has complied with Section 1 of the Combined Code throughout the year ended 31st July, 2003.



Close Brothers

REPORT OF THE BOARD ON DIRECTORS' REMUNERATION

Introduction

The Directors' Remuneration Report is presented to shareholders by the board and contains, inter alia, the following information:

- a description of the constitution and role of the Remuneration Committee;
- the group's policy on senior executive remuneration;
- an explanation of details of the remuneration of each director and their service contracts; and
- details of directors' share option entitlements.

This report complies with the Directors' Remuneration Report Regulations 2002 ("the Regulations") which apply to the company for the first time this year. The group has complied with the Combined Code's provisions relating to directors' remuneration throughout the year.

A resolution will be put to shareholders at the Annual General Meeting on 30th October, 2003 inviting them to consider and approve this report.

The Remuneration Committee

The Remuneration Committee ("the Committee"), which was established by the board in 1993, determines the remuneration and other terms and conditions of employment of the executive directors and the senior executives of the group.

The Committee consists of non-executive directors. The chairman is Mr. P.S. Wilmot-Sitwell. Other members are Mr. P.N. Buckley, Mr. M.G.A. McLintock and Sir David Scholey. The group chief executive, Mr. C.D. Keogh, attends meetings by invitation, save that he is absent when his own remuneration is under consideration.

The Committee meets at least twice a year and more frequently if necessary.

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 consulted McLagan & Partners, a leading firm of executive remuneration consultants, on external market remuneration levels and practices. McLagan & Partners do not advise the company on any other matters.

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

Policy on senior executive remuneration

The Committee aims to ensure that the senior executive remuneration arrangements are fair and competitive within the financial sector and that they will enable the group to retain, motivate and attract key personnel.

In determining directors' remuneration consideration has been given to matters specific to the company such as returns to shareholders and performance both in absolute terms and measured against similar companies. Other considerations are the sector within which the group operates, the experience and performance of individual directors, their areas of responsibility and remuneration levels throughout the group.

Total remuneration comprises fixed elements of salary and benefits together with annual and long term performance related awards. The company's policy is that a substantial element of executive directors' planned remuneration is performance related.

The Regulations require that this report contains a statement on the company's policy on directors' remuneration for the current financial year and for financial years subsequent to that. Whilst it is intended that the policy statement set out in this report should continue to apply for the year to 31st July, 2004 and for subsequent years and that the Committee is therefore able to state its remuneration policy for the year to 31st July, 2004 with reasonable certainty, it is less certain that this policy will continue without amendment in subsequent financial years. This is because the Committee considers that an effective remuneration policy needs to be sufficiently flexible to take account of changes in the company's business environment and in remuneration practice. Any significant future changes in policy will be described in future remuneration reports, which will continue to be subject to shareholders' approval.

Main components of remuneration

Basic salary and benefits

Basic salaries are reviewed annually, having regard to individual responsibilities and performance and also to comparative information. The policy is to provide salaries which, when taken together with performance related awards and pension contributions, are competitive by comparison to relevant comparable companies. The company also provides senior executives with healthcare, prolonged disability and life assurance cover and a company car or payment in lieu.

Annual discretionary performance related awards

Annual performance related awards are at the discretion of the Committee and are not pensionable. In some operating subsidiaries they are paid from a formula based profit sharing pool but for most executive directors any such award is determined in the light of the individual's performance and contribution to the profitability of the operating company or function and of the profitability of the group, both overall and in relation to its competitors. The committee determines each year whether annual discretionary performance related awards should be paid in cash, or on a deferred basis subject to the executive director remaining in the company's employment. Where awards are deferred, the committee determines the length of the deferral periods and whether the award should be satisfied in cash (adjusted for notional interest in the deferral period) or in the company's shares (adjusted for notional dividends in the deferral period). Where shares are used, the executive director normally has a right to call for the shares, without payment, in tranches vesting no later than the seventh anniversary of the award. Details of the deferred awards in respect of the year ended 31st July, 2003 are set out on page 22.

Long-term incentives

The group has for several years operated a number of long-term performance related incentive arrangements. These include the 1995 Executive Share Option Scheme (approved by shareholders in 1995 and replacing the 1985 Executive Share Option Scheme) ("the 1995 Scheme") under which grants of options have been made for a number of years; Inland Revenue approved Savings Related Share Option Scheme ("the SAYE Scheme"); and minority share interests in operating subsidiaries.

Option grants are based on a combination of individual achievement of agreed personal objectives and financial targets and the group's performance during the year.

Option grants under the 1995 Scheme are phased and no options are granted at a discount. Under the terms of the 1995 Scheme, options may be exercised between three and ten years after the date of grant, only if performance targets are met. In relation to a maximum of half of the options granted to any participant, the targets require that the growth in earnings per share over any three year period is at least RPI plus 4 per cent. per annum; in relation to the remaining options granted, that the growth in earnings per share over any five year period is no less than that of the 25th company in the FTSE-100 index at the time of grant.

These targets were set as challenging measures of long-term performance and to align executives' interests with those of other shareholders.

The company's auditors, Deloitte & Touche LLP, confirm the performance criteria calculation for the Committee.

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

Pensions

Messrs. M.A. Hines, R.D. Kent, D.J. Macnamara and P.L. Winkworth participate in defined contribution schemes. Following Mr. R.D. Kent's retirement as an executive director on 31st October, 2002 no further contributions have been made to his pension scheme since that date. Details of company contributions for these directors are set out in the table of directors' remuneration for the year ended 31st July, 2003 on page 21.

Messrs. S.R. Hodges, C.D. Keogh and D.C. Pusinelli participate in the group's defined benefits scheme and a group defined contribution scheme. Mr. D.G. Hardisty also participated in the group's defined benefits scheme but ceased participation at 31st July, 2003 upon his retirement from the board at that date. Under the defined benefits scheme the normal pensionable age is 65, the pension at normal pensionable age is two-thirds of final pensionable salary subject to



Close Brothers

REPORT OF THE BOARD ON DIRECTORS' REMUNERATION

completion of 30 years' service and there is a 50 per cent. widow's pension on death. For Messrs. S.R. Hodges, C.D. Keogh and D.C. Pusinelli pensionable salary has been set at their salary at 1st August, 2001 plus increases to reflect inflation to a maximum of 2 per cent. each annum.

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

	Transfer value of accrued pension			Accrued Pension Increase		
	31st July, 2002 £'000	Director's contributions £'000	Change during the year £'000	31st July, 2003 £'000	during the year £'000	31st July, 2003 £'000
D.G. Hardisty*	904	15	(919)	—	—	—
S.R. Hodges	559	15	163	737	9	99
C.D. Keogh	571	15	162	748	9	99
D.C. Pusinelli	390	12	126	528	7	74

* In accordance with the normal rules of the group's defined benefits scheme, Mr. D.G. Hardisty took a lump sum transfer of £1,101,000 on his retirement from the board at 31st July, 2003.

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

Directors' service contracts

Executive directors' service contracts are terminable on no more than twelve months' notice.

No director has a service contract containing a liquidated damages clause on termination. In the event of the termination of a contract it is the current policy to seek appropriate mitigation of loss by the director concerned and to ensure that any payment made is commensurate with the company's legal obligations. The company may at its discretion terminate the contract by making a payment in lieu of notice equal to the salary (and, in certain cases, benefits) which the director would have received during his notice period. Executive directors' service contracts were entered into on the following dates:

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

Non-executive directors

Non-executive directors are engaged under a letter of appointment for terms not exceeding three years and renewable by mutual agreement. They do not have service contracts.

In respect of the services of Mr. P.N. Buckley as a non-executive director for the year ended 31st July, 2003, Caledonia Investments plc was paid £35,000, as disclosed in the remuneration table on page 21.

Fees of the chairman and all non-executive directors are set by the board in accordance with the Articles of Association (without the participation of the chairman and non-executive directors themselves) and from 1st August, 2003, are £160,000 per annum for the chairman and £40,000 per annum for the non-executive directors. In addition the chairman of each of the Audit Committees, the Nomination Committee and the Remuneration Committee receives an additional £5,000 per annum.

External appointments

Any external appointments require board approval and any fees earned therefrom by executive directors are taken into account in determining their remuneration.

REPORT OF THE BOARD ON DIRECTORS' REMUNERATION

Directors' remuneration

The following table shows the remuneration of each director for the year ended 31st July, 2003:

	Salaries and fees £'000	Benefits £'000	Performance related awards in respect of the current year		Compensation for loss of office £'000	Total £'000	Company pension contributions £'000
			Current £'000	Deferred £'000			
Executive:							
D.G. Hardisty ¹	277	30	225	—	—	532	69
M.A. Hines	188	18	520	200	—	926	76
S.R. Hodges	320	17	500	250	—	1,087	80
R.D. Kent ²	97	6	—	—	—	103	23
C.D. Keogh	343	21	540	325	—	1,229	86
D.J. Macnamara (alt.) ¹	188	11	520	—	—	719	48
D.C. Pusinelli ³	224	11	300	—	—	535	56
P.L. Winkworth	350	20	500	250	—	1,120	88
Non-executive:							
P.N. Buckley	35	—	—	—	—	35	—
A.H. Farley	35	—	—	—	—	35	—
R.D. Kent ²	101	—	—	—	—	101	—
P.S.S. Macpherson ³	17	—	—	—	—	17	—
M.G.A. McLintock	35	—	—	—	—	35	—
Sir David Scholey	152	—	—	—	—	152	—
P.S. Wilmot-Sitwell	35	—	—	—	—	35	—
M.G. Wyatt (alt.)	—	—	—	—	—	—	—
	<u>2,397</u>	<u>134</u>	<u>3,105</u>	<u>1,025</u>	<u>—</u>	<u>6,661</u>	<u>526</u>

1 Messrs. D.G. Hardisty and D.J. Macnamara retired from the board on 31st July, 2003.

2 Mr. R.D. Kent retired as an executive director on 31st October, 2002 when he became a non-executive director and consultant. His remuneration has been separated to reflect these different roles.

3 Messrs. D.C. Pusinelli and P.S.S. Macpherson were appointed to the board on 26th September, 2002 and 3rd March, 2003 respectively. Their remuneration has been included from these dates.

