



Close Brothers Limited

Annual Report 2006



Close Brothers Limited

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COMPANY INFORMATION

Directors

S.R. Hodges, M.A., Bar. †*
C.D. Keogh, M.A., M.B.A., Bar. †*
P.L. Winkworth, F.C.A., A.T.I.I., F.S.I.†*
M.J. Barley, A.C.I.B.*
M.I. Dack, M.B.A., A.C.I.B.
R.C. Golden, M.B.A.
R.H. Norman, B.A., A.C.A.
M.H. Orkin, B.A.
R.D. Sellers, A.C.A.

Executive Chairman
Deputy Chairman
Deputy Chairman
Chief Executive, Asset Finance Division
Director, Banking
Chief Executive, Close Premium Finance
Director, Finance
Director, Treasury
Director

† Director of Close Brothers Group plc

* Management board member of Close Brothers Group plc

Secretary

S.D. Watson, A.C.I.S.

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Registered Office

10 Crown Place
London EC2A 4FT
Telephone: 020 7655 3100
Fax: 020 7655 8967
E-mail: cblbank@closebrothers.co.uk
Website: www.closebrothers.co.uk

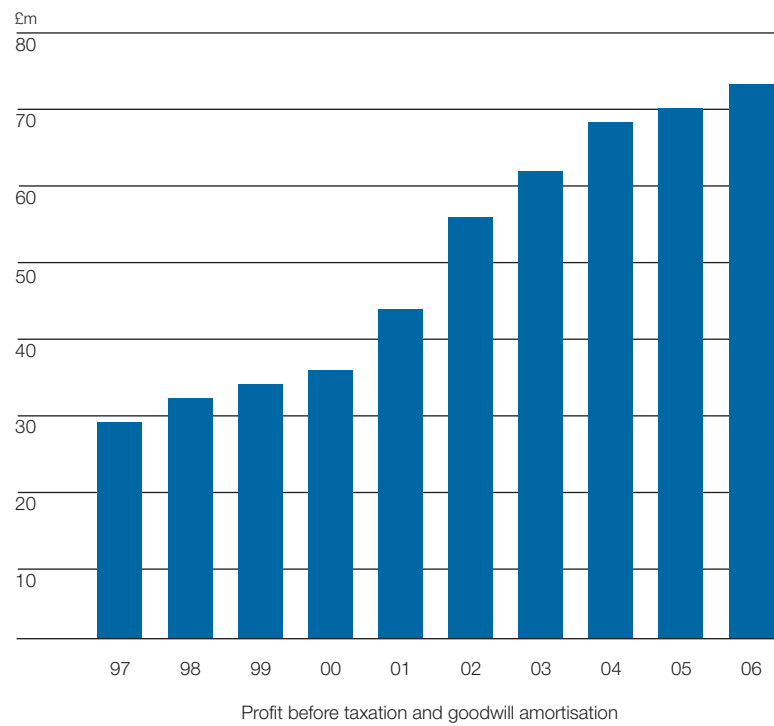
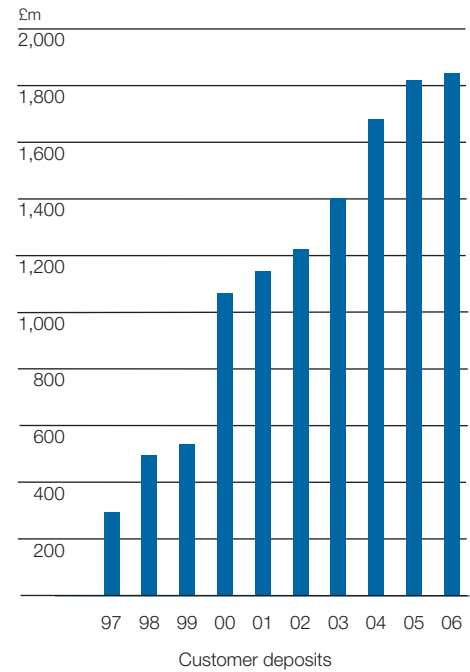
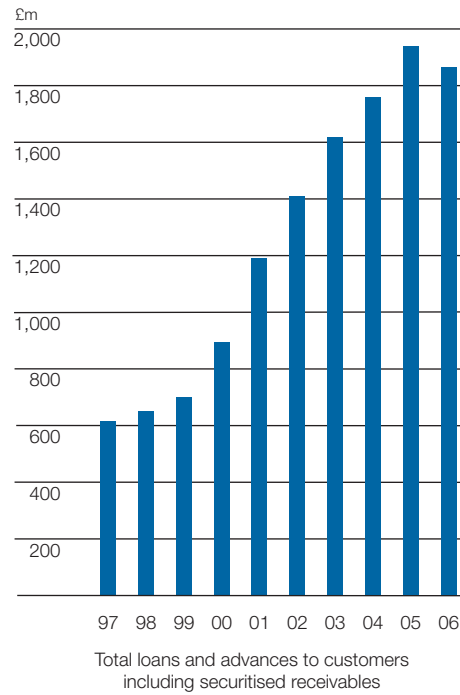
Registered Number