The following table shows the remuneration of each director for the year ended 31st July, 2002:

	Salaries and fees £'000	Benefits £'000	Performance related awards in respect of the current year		Compensation for loss of office £'000	Total £'000	Company pension contributions £'000
			Current £'000	Deferred £'000			
Executive:							
D.G. Hardisty	277	15	225	—	—	517	69
M.A. Hines ¹	75	8	150	—	—	233	31
S.R. Hodges	277	14	500	—	—	791	69
R.D. Kent	387	17	375	—	—	779	91
C.D. Keogh	277	17	450	—	—	744	69
E.J. Llewellyn-Lloyd ²	100	6	—	—	389	495	10
D.J. Macnamara (alt.) ¹	75	9	150	—	—	234	20
P.L. Winkworth	350	16	375	—	—	741	82
B.M. Winterflood ³	80	10	225	—	—	315	22
Non-executive:							
P.N. Buckley	35	—	—	—	—	35	—
A.H. Farley	35	—	—	—	—	35	—
M.G.A. McLintock	35	—	—	—	—	35	—
Sir David Scholey	125	—	—	—	—	125	—
P.S. Wilmot-Sitwell	35	—	—	—	—	35	—
M.G. Wyatt (alt.)	—	—	—	—	—	—	—
	<u>2,163</u>	<u>112</u>	<u>2,450</u>	<u>—</u>	<u>389</u>	<u>5,114</u>	<u>463</u>

1 Mr. M.A. Hines and his alternate Mr. D.J. Macnamara were appointed to the board on 4th March, 2002. Their remuneration from that date has been included.

2 Mr. E.J. Llewellyn-Lloyd left the board on 31st December, 2001.

3 Mr. B.M. Winterflood retired from the board on 31st January, 2002.



Close Brothers

REPORT OF THE BOARD ON DIRECTORS' REMUNERATION

Retired executive directors' remuneration

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

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

Mr. B.M. Winterflood, who retired as a director on 31st January, 2002, is non-executive chairman of Winterflood Securities Limited, a subsidiary of the company, for an annual fee of £75,000 and benefits of £24,000. Mr. Winterflood's contract is reviewable on 31st January, 2004.

Deferred performance related awards in respect of the current year

As shown in the table on the previous page for the year ended 31st July, 2003, Mr. M.A. Hines was awarded a deferred bonus of £200,000. This bonus is payable in cash in September 2008 together with accrued notional interest (at base rate) thereon. This entitlement will lapse if he leaves employment in certain circumstances prior to September 2008. In addition, Messrs. S.R. Hodges, C.D. Keogh and P.L. Winkworth were awarded a deferred bonus of the right to call for respectively, 40,000, 52,000 and 40,000 shares in the company from the employee benefit trust, at nil cost, together with accrued notional dividends thereon. Half of the shares awarded may be called at any time, at their option, between September 2004 and September 2010. The remaining half of the shares awarded may be called at any time, at their option, between September 2005 and September 2010. These entitlements will lapse if they leave employment in certain circumstances prior to 1st August, 2004 and 1st August, 2005 respectively.

Deferred share awards in respect of earlier years

Messrs. D.G. Hardisty, S.R. Hodges, C.D. Keogh, D.C. Pusinelli and P.L. Winkworth have the right to call for respectively 21,459, 35,463, 21,887, 4,864 and 40,000 shares in the company from the employee benefit trust, at nil cost, at any time between varying dates from 1st August, 2000 to 1st August, 2008 together with accrued notional dividends thereon. These represent deferred performance related awards in respect of earlier years, which have previously been disclosed in the accounts of those years and for which provisions have been made. These numbers of shares did not vary between the beginning and end of the year ended 31st July, 2003.

REPORT OF THE BOARD ON DIRECTORS' REMUNERATION

Directors' share option entitlements

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

Grant year	1st August, 2002	Number of options Granted/ (exercised)	Cancelled/ lapsed	31st July, 2003	Exercise price	Market price at exercise	Earliest exercise date	Expiry date
D.G. Hardisty								
1996	4,545	—	—	4,545	330.0p	—	6th Nov 99	5th Nov 06
1996	4,545	—	—	4,545	330.0p	—	6th Nov 01	5th Nov 06
1997	20,000	—	—	20,000	482.5p	—	30th Oct 00	29th Oct 07
1997	20,000	—	—	20,000	482.5p	—	30th Oct 02	29th Oct 07
1998	42,500	—	—	42,500	417.5p	—	7th Oct 01	6th Oct 08
1998	42,500	—	—	42,500	417.5p	—	7th Oct 03	6th Oct 08
1999	17,500	—	—	17,500	779.5p	—	3rd Nov 02	2nd Nov 09
1999	17,500	—	—	17,500	779.5p	—	3rd Nov 04	2nd Nov 09
2000	13,330	—	—	13,330	1125.0p	—	23rd Oct 03	22nd Oct 10
2000	13,330	—	—	13,330	1125.0p	—	23rd Oct 05	22nd Oct 10
2001	12,500	—	—	12,500	560.0p	—	26th Sep 04	25th Sep 11
2001	12,500	—	—	12,500	560.0p	—	26th Sep 06	25th Sep 11
2001 SAYE	2,168	—	—	2,168	438.0p	—	1st Dec 04	31st May 05
Total	222,918	—	—	222,918				
M.A. Hines								
1999 SAYE	2,860	—	—	2,860	590.0p	—	1st Dec 04	31st May 05
1999	17,500	—	—	17,500	779.5p	—	3rd Nov 02	2nd Nov 09
1999	17,500	—	—	17,500	779.5p	—	3rd Nov 04	2nd Nov 09
2000	22,200	—	—	22,200	1125.0p	—	23rd Oct 03	22nd Oct 10
2000	22,200	—	—	22,200	1125.0p	—	23rd Oct 05	22nd Oct 10
2001	12,500	—	—	12,500	560.0p	—	26th Sep 04	25th Sep 11
2001	12,500	—	—	12,500	560.0p	—	26th Sep 06	25th Sep 11
2002	—	7,500	—	7,500	450.0p	—	8th Oct 05	7th Oct 12
2002	—	7,500	—	7,500	450.0p	—	8th Oct 07	7th Oct 12
Total	107,260	15,000	—	122,260				
S.R. Hodges								
1996	50,000	—	—	50,000	330.0p	—	6th Nov 01	5th Nov 06
1997	22,500	—	—	22,500	482.5p	—	30th Oct 00	29th Oct 07
1997	22,500	—	—	22,500	482.5p	—	30th Oct 02	29th Oct 07
1998	42,500	—	—	42,500	417.5p	—	7th Oct 01	6th Oct 08
1998	42,500	—	—	42,500	417.5p	—	7th Oct 03	6th Oct 08
1999	37,500	—	—	37,500	779.5p	—	3rd Nov 02	2nd Nov 09
1999	37,500	—	—	37,500	779.5p	—	3rd Nov 04	2nd Nov 09
1999 SAYE	1,641	—	(1,641)	—	590.0p	—	1st Dec 02	31st May 03
2000	26,665	—	—	26,665	1125.0p	—	23rd Oct 03	22nd Oct 10
2000	26,665	—	—	26,665	1125.0p	—	23rd Oct 05	22nd Oct 10
2001	35,000	—	—	35,000	560.0p	—	26th Sep 04	25th Sep 11
2001	35,000	—	—	35,000	560.0p	—	26th Sep 06	25th Sep 11
2002	—	45,000	—	45,000	450.0p	—	8th Oct 05	7th Oct 12
2002	—	45,000	—	45,000	450.0p	—	8th Oct 07	7th Oct 12
2002 SAYE	—	2,416	—	2,416	391.0p	—	1st Dec 05	31st May 06
Total	379,971	92,416	(1,641)	470,746				
R.D. Kent								
1997	75,000	—	—	75,000	482.5p	—	30th Oct 02	29th Oct 07
1998	55,000	—	—	55,000	417.5p	—	7th Oct 01	6th Oct 08
1998	55,000	—	—	55,000	417.5p	—	7th Oct 03	6th Oct 08
1999	50,000	—	—	50,000	779.5p	—	3rd Nov 02	2nd Nov 09
1999	50,000	—	—	50,000	779.5p	—	3rd Nov 04	2nd Nov 09
2000	33,330	—	—	33,330	1125.0p	—	23rd Oct 03	22nd Oct 10
2000	33,330	—	—	33,330	1125.0p	—	23rd Oct 05	22nd Oct 10
2001	37,500	—	—	37,500	560.0p	—	26th Sep 04	25th Sep 11
2001	37,500	—	—	37,500	560.0p	—	26th Sep 06	25th Sep 11
2001 SAYE	2,168	—	(2,168)	—	438.0p	—	1st Dec 04	31st May 05
2002 SAYE	—	2,416	—	2,416	391.0p	—	1st Dec 05	31st May 06
Total	428,828	2,416	(2,168)	429,076				