195626



Close Brothers Limited

HISTORICAL TRENDS



REPORT OF THE DIRECTORS

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

Principal Activities

Close Brothers Limited and its subsidiaries ("the group") provide a range of banking services. We focus on secured, diversified, asset based lending mainly in the UK and also in Germany. We finance a variety of asset classes including insurance premiums, property, domestic and commercial vehicles, specialist plant and machinery, light aircraft and invoice receivables. We also have an active treasury operation.

Results and Dividends

The consolidated results for the year are shown on page 11. The directors approved dividends of £41,200,000 (2005 — £17,750,000) in respect of the year ended 31st July, 2006.

Review of Business

On revenues of £191 million and a loan book of £1.9 billion, which was slightly down on last year, the group made a profit before tax and goodwill of £74 million, up 6 per cent. It employed over 1,000 people at the year end.

The general market background for the group's activities remained satisfactory during our financial year, with the UK economy continuing to grow (albeit at modest levels), with interest rates generally stable and with bad debts remaining low. However, some of our specialist sectors experienced tough conditions.

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

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

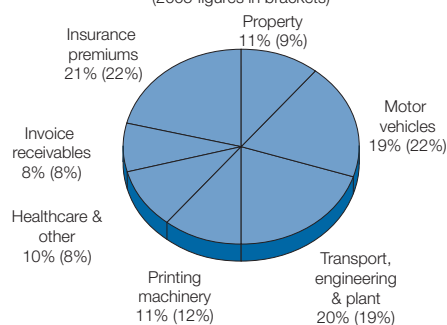
In other areas we experienced good growth in both loan book and profit. The property market remained strong. Property financing achieved record results and our mortgage broking business returned to modest profit. Our invoice financing business forged ahead on the back of improved sales performance in

the UK and a maiden profit in Germany. The core of our equipment financing business continued on its growth path.

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

Our customer loan book remained well spread, well secured and well funded. Including securitised receivables, it decreased by £76 million during the year to £1.9 billion. It represented some 455,000 separate advances, only nine of which exceeded £5 million, the largest being £8 million.

Analysis of Group Loan Book
by Asset Security
(2005 figures in brackets)



Key performance indicators for the group are:

	2006 %	2005 %
Operating margin	39	39
Expense/income ratio	51	49
Compensation ratio	30	29
Return on opening capital	26	27
Bad debt as percentage of average loans	1.0	1.1
Return on average gross loans	3.8	3.8

We continued to seek business at attractive margins and achieved, once again, a strong operating margin of 39 per cent. and a consistent pre-tax and goodwill return on the gross loan book of 3.8 per cent.

Bad debts remain well contained and provisions as a percentage of the average loan book were 1.0 per cent., a historically low level. This continues below our long term average rate of 1.3 per cent. The charge to the profit and loss account was £19 million — 10 per cent. of operating income.

The quality of earnings in the group is evidenced by its consistent profit growth over



Close Brothers Limited

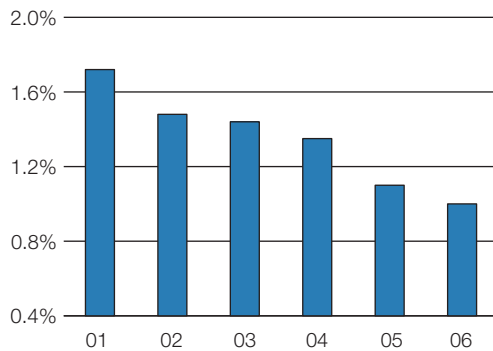
REPORT OF THE DIRECTORS

many years, with a compound annual growth rate in pre-tax profit of 10 per cent. over the last ten years.

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

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

Bad Debt Charge as a Percentage of the Loan Book



Accounting Policy Changes

The financial statements are prepared using generally accepted accounting policies of the United Kingdom ("UKGAAP"). UKGAAP is converging with accounting treatments set out in International Financial Reporting Standards ("IFRS"). Consequently the group has reviewed its accounting policies and, in some areas, changed these to reflect IFRS where acceptable under UKGAAP or to adopt revisions to UKGAAP. Comparative figures have been adjusted accordingly. The impact on profit was not material. The group's accounting policies are set out in note 1.

The reconciliation of the 2005 comparatives to the figures reported last year is shown in note 29.

Risk Management

Risk management is the process of identifying the principal business risks to the group achieving its strategic objectives, establishing appropriate controls to manage those risks

and ensuring that appropriate monitoring and reporting systems are in place. The group's risk management process is consistent with the prudent management required of a large financial organisation.

Since each of our banking businesses is managed separately and there is little or no integration of systems, management or customers, risk management is carried out by the local management of each business. This is overseen on a regular basis by senior management of Close Brothers Group plc ("CBG") supported by CBG's group control unit. There are clear reporting lines and defined areas of responsibility at board and business level. This structure is designed to ensure, amongst other things, that key issues and developments are escalated on a timely basis.

The board considers reputational risk to be the most significant risk in a business operating in the financial services sector. Awareness of the importance of the group's reputation and individual integrity underpins our control culture.

Financial risk is mitigated by the group having a well established reporting structure for agreeing strategy, risk appetite, planning and budgets. Detailed monthly group management accounts are produced and variances and trends are closely monitored. Business heads report to the group board each month on the performance of, and key issues affecting, their business. Detailed budgets and three year plans, which are based upon group strategy, are stress tested to take account of potential adverse conditions and are subject to rigorous testing at board level.

Credit risk is controlled by a number of local credit committees within centrally set limits of authority. For transactions above such limits, there is a group credit committee. As a general principle, the group avoids the risk of multiple exposures to one counterparty — for example, one lending subsidiary does not seek to lend to customers of another lending subsidiary. Our loan book is also generally well spread, short term, secured and with a low average loan size.

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). The overall liquidity position is regularly reviewed by the group board, assisted by treasury.

Our treasury operations do not trade actively in money market instruments since these are normally held to maturity. Nor do we trade

speculatively in derivatives as a principal. The credit quality of our counterparties with whom we place deposits or whose certificates of deposit or floating rate notes we buy is monitored by the treasury committee which establishes specific limits. Interest rate mismatch, liquidity and currency exposure policies are established by the treasury committee with compliance thereof being monitored daily.

We continue to be able to finance our customer loans and advances by capital and reserves, longer term deposits and committed facilities. At the year end the group's committed facilities amounted to over £1.6 billion, of which £1 billion was drawn. 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 financing book. The group's funding position is reported to the board each month.