Close Brothers

REPORT OF THE BOARD ON DIRECTORS' REMUNERATION

Directors' share option entitlements *continued*

Grant year	1st August, 2002	Number of options		31st July, 2003	Exercise price	Market price at exercise	Earliest exercise date	Expiry date
		Granted/ (exercised)	Cancelled/ lapsed					
C.D. Keogh								
1996	35,000	—	—	35,000	330.0p	—	6th Nov 99	5th Nov 06
1996	35,000	—	—	35,000	330.0p	—	6th Nov 01	5th Nov 06
1997	17,500	—	—	17,500	482.5p	—	30th Oct 00	29th Oct 07
1997	17,500	—	—	17,500	482.5p	—	30th Oct 02	29th Oct 07
1997 SAYE	1,787	(1,787)	—	—	386.0p	572.5p	1st Dec 02	31st May 03
1998	42,500	—	—	42,500	417.5p	—	7th Oct 01	6th Oct 08
1998	42,500	—	—	42,500	417.5p	—	7th Oct 03	6th Oct 08
1998 SAYE	892	—	—	892	378.0p	—	1st Dec 03	31st May 04
1999	37,500	—	—	37,500	779.5p	—	3rd Nov 02	2nd Nov 09
1999	37,500	—	—	37,500	779.5p	—	3rd Nov 04	2nd Nov 09
1999 SAYE	1,144	—	(1,144)	—	590.0p	—	1st Dec 04	31st May 05
2000	26,665	—	—	26,665	1125.0p	—	23rd Oct 03	22nd Oct 10
2000	26,665	—	—	26,665	1125.0p	—	23rd Oct 05	22nd Oct 10
2001	35,000	—	—	35,000	560.0p	—	26th Sep 04	25th Sep 11
2001	35,000	—	—	35,000	560.0p	—	26th Sep 06	25th Sep 11
2002	—	56,250	—	56,250	450.0p	—	8th Oct 05	7th Oct 12
2002	—	56,250	—	56,250	450.0p	—	8th Oct 07	7th Oct 12
2002 SAYE	—	3,360	—	3,360	391.0p	—	1st Dec 07	31st May 08
Total	392,153	114,073	(1,144)	505,082				
D.J. Macnamara								
1999	17,500	—	—	17,500	779.5p	—	3rd Nov 02	2nd Nov 09
1999	17,500	—	—	17,500	779.5p	—	3rd Nov 04	2nd Nov 09
2000	22,200	—	—	22,200	1125.0p	—	23rd Oct 03	22nd Oct 10
2000	22,200	—	—	22,200	1125.0p	—	23rd Oct 05	22nd Oct 10
2001	12,500	—	—	12,500	560.0p	—	26th Sep 04	25th Sep 11
2001	12,500	—	—	12,500	560.0p	—	26th Sep 06	25th Sep 11
2001 SAYE	3,778	—	(3,778)	—	438.0p	—	1st Dec 06	31st May 07
2002	—	7,500	—	7,500	450.0p	—	8th Oct 05	7th Oct 12
2002	—	7,500	—	7,500	450.0p	—	8th Oct 07	7th Oct 12
2002 SAYE	—	4,200	—	4,200	391.0p	—	1st Dec 07	31st May 08
Total	108,178	19,200	(3,778)	123,600				
D.C. Pusinelli								
1996	20,000	—	—	20,000	330.0p	—	6th Nov 99	5th Nov 06
1996	20,000	—	—	20,000	330.0p	—	6th Nov 01	5th Nov 06
1997	12,500	—	—	12,500	482.5p	—	30th Oct 00	29th Oct 07
1997	12,500	—	—	12,500	482.5p	—	30th Oct 02	29th Oct 07
1998	15,000	—	—	15,000	417.5p	—	7th Oct 01	6th Oct 08
1998	15,000	—	—	15,000	417.5p	—	7th Oct 03	6th Oct 08
1999	30,000	—	—	30,000	779.5p	—	3rd Nov 02	2nd Nov 09
1999	30,000	—	—	30,000	779.5p	—	3rd Nov 04	2nd Nov 09
1999 SAYE	1,716	—	(1,716)	—	590.0p	—	1st Dec 04	31st May 05
2000	15,550	—	—	15,550	1125.0p	—	23rd Oct 03	22nd Oct 10
2000	15,550	—	—	15,550	1125.0p	—	23rd Oct 05	22nd Oct 10
2001	15,000	—	—	15,000	560.0p	—	26th Sep 04	25th Sep 11
2001	15,000	—	—	15,000	560.0p	—	26th Sep 06	25th Sep 11
2001 SAYE	1,511	—	(1,511)	—	438.0p	—	1st Dec 06	31st May 07
2002	—	22,500	—	22,500	450.0p	—	8th Oct 05	7th Oct 12
2002	—	22,500	—	22,500	450.0p	—	8th Oct 07	7th Oct 12
2002 SAYE	—	4,200	—	4,200	391.0p	—	1st Dec 07	31st May 08
Total	219,327	49,200	(3,227)	265,300				

REPORT OF THE BOARD ON DIRECTORS' REMUNERATION

Directors' share option entitlements *continued*

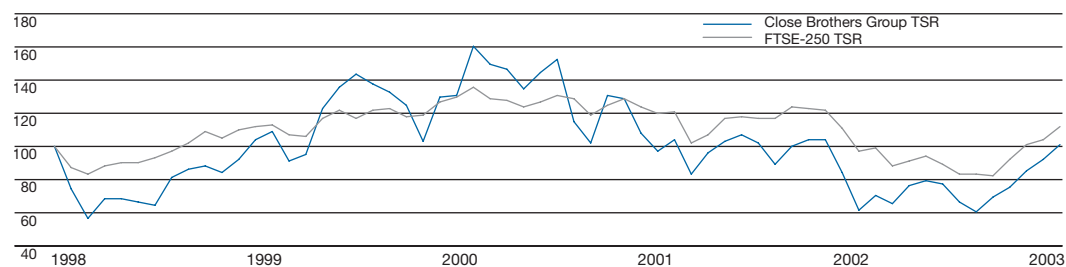
Grant year	1st August, 2002	Number of options		31st July, 2003	Exercise price	Market price at exercise	Earliest exercise date	Expiry date
		Granted/ (exercised)	Cancelled/ lapsed					
P.L. Winkworth								
1997	70,000	—	—	70,000	482.5p	—	30th Oct 00	29th Oct 07
1997	70,000	—	—	70,000	482.5p	—	30th Oct 02	29th Oct 07
1998	50,000	—	—	50,000	417.5p	—	7th Oct 01	6th Oct 08
1998	50,000	—	—	50,000	417.5p	—	7th Oct 03	6th Oct 08
1999	45,000	—	—	45,000	779.5p	—	3rd Nov 02	2nd Nov 09
1999	45,000	—	—	45,000	779.5p	—	3rd Nov 04	2nd Nov 09
1999 SAYE	1,641	—	(1,641)	—	590.0p	—	1st Dec 02	31st May 03
2000	30,000	—	—	30,000	1125.0p	—	23rd Oct 03	22nd Oct 10
2000	30,000	—	—	30,000	1125.0p	—	23rd Oct 05	22nd Oct 10
2001	37,500	—	—	37,500	560.0p	—	26th Sep 04	25th Sep 11
2001	37,500	—	—	37,500	560.0p	—	26th Sep 06	25th Sep 11
2002	—	45,000	—	45,000	450.0p	—	8th Oct 05	7th Oct 12
2002	—	45,000	—	45,000	450.0p	—	8th Oct 07	7th Oct 12
2002 SAYE	—	2,416	—	2,416	391.0p	—	1st Dec 05	31st May 06
Total	466,641	92,416	(1,641)	557,416				

Due to performance criteria or time restrictions not being met, none of the above options are exercisable with the exception of those granted in 1996, those granted in 1997 exercisable from 30th October, 2000 and those granted in 1998 exercisable from 7th October, 2001.

The mid-market price of the company's shares on 31st July, 2003 was 712.5p and the range during the year was 427.5p to 712.5p.

Total shareholder return

The graph below shows a comparison of the total shareholder return ("TSR") for the company's shares for the five years ended 31st July, 2003 against the TSR for the companies comprising the FTSE-250 Index. TSR has been calculated assuming that all dividends are reinvested on their ex-dividend date. This index has been selected because the company has been a constituent of the index throughout the period.



Audit

The sections regarding directors' remuneration, pensions and directors' share option entitlements are required to be, and have been, audited by the company's auditors, Deloitte & Touche LLP.

On behalf of the board

P.S. Wilmot-Sitwell
Chairman of the Remuneration Committee

29th September, 2003



Close Brothers

REPORT OF THE AUDITORS

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

We have audited the financial statements of Close Brothers Group plc for the year ended 31st July, 2003 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses and the related notes 1 to 39. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31st July, 2003 and of the profit of the group for the year then ended and the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Chartered Accountants
and Registered Auditors
London

29th September, 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the year ended 31st July, 2003			Year ended 31st July, 2002
		Ordinary activities before goodwill amortisation	Goodwill amortisation	Total ordinary activities	
	Note	£'000	£'000	£'000	£'000
Interest receivable		219,948	—	219,948	198,890
Interest payable		(93,464)	—	(93,464)	(88,449)
Net interest income		<u>126,484</u>	<u>—</u>	<u>126,484</u>	<u>110,441</u>
Fees and commissions receivable		152,536	—	152,536	140,795
Fees and commissions payable		(25,505)	—	(25,505)	(24,740)
Net dealing income — market-making		66,711	—	66,711	48,365
Other operating income		3,113	—	3,113	1,493
Other income		<u>196,855</u>	<u>—</u>	<u>196,855</u>	<u>165,913</u>
Operating income		<u>323,339</u>	<u>—</u>	<u>323,339</u>	<u>276,354</u>
Administrative expenses	2	207,515	—	207,515	174,383
Depreciation	12	8,471	—	8,471	7,614
Provisions for bad and doubtful debts	9	21,962	—	21,962	19,256
Amortisation of goodwill	30	—	7,469	7,469	6,681
Total operating expenses		<u>237,948</u>	<u>7,469</u>	<u>245,417</u>	<u>207,934</u>
Operating profit on ordinary activities before taxation	5	85,391	(7,469)	77,922	68,420
Taxation on profit on ordinary activities	6	25,332	—	25,332	21,839
Profit on ordinary activities after taxation		<u>60,059</u>	<u>(7,469)</u>	<u>52,590</u>	<u>46,581</u>
Minority interests — equity		1,514	—	1,514	2,252
Profit attributable to shareholders		<u>58,545</u>	<u>(7,469)</u>	<u>51,076</u>	<u>44,329</u>
Dividends:					
Interim dividend 9.0p per share (2002 — 9.0p)				12,839	12,195
Proposed final dividend 17.0p per share (2002 — 17.0p)				24,482	24,214
Total dividends 26.0p per share (2002 — 26.0p)				<u>37,321</u>	<u>36,409</u>
Retained profit for the year	21			<u>13,755</u>	<u>7,920</u>
Earnings per share before amortisation of goodwill				<u>41.1p</u>	<u>37.2p</u>
Earnings per share on profit attributable to shareholders	36			<u>35.8p</u>	<u>32.3p</u>
Diluted earnings per share	36			<u>35.6p</u>	<u>32.0p</u>

All income and profits are in respect of continuing operations.



Close Brothers

CONSOLIDATED BALANCE SHEET

At 31st July, 2003

	Note	2003	2002
		£'000	£'000
Assets			
Cash and balances at central banks		878	671
Loans and advances to banks	7	746,586	443,175
Loans and advances to customers		1,615,614	1,410,998
Non-recourse borrowings	8	(175,000)	(175,000)
	8	1,440,614	1,235,998
Debt securities — long positions	10	60,744	64,352
Debt securities — other	10	543,826	712,380
Settlement accounts		391,684	246,456
Equity shares — long positions	11	24,385	15,971
Equity shares — investments	11	30,497	28,484
Intangible fixed assets — goodwill	30	106,003	113,065
Tangible fixed assets	12	23,853	24,667
Share of gross assets of joint ventures		20,636	14,331
Share of gross liabilities of joint ventures		(20,182)	(13,905)
	31	454	426
Other assets	17	164,215	134,684
Deferred taxation	18	12,443	10,345
Prepayments and accrued income		27,213	22,956
Total assets		3,573,395	3,053,630
Liabilities			
Deposits by banks	13	107,872	83,159
Customer accounts	14	1,401,482	1,222,541
Bank loans and overdrafts	15	617,559	505,655
Debt securities — loan notes issued	16	100,000	100,000
Debt securities — short positions		54,113	52,231
Settlement accounts		317,857	202,343
Equity shares — short positions		19,371	7,589
Other liabilities	17	274,060	228,068
Accruals and deferred income		91,487	77,105
Subordinated loan capital	19	96,937	96,937
Minority interests — equity		6,124	6,079
		3,086,862	2,581,707
Shareholders' funds			
Called up share capital	20	36,003	35,920
Share premium account	21	249,527	248,456
Profit and loss account	21	201,003	187,547
Total equity shareholders' funds		486,533	471,923
Total liabilities and shareholders' funds		3,573,395	3,053,630
Memorandum items			
Contingent liabilities — guarantees	22	2,330	2,412
Commitments — other	23	179,654	166,512

Approved by the Board of Directors on 29th September, 2003 and signed on its behalf by:

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

COMPANY BALANCE SHEET

At 31st July, 2003

	Note	2003	2002
		£'000	£'000
Fixed assets			
Tangible fixed assets	12	3,597	4,055
Investments in subsidiaries	29	324,115	323,997
Equity shares	11	4,916	4,969
		<u>332,628</u>	<u>333,021</u>
Current assets: Debtors	32	100,512	100,822
Creditors: Amounts falling due within one year	33	59,028	59,766
		<u>41,484</u>	<u>41,056</u>
Net current assets			
Total assets less current liabilities		374,112	374,077
Creditors: Amounts falling due after more than one year	34	27,072	27,072
		<u>347,040</u>	<u>347,005</u>
Net assets			
Capital and reserves			
Share capital	20	36,003	35,920
Share premium account	21	249,527	248,456
Profit and loss account	21	61,510	62,629
		<u>347,040</u>	<u>347,005</u>
Total equity shareholders' funds			

Approved by the Board of Directors on 29th September, 2003 and signed on its behalf by:

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



Close Brothers

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31st July, 2003	2003	2002
	£'000	£'000
Profit attributable to shareholders	51,076	44,329
Exchange adjustment	(299)	(978)
	<u>50,777</u>	<u>43,351</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st July, 2003	Note	2003	2002
		£'000	£'000
Net cash inflow/(outflow) from operating activities	37(a)	<u>51,275</u>	<u>(29,611)</u>
Returns on investments and servicing of finance:			
Interest paid on subordinated loan capital		(7,825)	(7,825)
Dividends paid to minorities		(280)	(178)
		<u>(8,105)</u>	<u>(8,003)</u>
Taxation:			
Taxation paid		<u>(21,080)</u>	<u>(25,586)</u>
Capital expenditure and financial investment:			
Purchase of tangible fixed assets		(8,318)	(14,396)
Sale of tangible fixed assets		756	2,416
Purchase of equity shares held for investment		(7,921)	(5,173)
Sale of equity shares held for investment		7,090	2,647
		<u>(8,393)</u>	<u>(14,506)</u>
Acquisitions and disposals:			
Minority interests acquired for cash		(1,734)	(1,194)
Purchase of subsidiaries	37(b)	(3,547)	(6,685)
		<u>(5,281)</u>	<u>(7,879)</u>
Equity dividends paid		<u>(37,053)</u>	<u>(35,122)</u>
Net cash outflow before financing		<u>(28,637)</u>	<u>(120,707)</u>
Financing:			
Issue of ordinary share capital including premium	37(c)	<u>1,154</u>	<u>57,068</u>
Decrease in cash	37(d)	<u>(27,483)</u>	<u>(63,639)</u>

In the directors' view, cash is an integral part of the operating activities of the group, since it is a bank's stock in trade. Nevertheless, as required by Financial Reporting Standard No. 1 (Revised), cash is not treated as cash flow from operating activities but is required to be shown separately in accordance with the format above.

1. Accounting policies

(a) Format of financial statements

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

(b) Accounting convention

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

(c) Fees and commissions receivable

Fee and commission income is taken to the profit and loss account when invoiced except for fees from certain monitoring and administration services and investment management fees which accrue to the profit and loss account on a day to day basis irrespective of when they are invoiced.

(d) Net dealing income

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

(e) Loans and advances to customers

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

(f) Finance leases, operating leases and instalment finance

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

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

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

(g) Equity shares and debt securities

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

Debt securities held for liquidity and investment purposes are included in the balance sheet at cost, net of provision for any material decline in market value. Equity shares held for investment purposes are included in the balance sheet at middle market values if listed and at directors' valuation if unlisted. Equity shares held by the employee share benefit trust are shown at cost, and realised surpluses and losses are taken to the profit and loss account.

(h) Investments in subsidiaries

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

(i) Depreciation

Tangible fixed assets, including freehold investment properties held for long term investment, are held at cost. The provision for depreciation on tangible fixed assets is calculated to write off their cost over their estimated useful lives by equal annual instalments as follows:

Office machinery and furniture	10% — 33%
Motor vehicles	25%
Freehold and long leasehold property	2.5%
Short leasehold property	over the length of the lease

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

(j) Foreign currencies

Foreign currency deposits and advances are translated into sterling at the rates of exchange ruling at the balance sheet date. Translation differences are taken to the profit and loss account.

(k) Deferred taxation

Deferred taxation is provided in full on material timing differences, at the rates of taxation expected to apply when these differences crystallise, arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

(l) Goodwill

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

(m) Pensions

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



Close Brothers

THE NOTES

2. Administrative expenses	2003	2002
	£'000	£'000
Staff costs:		
Wages and salaries	111,145	94,943
Social security costs	12,674	10,360
Other pension costs	8,286	6,827
	<u>132,105</u>	<u>112,130</u>
Other administrative expenses	75,410	62,253
	<u>207,515</u>	<u>174,383</u>

The average number of persons employed by the group during the year was 1,917 (2002 — 1,801).

3. Information regarding directors	2003	2002
	£'000	£'000
Directors' emoluments:		
Salaries	2,292	2,058
Fees	105	105
Other benefits	134	112
Performance related awards in respect of the current year		
— Current	3,105	2,450
— Deferred	1,025	—
Compensation for loss of office	—	389
	<u>6,661</u>	<u>5,114</u>
Gains upon exercise of options	3	191
Company pension contributions	526	463
	<u>7,190</u>	<u>5,768</u>

The remuneration of individual directors is shown in the report of the board on directors' remuneration on pages 18 to 25.

4. Segmental analysis

	Operating income		Profit before goodwill and taxation		Net assets	
	2003	2002	2003	2002	2003	2002
	£'000	£'000	£'000	£'000	£'000	£'000
Asset Management	65,563	66,010	8,064	15,914	122,796	120,285
Corporate Finance	33,343	26,160	5,337	2,101	11,533	11,045
Market-Making	64,733	46,552	23,539	16,812	51,321	50,942
	<u>163,639</u>	<u>138,722</u>	<u>36,940</u>	<u>34,827</u>	<u>185,650</u>	<u>182,272</u>
Investment Banking	157,567	137,131	62,945	55,067	223,824	208,835
Banking	2,133	501	(14,494)	(14,793)	77,059	80,816
Group	<u>323,339</u>	<u>276,354</u>	<u>85,391</u>	<u>75,101</u>	<u>486,533</u>	<u>471,923</u>

Substantially all of the group's activities are located within the British Isles.

THE NOTES

5. Operating profit on ordinary activities before taxation	2003	2002
	£'000	£'000
Profit on ordinary activities before taxation is stated after charging:		
Audit fees:		
To Deloitte & Touche LLP	528	447
To Ernst & Young LLP	419	363
	<u>947</u>	<u>810</u>
Other fees paid to the auditors in respect of:		
Corporation taxation & VAT advice	458	415
Regulatory and pension audit work	133	69
Due diligence reviews	60	20
Other advisory work	380	86
	<u>1,031</u>	<u>590</u>
Operating lease rentals payable	<u>7,826</u>	<u>6,203</u>
Aggregate rentals received in respect of finance leases and hire purchase contracts amounted to £416,555,000 (2002 — £380,951,000).		
6. Taxation on profit on ordinary activities	2003	2002
	£'000	£'000
The current year taxation charge comprises:		
UK corporation taxation	26,011	19,445
Overseas taxation	1,169	2,049
Deferred taxation (note 18)	(2,098)	1,162
Prior year under/(over) provision	250	(817)
	<u>25,332</u>	<u>21,839</u>
Reconciliation to current year taxation charge:		
Operating profit on ordinary activities before taxation	<u>77,922</u>	<u>68,420</u>
Taxation on above operating profit at 30% (2002 — 30%)	23,377	20,526
Goodwill amortisation disallowed	2,241	2,004
Disallowable expenses and other permanent differences	(536)	126
Prior year under/(over) provision	250	(817)
	<u>25,332</u>	<u>21,839</u>



Close Brothers

THE NOTES

7. Loans and advances to banks	2003	2002
	£'000	£'000
Repayable:		
On demand	130,328	158,018
Within three months	603,370	273,043
Between three months and one year	11,670	12,114
Between one and two years	1,218	—
	<u>746,586</u>	<u>443,175</u>

8. Loans and advances to customers	2003	2002
	£'000	£'000
Loans and advances (net of provisions and non-recourse borrowings) comprise:		
Hire purchase agreement receivables	615,665	595,682
Finance lease receivables	292,066	231,139
Other loans and advances	532,883	409,177
	<u>1,440,614</u>	<u>1,235,998</u>

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £1,565 million (2002 — £1,248 million).

	2003	2002
	£'000	£'000
Loans and advances are repayable:		
On demand or at short notice	64,462	57,412
Within three months	349,283	313,562
Between three months and one year	416,865	320,116
Between one and two years	275,768	254,024
Between two and five years	347,087	305,572
After more than five years	23,855	19,675
Provisions	<u>(36,706)</u>	<u>(34,363)</u>
	<u>1,440,614</u>	<u>1,235,998</u>
Non-performing loans and advances:		
Before provisions	<u>46,579</u>	<u>49,812</u>
After provisions	<u>22,965</u>	<u>23,919</u>

Receivables securitised by non-recourse borrowings

Close Brothers Limited ("CBL"), a wholly owned subsidiary, has securitised £182 million of its insurance premium finance receivables with Cruise Limited ("Cruise") in return for non-refundable finance of £175 million. If the receipts from the finance receivables exceed interest and principal loan liabilities due to Cruise, the surplus is due to CBL. Should there be a shortfall, neither the group nor CBL is obliged to, and does not intend to, support any losses and the providers of the funding have agreed to this. CBL has the option to replace these securitised loans as they are repaid. The balance sheet of Cruise comprised principally of insurance premium finance receivables of £182 million and borrowings of £175 million. The profit and loss account, other recognised gains and losses and cashflows of Cruise are negligible.