Returns from the group's capital and reserves are necessarily subject to interest rate fluctuations and as a matter of policy these are not hedged, as reflected in the interest rate repricing table shown in note 25. The capital position of the group is compared to regulatory capital requirements and reported to the board monthly.

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

A central CBG internal audit unit periodically examines the quality of the risk management, compliance and internal control procedures operating throughout the group. The frequency of examination depends upon the perceived risk and prevailing issues within each operation.

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

Statement of Responsibilities

United Kingdom 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;
- ensure the group has the resources to continue in business for the foreseeable future.

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.

Completeness of Information Supplied to Auditors

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. The directors have taken all steps that they should have taken as directors in order to make themselves aware of any relevant information and to establish that the company's auditors are aware of that information.



Close Brothers Limited

REPORT OF THE DIRECTORS

Environment

The company is a wholly owned subsidiary of CBG. CBG recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the group's activities. The company operates within CBG's Corporate Social Responsibility statement, which is described in its Annual Report. Initiatives designed to minimise the group's impact on the environment include recycling and reducing energy consumption. 22 tonnes of paper were recycled during the year as part of this initiative.

Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the company's policy that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

The company participates in CBG's policies and practices to keep employees informed on matters relevant to them as employees through regular meetings and newsletters. Employee representatives are consulted regularly on a wide range of matters affecting their interests. CBG's employee share scheme has been running successfully since its inception in 1993 and is open to all employees after a qualifying service period.

The company's strong relationship with its employees is supported by the fact that 26 per cent. of the employees have been with the company for five years or more.

Charitable Contributions

Contributions made during the year for charitable purposes amounted to £14,250 (2005 — £12,000).

Supplier Payments Policy

All banking transactions are settled in accordance with relevant terms and conditions of business agreed with the counterparty. Average creditor days for other approved expenses was 23 (2005 — 15).

REPORT OF THE DIRECTORS

Directors and Interests

The present members of the board are set out on page 3. All directors served throughout the year.

Mr. L.M. Bland, who retired as a director on 31st July, 2004, is retained by the company as a consultant. The agreement is dated 1st August, 2004 and can be terminated by either party giving to the other not less than six months' notice.

Mr. D.G. Hardisty, who retired as a director on 31st July, 2003, is retained by Close Asset Finance Limited as a consultant. The terms of that agreement are shown in the financial statements of Close Brothers Group plc.

None of the directors has any interest in the share capital of the company nor in the share capital of its subsidiary undertakings.

Mr. S.R. Hodges, Mr. C.D. Keogh and Mr. P.L. Winkworth have been directors of Close Brothers Group plc, the ultimate parent undertaking, throughout the year, and accordingly their interests in the share capital of that company at the beginning and end of the year are shown in its financial statements.

The other directors at 31st July, 2006 (together with connected persons) held the following beneficial interests in the share capital of the ultimate parent undertaking, Close Brothers Group plc, and options to subscribe for shares under Close Brothers Group plc sharesave and executive share option schemes and awards under the Close Brothers Group plc Long Term Incentive Plan (LTIP), details of which are shown in the financial statements of that company:

The following tables show the directors' interests in Close Brothers Group plc ordinary shares of 25p each.

	Close Brothers Group plc 25p ordinary shares		Options			
	1st August, 2005	31st July, 2006	1st August, 2005	Granted during the year	Exercised during the year	31st July, 2006
M.J. Barley	—	7,257	154,800	—	30,000	124,800
M.I. Dack	10,828	13,506	147,100	—	2,678	144,422
R.C. Golden	—	—	182,500	—	32,500	150,000
R.H. Norman	19,905	24,474	84,310	—	20,350	63,960
M.H. Orkin	6,930	5,061	83,600	—	18,500	65,100
R.D. Sellers	22,175	35,513	137,216	1,414	54,416	84,214

LTIP Awards

	1st August, 2005	Granted during the year	31st July, 2006
M.J. Barley	47,892	30,361	78,253
M.I. Dack	—	9,108	9,108
R.C. Golden	—	13,602	13,602
M.H. Orkin	—	6,072	6,072
R.D. Sellers	—	9,108	9,108

Auditors

A resolution to re-appoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting.