THE NOTES

9. Provisions for bad and doubtful debts

	2003			2002		
	Specific	General	Total	Specific	General	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1st August, 2002	30,708	3,655	34,363	32,887	3,835	36,722
Charge for the year	20,692	1,270	21,962	19,436	(180)	19,256
Amounts written off net of recoveries	(19,619)	—	(19,619)	(21,615)	—	(21,615)
At 31st July, 2003	31,781	4,925	36,706	30,708	3,655	34,363

10. Debt securities

	2003	2002
	£'000	£'000
Debt securities held for trading purposes:		
Debt securities — long positions	60,744	64,352

Long positions are accounted for on the basis outlined in note 1(g) and comprise debt securities held by Winterflood Securities Limited. £3,965,000 (2002 — £3,972,000) were due to mature within one year and £56,779,000 (2002 — £60,380,000) were due to mature in more than one year. That company's short positions, which are shown in the consolidated balance sheet, were £54,113,000 (2002 — £52,231,000).

	2003	2002
	£'000	£'000
Other:		
Certificates of deposit (held for liquidity purposes at cost)	533,842	702,397
Floating rate notes (held for investment purposes at cost)	9,984	9,983
	543,826	712,380

At both 31st July, 2003 and 31st July, 2002 the certificates of deposit were unlisted, issued by banks and building societies and due to mature within one year. The floating rate notes, of which £996,000 (2002 — £3,999,000) mature within one year, were listed and issued by banks and building societies and are intended to be held until maturity. Interest income on debt securities during the year was £20,261,000 (2002 — £22,399,000).



Close Brothers

THE NOTES

11. Equity shares

	Trading		Investment	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Group				
Listed	24,385	15,971	6,590	6,942
Unlisted	—	—	23,907	21,542
	<u>24,385</u>	<u>15,971</u>	<u>30,497</u>	<u>28,484</u>
Company				
Listed	—	—	4,734	4,787
Unlisted	—	—	182	182
	<u>—</u>	<u>—</u>	<u>4,916</u>	<u>4,969</u>

All trading shares are held by Winterflood Securities Limited and form that company's long positions. Its short positions, which are all listed, were £19,371,000 (2002 — £7,589,000).

The listed equity shares held by the company relate to the company's ordinary shares held by the employee share benefit trust.

The historical cost of equity shares held for investment purposes is as follows:

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Listed	8,815	8,528	4,734	4,787
Unlisted	24,893	23,072	182	182
	<u>33,708</u>	<u>31,600</u>	<u>4,916</u>	<u>4,969</u>

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

	Group	Company
	£'000	£'000
At 1st August, 2002	28,484	4,969
Additions	7,921	—
Disposals	(5,973)	(53)
Unrealised surplus on revaluation	65	—
At 31st July, 2003	<u>30,497</u>	<u>4,916</u>

THE NOTES

12. Tangible fixed assets

	Land and buildings	Office machinery and furniture	Motor vehicles	Total
Group	£'000	£'000	£'000	£'000
Cost or valuation				
At 1st August, 2002	8,275	37,462	3,675	49,412
Additions	136	6,969	1,213	8,318
Disposals	(137)	(2,329)	(1,272)	(3,738)
At 31st July, 2003	8,274	42,102	3,616	53,992
Depreciation				
At 1st August, 2002	1,470	21,842	1,433	24,745
Charge for the year	535	7,075	861	8,471
Disposals	(137)	(2,217)	(723)	(3,077)
At 31st July, 2003	1,868	26,700	1,571	30,139
Net book value at 31st July, 2003	6,406	15,402	2,045	23,853
Net book value at 31st July, 2002	6,805	15,620	2,242	24,667
Company				
Cost or valuation				
At 1st August, 2002	3,735	1,639	228	5,602
Additions	—	27	58	85
Disposals	—	(39)	(92)	(131)
At 31st July, 2003	3,735	1,627	194	5,556
Depreciation				
At 1st August, 2002	609	799	139	1,547
Charge for the year	237	235	41	513
Disposals	—	(35)	(66)	(101)
At 31st July, 2003	846	999	114	1,959
Net book value at 31st July, 2003	2,889	628	80	3,597
Net book value at 31st July, 2002	3,126	840	89	4,055
The net book value of land and buildings comprises:				
	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Freehold	1,957	2,013	—	—
Long leasehold	924	1,082	—	—
Short leasehold	3,525	3,710	2,889	3,126
	6,406	6,805	2,889	3,126

13. Deposits by banks

	2003	2002
	£'000	£'000
Repayable:		
On demand or at short notice	37,742	1,940
Within three months	63,630	76,219
Between three months and one year	6,500	5,000
	107,872	83,159



Close Brothers

THE NOTES

14. Customer accounts	2003	2002
	£'000	£'000
Repayable:		
On demand or at short notice	357,502	336,932
Within three months	953,265	825,997
Between three months and one year	84,068	59,062
Between one and two years	3,218	526
Between two and five years	3,429	24
	<u>1,401,482</u>	<u>1,222,541</u>
15. Bank loans and overdrafts	2003	2002
	£'000	£'000
Repayable:		
On demand or at short notice	24,867	16,887
Within three months	7,512	30,000
Between three months and one year	21,275	45,050
Between one and two years	179,384	136,718
Between two and five years	384,521	228,000
Over five years	—	49,000
	<u>617,559</u>	<u>505,655</u>
16. Debt securities – loan notes issued	2003	2002
	£'000	£'000
Repayable:		
Between one and two years	100,000	—
Between two and five years	—	100,000
	<u>100,000</u>	<u>100,000</u>
17. Other assets and liabilities	2003	2002
	£'000	£'000
Other assets		
Loans to money brokers against stock advanced	102,424	90,385
Other assets	61,791	44,299
	<u>164,215</u>	<u>134,684</u>
Other liabilities		
Loans from money brokers against stock advanced	110,125	84,299
Current corporation taxation	14,589	9,905
Proposed dividend	24,482	24,214
Other liabilities	124,864	109,650
	<u>274,060</u>	<u>228,068</u>

THE NOTES

18. Deferred taxation

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Group				
Capital allowances	5,479	5,804	(582)	(575)
Short term and other timing differences	6,964	4,541	1,329	1,025
Total deferred taxation asset	<u>12,443</u>	<u>10,345</u>	<u>747</u>	<u>450</u>
Movement in the year:			Group	Company
			£'000	£'000
Asset at 1st August, 2002			10,345	450
Credit for the year			<u>2,098</u>	<u>297</u>
Asset at 31st July, 2003			<u>12,443</u>	<u>747</u>

19. Subordinated loan capital

Final maturity date	Prepayment date at issuer's option	Initial interest rate (%)	Notes	2003	2002
				£'000	£'000
2010	2005	10.07	(a)	21,937	21,937
2020	2015	7.39	(b)	30,000	30,000
2026	2021	7.42	(c)	15,000	15,000
2026	2021	7.62	(c)	30,000	30,000
				<u>96,937</u>	<u>96,937</u>

- (a) The 2010 subordinated loan capital is initially denominated in sterling and converts to US dollars in 2005. If Close Brothers Limited ("CBL") opts not to prepay in 2005, the interest rate is reset to a margin over the 5 year US Treasury rate, payable in US dollars.
- (b) The 2020 subordinated loan capital is denominated in sterling. If CBL opts not to prepay in 2015, the interest rate is reset to a margin over the yield on 5 year UK Treasury securities.
- (c) The 2026 subordinated loan capital is denominated in sterling. If CBL opts not to prepay in 2021, the interest rate is reset to a margin over the yield on 5 year UK Treasury securities.

There are no circumstances in which early repayment can be demanded of any issue other than upon the passing of a winding-up order in respect of the issuer, CBL, in which case the loan capital is subordinated to the claims of all unsubordinated creditors, including depositors. The subordinated loan capital is guaranteed by the company.



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20. Share capital	2003		2002	
	No.'000	£'000	No.'000	£'000
Authorised				
Ordinary shares of 25p each	<u>200,000</u>	<u>50,000</u>	<u>200,000</u>	<u>50,000</u>
Allotted, issued and fully paid				
At 1st August, 2002	143,678	35,920	136,220	34,055
Issued during the year	—	—	6,800	1,700
Exercise of options	<u>334</u>	<u>83</u>	<u>658</u>	<u>165</u>
At 31st July, 2003	<u>144,012</u>	<u>36,003</u>	<u>143,678</u>	<u>35,920</u>

The following options to subscribe for ordinary shares have been granted under the sharesave and executive share option schemes to 672 (2002 — 613) employees:

Year of grant	Exercise period	Exercise price per share	2003 Number	2002 Number
1993	29th October, 1998 to 28th October, 2003	219.90p	—	64,262
1994	4th November, 1999 to 3rd November, 2004	231.68p	8,150	32,598
1995	3rd November, 1998 to 2nd November, 2005	316.00p	4,000	4,000
1995	3rd November, 2000 to 2nd November, 2005	316.00p	40,000	50,000
1996	6th November, 1999 to 5th November, 2006	330.00p	133,635	138,180
1996	6th November, 2001 to 5th November, 2006	330.00p	306,385	373,885
1997	30th October, 2000 to 29th October, 2007	482.50p	288,759	309,509
1997	30th October, 2002 to 29th October, 2007	482.50p	544,000	564,750
1997	1st December, 2002 to 31st May, 2003	386.00p	—	65,580
1998	7th October, 2001 to 6th October, 2008	417.50p	567,217	630,217
1998	7th October, 2003 to 6th October, 2008	417.50p	676,625	689,125
1998	9th November, 2001 to 8th November, 2008	552.50p	6,000	6,000
1998	9th November, 2003 to 8th November, 2008	552.50p	6,000	6,000
1998	1st December, 2003 to 31st May, 2004	378.00p	58,942	75,546
1999	3rd November, 2002 to 2nd November, 2009	779.50p	660,750	715,750
1999	3rd November, 2004 to 2nd November, 2009	779.50p	637,750	674,500
1999	1st December, 2002 to 31st May, 2003	590.00p	—	89,371
1999	1st December, 2004 to 31st May, 2005	590.00p	36,660	70,464
2000	23rd October, 2003 to 22nd October, 2010	1125.00p	520,223	529,973
2000	23rd October, 2005 to 22nd October, 2010	1125.00p	509,955	529,973
2000	1st December, 2003 to 31st May, 2004	958.00p	1,693	2,481
2000	1st December, 2005 to 31st May, 2006	958.00p	2,535	3,555
2001	16th April, 2004 to 15th April, 2011	865.50p	—	8,665
2001	16th April, 2006 to 15th April, 2011	865.50p	—	8,665
2001	26th September, 2004 to 25th September, 2011	560.00p	637,718	675,534
2001	26th September, 2006 to 25th September, 2011	560.00p	637,718	675,534
2001	1st December, 2004 to 31st May, 2005	438.00p	245,660	419,697
2001	1st December, 2006 to 31st May, 2007	438.00p	226,335	397,925
2002	8th October, 2005 to 7th October, 2012	450.00p	684,333	—
2002	8th October, 2007 to 7th October, 2012	450.00p	684,333	—
2002	1st December, 2005 to 31st May, 2006	391.00p	403,321	—
2002	1st December, 2007 to 31st May, 2008	391.00p	369,096	—
			<u>8,897,793</u>	<u>7,811,739</u>

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21. Reserves

	Share premium account	Profit and loss account
Group	£'000	£'000
At 1st August, 2002	248,456	187,547
Retained profit for the year	—	13,755
Exchange adjustment	—	(299)
Shares issued net of expenses	1,071	—
At 31st July, 2003	<u>249,527</u>	<u>201,003</u>
	Share premium account	Profit and loss account
Company	£'000	£'000
At 1st August, 2002	248,456	62,629
Retained loss for the year	—	(1,119)
Shares issued net of expenses	1,071	—
At 31st July, 2003	<u>249,527</u>	<u>61,510</u>
Reconciliation of movements in shareholders' funds	2003	2002
Group	£'000	£'000
Profit for the year	51,076	44,329
Dividends	(37,321)	(36,409)
Retained profit for the year	13,755	7,920
Exchange adjustment	(299)	(978)
Shares issued net of expenses — capital	83	1,865
— premium	1,071	55,203
Goodwill	—	22
Net addition to shareholders' funds	14,610	64,032
Opening shareholders' funds	471,923	407,891
Closing shareholders' funds	<u>486,533</u>	<u>471,923</u>



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22. Contingent liabilities

Memorandum items

There are group contingent liabilities in respect of guarantees arising in the normal course of business amounting to £2,330,000 (2002 — £2,412,000).

Other contingent liabilities

The company has given guarantees in respect of amounts drawn under subsidiaries' bank facilities amounting to £593,793,000 (2002 — £489,350,000). In addition, the company has given guarantees in respect of long term loan notes issued by subsidiaries amounting to £96,937,000 (2002 — £97,937,000).

The 2002 accounts referred to a potential claim against a subsidiary. During the year that subsidiary, Close Brothers Corporate Finance Limited ("CBCF"), received a claim for damages in respect of the takeover of Partco Group plc ("Partco") by UGC Limited ("Unipart"); the takeover valued the issued share capital of Partco at £179 million and was declared wholly unconditional on 22nd June, 1999. The claim has been brought by Partco (now called GP2002 Limited), which was advised in the takeover by CBCF, and Unipart. The claim is being vigorously resisted and, having taken legal advice and received the opinion of leading counsel, the directors consider that it will not have a material effect on the group's financial position.

23. Commitments

	2003	2002
	£'000	£'000
Memorandum items		
Undrawn facilities, credit lines and other commitments to lend		
— Within one year	178,533	163,545
— After more than one year	1,121	2,967
	<u>179,654</u>	<u>166,512</u>

Other commitments

The group is committed to purchase minority interests in certain subsidiaries at agreed fair valuation at varying dates in the period to 31st July, 2011.

Subsidiaries had contracted capital commitments relating to capital expenditure of £1,517,000 (2002 — £235,000).

Subsidiaries had contracted capital commitments in connection with private equity funds managed by the group of £9,090,000 (2002 — £17,228,000).

Annual commitments under non-cancellable operating leases at 31st July, 2003 were as follows:

	Premises £'000	Other £'000
Expiring:		
Within one year	749	23
Within two to five years	874	415
After more than five years	5,653	—
	<u>7,276</u>	<u>438</u>

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24. Interest rate exposure

The group's interest rate exposure is summarised below in the form of an interest rate repricing table. The table reflects the repricing profile of the group's non trading assets, liabilities and net interest rate hedge contracts as at the year end. The trading book exposures of Winterflood Securities Limited are different in nature and so are excluded here and instead analysed in note 28. The table shows the sensitivity of non trading net assets to interest rate movements. The cumulative gap of interest bearing net assets of £386,972,000 (2002 — £373,162,000) broadly equates to the group's non trading share capital and reserves, which as a matter of policy are not hedged. The table therefore demonstrates the group's policy of broadly hedging interest rate exposure.

At 31st July, 2003

	Within three months £'000	Between three and six months £'000	Between six months and one year £'000	Between one and five years £'000	After more than five years £'000	Non- interest bearing £'000	Total £'000
Non trading assets							
Cash and balances at central banks	—	—	—	—	—	878	878
Loans and advances to banks	733,699	9,676	1,993	1,218	—	—	746,586
Loans and advances to customers	479,802	167,457	173,212	596,680	23,463	—	1,440,614
Debt securities and equity shares	482,451	54,781	6,594	—	—	30,951	574,777
Settlement accounts	—	—	—	—	—	391,684	391,684
Other assets	102,424	—	—	4,067	—	227,236	333,727
	<u>1,798,376</u>	<u>231,914</u>	<u>181,799</u>	<u>601,965</u>	<u>23,463</u>	<u>650,749</u>	<u>3,488,266</u>
Non trading liabilities							
Deposits by banks	101,372	6,500	—	—	—	—	107,872
Customer accounts	1,327,457	60,754	5,695	6,647	—	929	1,401,482
Bank loans and overdrafts	443,013	174,121	425	—	—	—	617,559
Debt securities — loan notes issued	100,000	—	—	—	—	—	100,000
Settlement accounts	—	—	—	—	—	317,857	317,857
Other liabilities	127,624	—	—	—	—	237,923	365,547
Subordinated loan capital	—	—	—	21,937	75,000	—	96,937
Minority interests and shareholders' funds	—	—	—	—	—	492,657	492,657
	<u>2,099,466</u>	<u>241,375</u>	<u>6,120</u>	<u>28,584</u>	<u>75,000</u>	<u>1,049,366</u>	<u>3,499,911</u>
Non trading net (liabilities)/assets	<u>(301,090)</u>	<u>(9,461)</u>	<u>175,679</u>	<u>573,381</u>	<u>(51,537)</u>	<u>(398,617)</u>	<u>(11,645)</u>
Net interest rate hedges							
Floating rate	316,309	165,000	5,000	—	—	—	486,309
Fixed rate	(35,000)	(103,000)	(157,809)	(190,500)	—	—	(486,309)
	<u>281,309</u>	<u>62,000</u>	<u>(152,809)</u>	<u>(190,500)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Interest rate sensitivity gap	<u>(19,781)</u>	<u>52,539</u>	<u>22,870</u>	<u>382,881</u>	<u>(51,537)</u>	<u>—</u>	<u>—</u>
Cumulative gap	<u>(19,781)</u>	<u>32,758</u>	<u>55,628</u>	<u>438,509</u>	<u>386,972</u>	<u>—</u>	<u>—</u>



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24. Interest rate exposure *continued*

At 31st July, 2002

	Within three months £'000	Between three and six months £'000	Between six months and one year £'000	Between one and five years £'000	After more than five years £'000	Non- interest bearing £'000	Total £'000
Non trading assets							
Cash and balances at central banks	—	—	—	—	—	671	671
Loans and advances to banks	431,060	9,163	2,952	—	—	—	443,175
Loans and advances to customers	406,994	124,761	149,560	536,030	18,653	—	1,235,998
Debt securities and equity shares	678,546	24,334	9,500	—	—	28,910	741,290
Settlement accounts	—	—	—	—	—	246,456	246,456
Other assets	92,116	—	—	4,067	—	209,534	305,717
	<u>1,608,716</u>	<u>158,258</u>	<u>162,012</u>	<u>540,097</u>	<u>18,653</u>	<u>485,571</u>	<u>2,973,307</u>
Non trading liabilities							
Deposits by banks	78,159	5,000	—	—	—	—	83,159
Customer accounts	1,177,144	29,141	15,706	550	—	—	1,222,541
Bank loans and overdrafts	390,569	115,000	86	—	—	—	505,655
Debt securities — loan notes issued	100,000	—	—	—	—	—	100,000
Settlement accounts	—	—	—	—	—	202,343	202,343
Other liabilities	103,367	300	1,743	872	—	198,891	305,173
Subordinated loan capital	—	—	—	21,937	75,000	—	96,937
Minority interests and shareholders' funds	—	—	—	—	—	478,002	478,002
	<u>1,849,239</u>	<u>149,441</u>	<u>17,535</u>	<u>23,359</u>	<u>75,000</u>	<u>879,236</u>	<u>2,993,810</u>
Non trading net (liabilities)/assets	<u>(240,523)</u>	<u>8,817</u>	<u>144,477</u>	<u>516,738</u>	<u>(56,347)</u>	<u>(393,665)</u>	<u>(20,503)</u>
Net interest rate hedges							
Floating rate	236,401	185,000	—	—	—	—	421,401
Fixed rate	(50,500)	(35,000)	(123,080)	(212,821)	—	—	(421,401)
	<u>185,901</u>	<u>150,000</u>	<u>(123,080)</u>	<u>(212,821)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Interest rate sensitivity gap	<u>(54,622)</u>	<u>158,817</u>	<u>21,397</u>	<u>303,917</u>	<u>(56,347)</u>	<u>—</u>	<u>—</u>
Cumulative gap	<u>(54,622)</u>	<u>104,195</u>	<u>125,592</u>	<u>429,509</u>	<u>373,162</u>	<u>—</u>	<u>—</u>

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25. Interest rate and exchange rate contracts

	2003	2002
	£'000	£'000
Interest rate contracts:		
Contract amount	499,309	441,139
Credit risk weighted amount	259	258
Exchange rate contracts:		
Contract amount	2,426	—
Credit risk weighted amount	11	—

Interest rate and exchange rate contracts are entered into only for hedging purposes. The credit risk weighted amounts have been prepared in accordance with guidelines laid down by the Financial Services Authority and are intended to give an indication of credit risk.

26. Assets and liabilities in foreign currencies

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

	2003	2002
	£'000	£'000
Assets	<u>359,124</u>	<u>320,056</u>
Liabilities	<u>352,373</u>	<u>306,592</u>

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



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

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

	2003		2002	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Primary financial assets:				
Debt securities	543,826	544,211	712,380	712,461
Listed investments — equity shares	6,590	10,629	6,942	7,870
	<u>550,416</u>	<u>554,840</u>	<u>719,322</u>	<u>720,331</u>
Primary financial liabilities:				
Floating rate notes	<u>100,000</u>	<u>99,870</u>	<u>100,000</u>	<u>99,868</u>

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

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

	2003		2002	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Derivative financial instruments held to manage the interest rate and currency exposure:				
Interest rate hedges	<u>—</u>	<u>(3,341)</u>	<u>—</u>	<u>(5,101)</u>
		Gains £'000	Losses £'000	Net £'000
Unrecognised gains and losses on hedges:				
At 1st August, 2002		209	5,310	(5,101)
Gains and losses on hedges arising in previous years that were recognised in the current year		<u>206</u>	<u>4,797</u>	<u>(4,591)</u>
Gains and losses on hedges arising in previous years that were not recognised in the current year		3	513	(510)
Gains and losses on hedges arising in the current year that have not yet been recognised		<u>291</u>	<u>3,122</u>	<u>(2,831)</u>
At 31st July, 2003		<u>294</u>	<u>3,635</u>	<u>(3,341)</u>
Of which:				
Gains and losses on hedges expected to be recognised next year		47	3,468	(3,421)
Gains and losses on hedges expected to be recognised later than next year		247	167	80

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28. Trading book exposure

The group's trading activities relate to Winterflood Securities Limited. The following table shows the group's trading book exposure to market price risk for the year ended 31st July, 2003:

		Highest exposure £'000	Lowest exposure £'000	Average exposure £'000	Exposure at 31st July £'000
Equities	— Long	38,508	13,618	24,185	24,385
	— Short	23,475	6,052	12,343	19,371
				<u>11,842</u>	<u>5,014</u>
Debt securities	— Long	92,467	53,674	63,953	60,744
	— Short	73,690	43,203	52,568	54,113
				<u>11,385</u>	<u>6,631</u>

The following table shows the group's trading book exposure to market price risk for the year ended 31st July, 2002:

		Highest exposure £'000	Lowest exposure £'000	Average exposure £'000	Exposure at 31st July £'000
Equities	— Long	34,598	15,971	25,343	15,971
	— Short	20,613	7,223	12,136	7,589
				<u>13,207</u>	<u>8,382</u>
Debt securities	— Long	70,897	34,276	51,797	64,352
	— Short	61,936	32,221	48,014	52,231
				<u>3,783</u>	<u>12,121</u>

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

Based upon the trading book exposure at 31st July, 2003 given above, a 10 per cent. hypothetical fall in market prices would result in a £501,000 (2002 — £838,000) decrease in the group's income and net assets on the equity trading book and a £663,000 (2002 — £1,212,000) decrease on the debt securities trading book. However, the group's trading activity is a jobbing business where positions are managed throughout the day on a continuous basis. Accordingly the result shown above is purely hypothetical.

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

	2003	2002
	£'000	£'000
Net dealing income — equities	59,584	43,247
— debt securities	<u>7,127</u>	<u>5,118</u>
	<u>66,711</u>	<u>48,365</u>



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29. Investments in subsidiaries

The group's principal subsidiaries at 31st July, 2003 were:

Name of company	Principal activity	Percentage of equity held by group	Country of registration and operation
Air and General Finance Limited	Aircraft financing	100	England
Braemar Finance Limited	Commercial asset financing	87	England
Close Asset Finance Limited	Commercial asset financing	100	England
Close Asset Management Holdings Limited	Asset management holding company	100	England
Close Asset Management Jersey Limited	Offshore investment management	100	Jersey
Close Bank (Cayman) Limited	Offshore banking	100	Cayman
Close Bank Guernsey Limited	Offshore banking	100	Guernsey
Close Bank (Isle of Man) Limited	Offshore banking	100	Isle of Man
Close Brothers (Cayman) Limited	Trust and company administration	85	Cayman
Close Brothers Corporate Finance Limited	Corporate finance	100	England
Close Brothers Finance plc	Finance company	100	England
Close Brothers Growth Capital Limited	Integrated debt and equity investment	88 ¹	England
Close Brothers Investment Limited	Tax based personal investment products	98 ²	England
Close Brothers Limited	Treasury, property financing and insurance premium financing	100	England
Close Brothers Military Services Limited	Financial services for the Armed Forces	80	England
Close Brothers Private Equity Limited	Private equity fund management	99	England
Close Credit Management Limited	Credit management and debt collection	99	England
Close Finance (CI) Limited	Commercial and consumer asset financing	91	Jersey
Close Finsbury Asset Management Limited	Investment trust and funds management	100	England
Close Fund Management Limited	Special investment and unit trust management	90	England
Close Fund Services Limited	Fund administration	100	Guernsey
Close International Custody Services Limited	Safe custody	100	Guernsey
Close Investment Limited	AIM fund management	97	England
Close Investment Management (Isle of Man) Limited	Offshore investment management	100	Isle of Man
Close Invoice Finance Limited	Debt factoring and invoice discounting	96	England
Close Motor Finance Limited	Car financing	100	England
Close Portfolio Management Limited	Investment company	100	England
Close Private Asset Management Limited	Private client discretionary fund management	100	England
Close Trust Company Jersey Limited	Trust and company administration	100	Jersey
Close Trustees Guernsey Limited	Trust and company administration	100	Guernsey
Close Trustees (Isle of Man) Limited	Trust and company administration	100	Isle of Man
Close Trustees (Switzerland) S.A.	Trust and company administration	70	Switzerland
Close Wealth Management Limited	Private client discretionary fund management	92 ³	England
Dôme Close Brothers S.A.	Corporate finance	50	France
Freyberg Close Brothers GmbH	Corporate finance	50	Germany
Metropolitan Factors Limited	Debt factoring	96	England
Mortgage Intelligence Limited	Mortgage broking	95	England
OLIM Limited	Institutional fund management	80	England
Reabourne Technology Investment Management Limited	Technology and biotechnology fund management	69	England
Surrey Asset Finance Limited	Commercial asset financing	100	England
Winterflood Securities Limited	Market-making	100	England

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

2 In respect of Close Brothers Investment Limited, the group holds 7 per cent. of its share capital and has a 99 per cent. holding in Close Brothers Private Equity Limited which itself holds a further 92 per cent.

3 In respect of Close Wealth Management Limited, the group holds 41 per cent. of its share capital and has an 87 per cent. holding in Wealth Management Limited which itself holds the remaining 59 per cent.

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29. Investments in subsidiaries *continued*

The movement in the company's investments in subsidiaries was as follows:

	£'000
At 1st August, 2002	323,997
Net investments in subsidiaries during the year	118
At 31st July, 2003	324,115

30. Intangible fixed assets — goodwill

Original cost capitalised at 1st August, 2002	127,174
Amortisation in prior years	(14,109)
Net book value at 1st August, 2002	113,065
Goodwill arising during the year from acquisitions of minority interests	407
Amortisation for the year	(7,469)
Net book value at 31st July, 2003	106,003

Cumulative goodwill arising from acquisitions before 1st August, 1998, of £81,923,000 (2002 — £81,923,000), was written off directly to reserves. The relevant constituent of this goodwill would only be charged or credited to the profit and loss account should one of these acquisitions be sold.

31. Investments in associates and joint ventures

The group has six (2002 — three) associates. They have been accounted for using the net equity method. The group's share of the associates' net assets is £649,000 including goodwill of £600,000, its share of operating profit was £42,000 and its share of taxation on profit was £1,000. The group has no amounts owed by these associates.

The group has investments in a number of joint ventures totalling £5,000 (2002 — £5,000). They have been accounted for using the gross equity method. The group's share of operating profit is £509,000 (2002 — loss of £8,000) and the group received their dividends of £400,000 (2002 — £Nil). The group's share of their net assets is £454,000 (2002 — £426,000) and the group has amounts owed by them totalling £4,334,000 (2002 — £4,669,000).

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



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32. Debtors	2003	2002
	£'000	£'000
Company		
Amounts falling due within one year:		
Amounts owed by subsidiaries	96,712	97,466
Corporation taxation receivable	2,243	2,501
Deferred taxation asset (note 18)	747	450
Other debtors	810	405
	<u>100,512</u>	<u>100,822</u>

33. Creditors: Amounts falling due within one year	2003	2002
	£'000	£'000
Company		
Amounts owed to subsidiaries	9,401	13,188
Accruals and deferred income	14,478	11,697
Proposed dividend	24,482	24,214
Other creditors	10,667	10,667
	<u>59,028</u>	<u>59,766</u>

34. Creditors: Amounts falling due after more than one year	2003	2002
	£'000	£'000
Company		
Loan from subsidiary	<u>27,072</u>	<u>27,072</u>

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

35. Profit of parent company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's profit for the financial year, before dividends payable, amounted to £36,202,000 (2002 — £25,542,000).

36. Earnings per share

The calculation of earnings per share on profit attributable to shareholders is based on profit after taxation and minority interests of £51,076,000 (2002 — £44,329,000) and on 142,613,000 (2002 — 137,244,000) ordinary shares, being the weighted average number of shares in issue during the year excluding those held by the employee share benefit trust.

The diluted earnings per share is based on the same profit after taxation and minority interests disclosed above, and on 143,336,000 (2002 — 138,445,000) ordinary shares, being the weighted average number of shares in issue also disclosed above, plus the weighted dilutive potential on ordinary shares of exercisable employee share options in issue during the year.

THE NOTES

37. Consolidated cash flow statement	2003	2002
	£'000	£'000
(a) Reconciliation of operating profit on ordinary activities before taxation to net cash inflow/(outflow) from operating activities		
Operating profit on ordinary activities before taxation	77,922	68,420
(Increase)/decrease in:		
Interest receivable and prepaid expenses	(4,257)	907
Net settlement accounts	(29,714)	(10,537)
Net equity shares held for trading	3,368	15,437
Net debt securities held for trading	5,490	(14,539)
Increase in interest payable and accrued expenses	14,382	4,911
Depreciation and amortisation	15,940	14,295
Net cash inflow from trading activities	83,131	78,894
(Increase)/decrease in:		
Debt securities held for liquidity	168,555	(230,444)
Loans and advances to customers	(204,616)	(221,593)
Loans and advances to banks not repayable on demand	(331,101)	86,995
Other assets less other liabilities	19,748	28,749
Increase/(decrease) in:		
Deposits by banks	24,713	27,516
Customer accounts	178,941	78,386
Bank loans and overdrafts	111,904	(101,974)
Non-recourse borrowings	—	142,000
Debt securities — loan notes issued	—	81,860
Net cash inflow/(outflow) from operating activities	51,275	(29,611)
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries		
Cash consideration in respect of current year purchases	—	(1,150)
Loan stock redemptions and deferred consideration paid in respect of prior year purchases	(3,547)	(6,865)
Net movement in cash balances	—	1,330
	(3,547)	(6,685)
(c) Analysis of changes in financing		
Share capital (including premium) and subordinated loan capital:		
Opening balance	381,313	324,245
Shares issued for cash	1,154	57,068
Closing balance	382,467	381,313
(d) Analysis of cash balances	Movement in the year	
	£'000	
Cash and balances at central banks	207	878
Loans and advances to banks repayable on demand	(27,690)	130,328
	(27,483)	131,206
		158,689



Close Brothers

THE NOTES

38. Pensions

The group operates defined contribution pension schemes and a defined benefits pension scheme for eligible employees. Assets of all schemes are held separately from those of the group. The charge for the group pension schemes was £8,286,000 (2002 — £6,827,000).

Defined benefits pension scheme

The group operates only one defined benefits pension scheme ("the scheme") which was closed to new entrants in August 1996. At 31st July, 2003 the scheme had 44 (2002 — 50) active members, 69 (2002 — 65) deferred members and one (2002 — nil) pensioner. The remainder of this note relates exclusively to the scheme.

In accordance with Statement of Standard Accounting Practice No. 24 on Accounting for Pension Costs, contributions to the scheme are determined by an independent qualified actuary based on triennial valuations using the aggregate cost method. The most recent such valuation was at 31st July, 2000, when the market value of the assets of the scheme was £12,539,000 representing 85 per cent. of the benefits accrued to the then 118 members, allowing for future earnings increases. The agreed company contribution rate was 25 per cent. per annum of pensionable salaries. Future contributions to be made by the participating companies under actuarial advice should meet all pension obligations. A 1 per cent. per annum differential between investment returns and salary increases was assumed. A further actuarial valuation as at 31st July, 2003 is being prepared.

In addition, in accordance with the transitional requirements of Financial Reporting Standard No. 17 ("FRS 17") on Retirement Benefits, the valuation of the scheme as at 31st July, 2000 has been reviewed and updated as at 31st July, 2003 based upon the following annual financial assumptions:

	2003	2002	2001
	%	%	%
Inflation	2.70	2.50	2.60
Increase in:			
Salaries	4.20	4.00	4.60
Pension in payment	3.00	3.00	3.00
Discount rate for scheme liabilities	5.50	5.85	6.15
Expected return on:			
Equities	8.50	7.00	7.00
Bonds	5.55	5.85	6.00
Cash	3.50	5.00	5.00

The valuation method is prescribed by FRS 17 and these assumptions do not necessarily reflect those used in the full actuarial valuation at 31st July, 2000 which determines the company contribution rate for future years. Nonetheless, FRS 17 requires the directors to disclose the assets and liabilities of the scheme using these FRS 17 assumptions.

The group's total accumulated profit and loss account reserve, which was £201,003,000 (2002 — £187,547,000), would have been £196,237,000 (2002 — £180,269,000) if the FRS 17 net deficit disclosed below had been accounted for as a liability of the group:

	2003	2002
	£'000	£'000
Equities	7,838	7,513
Bonds	2,111	2,008
Cash	2,754	872
Total market value of scheme assets	12,703	10,393
Present value of scheme liabilities	(19,512)	(20,790)
Deficit	(6,809)	(10,397)
Related deferred taxation asset	2,043	3,119
Net deficit	(4,766)	(7,278)

THE NOTES

38. Pensions *continued*

If the FRS 17 net deficit had been accounted for as a liability of the group this year, the charge to the group profit and loss account, the effect on the statement of total recognised gains and losses and the movement on the scheme deficit would have been:

	(Charge)/ credit to the group profit and loss account	Statement of total recognised gains and losses	Pension scheme net liabilities	Deferred taxation	Total
	£'000	£'000	£'000	£'000	£'000
Net liabilities at 1st August, 2002			(10,397)	3,119	(7,278)
Contributions			3,069	(921)	2,148
Expected return on scheme assets	687				
Interest discount on scheme liabilities	(1,216)				
Other finance costs	(529)				
Current service cost	(1,010)				
Actual return less expected return on scheme assets (representing 3% of the market value of scheme assets)		(356)			
Experience gains/(losses) arising on scheme liabilities (representing 31% of the present value of scheme liabilities)		4,096			
Changes in assumptions underlying the present value of the scheme liabilities		(1,682)			
Total actuarial gain (representing 11% of the present value of scheme liabilities)		2,058	2,058	(617)	1,441
Theoretical FRS 17 charge to the profit and loss account	(1,539)		(1,539)	462	(1,077)
Net liabilities at 31st July, 2003			(6,809)	2,043	(4,766)

The theoretical FRS 17 charge to the profit and loss account of £1,539,000 shown above compares to the actual charge for this year of £3,069,000.

39. Related party transactions

Transactions with directors

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

Mr. D.G. Hardisty held £3,500,000 of unsecured loan notes, at 31st July, 2003 and 31st July, 2002, issued by Close Brothers Limited on normal commercial terms.

Transactions with joint ventures

Close Asset Management Holdings Limited ("CAMHL") has an investment in a joint venture, Roselead Limited, a company engaged in property investment. In May 2001 CAMHL purchased all of the 10 per cent. debenture loan stock 2028 which was issued by Roselead Limited with a nominal value of £4,067,000. Interest is payable six monthly and the loan is secured on the assets of the company. At 31st July, 2003 the loan balance outstanding was £4,067,000 (2002 — £4,067,000).

Close Brothers Investment Limited has an investment in a joint venture, Astergold Limited. Close Portfolio Management Limited undertook a commitment to fund certain transactions entered into by Astergold Limited. As at 31st July, 2003 the loan balance outstanding was £267,000 (2002 — £602,000).



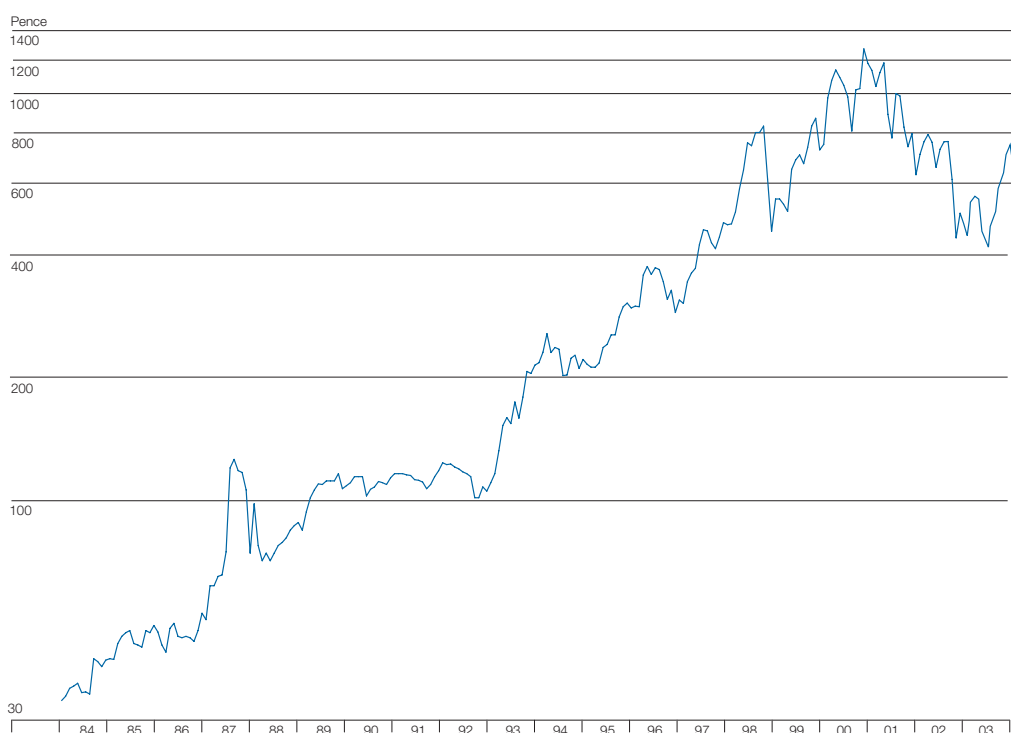
Close Brothers

ADDITIONAL INFORMATION

Five Year Financial Summary

		1999	2000	2001	2002	2003
Operating income	£m	185.6	383.1	292.7	276.4	323.3
Profit before taxation and goodwill amortisation	£m	76.3	147.1	94.2	75.1	85.4
Earnings per share before goodwill amortisation	p	42.1	74.6	47.4	37.2	41.1
Profit before taxation	£m	76.3	144.8	89.5	68.4	77.9
Profit attributable to shareholders	£m	50.9	96.6	59.1	44.3	51.1
Earnings per share	p	42.1	72.9	44.0	32.3	35.8
Dividends per share	p	16.0	25.0	26.0	26.0	26.0
Shareholders' funds	£m	266	371	408	472	487
Total assets	£m	1,702	2,648	2,767	3,054	3,573
Number of employees		923	1,461	1,740	1,840	1,943

Share Price



ADDITIONAL INFORMATION

Shareholder Analysis

Number of shares held	Number of shareholders		Total shares held	
	2003	2002	2003	2002
Up to 500	1,862	1,844	517,863	503,337
501 — 1,000	1,254	1,196	1,007,516	944,681
1,001 — 2,000	866	749	1,310,325	1,102,997
2,001 — 5,000	669	607	2,196,313	1,952,509
5,001 — 10,000	253	237	1,829,939	1,727,950
10,001 — 50,000	324	360	7,455,787	8,397,776
Over 50,000	263	269	129,694,269	129,048,894
	<u>5,491</u>	<u>5,262</u>	<u>144,012,012</u>	<u>143,678,144</u>
Category of shareholders				
Investment groups	175	182	66,467,210	62,430,885
Insurance companies	20	23	42,697,902	44,017,359
Private shareholders	2,924	2,843	24,445,689	22,981,024
Pension funds	8	10	6,001,074	8,882,044
Nominee holders	2,364	2,204	4,400,137	5,366,832
	<u>5,491</u>	<u>5,262</u>	<u>144,012,012</u>	<u>143,678,144</u>

Calendar

Annual General Meeting	30th October, 2003
Payment of final dividend	4th November, 2003
Announcement of interim results	Early March, 2004
Payment of interim dividend	Mid April, 2004
Announcement of final results	September, 2004

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