By order of the board
S.D. Watson *Secretary*
21st September, 2006



Close Brothers Limited

REPORT OF THE AUDITORS

Independent Auditors' Report to the Members of Close Brothers Limited

We have audited the group and parent company financial statements for the year ended 31st July, 2006 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Total Recognised Gains and Losses and the related notes 1 to 32. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements.

We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31st July, 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Registered Auditor
London

21st September, 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Year ended 31st July, 2006	Year ended 31st July, 2005 (restated)
	Note	£'000	£'000
Interest receivable	4	275,555	276,224
Interest payable		(134,973)	(138,774)
Net interest income		<u>140,582</u>	<u>137,450</u>
Fees and commissions receivable		63,633	55,567
Fees and commissions payable		(19,824)	(18,069)
Other operating income		<u>6,857</u>	<u>3,798</u>
Other income		<u>50,666</u>	<u>41,296</u>
Operating income		<u>191,248</u>	<u>178,746</u>
Administrative expenses	2	90,368	80,779
Depreciation	12	8,064	7,358
Provisions for bad and doubtful debts	9	18,621	20,597
Amortisation of goodwill	11	<u>2,049</u>	<u>8,516</u>
Total operating expenses		<u>119,102</u>	<u>117,250</u>
Profit on ordinary activities before taxation	4	72,146	61,496
Taxation on profit on ordinary activities	5	<u>21,574</u>	<u>19,286</u>
Profit on ordinary activities after taxation		<u>50,572</u>	<u>42,210</u>
Minority interests — equity		<u>444</u>	<u>552</u>
Profit attributable to shareholders		<u>50,128</u>	<u>41,658</u>
Dividends paid		<u>41,200</u>	<u>17,750</u>
Retained profit for the year	22	<u>8,928</u>	<u>23,908</u>

All income and profits are in respect of continuing operations.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31st July, 2006	2006	2005 (restated)
	£'000	£'000
Profit attributable to shareholders	50,128	41,658
Exchange adjustment	<u>(194)</u>	<u>78</u>
Total recognised gains and losses related to the year	<u>49,934</u>	<u>41,736</u>
Prior year adjustment — (note 29)	<u>5,740</u>	
Total recognised gains and losses since the last annual report	<u>55,674</u>	



Close Brothers Limited

CONSOLIDATED BALANCE SHEET

At 31st July, 2006

	Note	2006	2006	2005	2005
		£'000	£'000	£'000	(restated) £'000
Assets					
Cash and balances at central banks			1,235		1,198
Loans and advances to banks	7		454,691		739,071
Loans and advances to customers		1,706,023		1,729,703	
Securitised receivables	8	156,000		208,000	
Total loans and advances to customers		1,862,023		1,937,703	
Less: non-recourse borrowings	8	(150,000)		(200,000)	
	8		1,712,023		1,737,703
Debt securities	10		1,145,866		787,574
Intangible fixed assets — goodwill	11		9,206		11,094
Tangible fixed assets	12		31,630		26,040
Other assets			22,277		30,623
Deferred taxation	19		13,616		14,782
Prepayments and accrued income			42,336		38,916
Total assets			3,432,880		3,387,001
Liabilities					
Deposits by banks	13		168,378		108,101
Customer accounts	14		1,843,074		1,818,187
Bank loans and overdrafts	15		361,796		492,807
Debt securities — loan notes issued	16		367,130		367,130
Amounts due to group undertakings	17		199,831		124,453
Other liabilities	18		65,544		58,529
Accruals and deferred income			60,048		59,848
Subordinated loan capital	20		75,000		75,000
Minority interests — equity			2,581		2,182
			3,143,382		3,106,237
Shareholders funds					
Called up share capital	21		82,480		82,480
Profit and loss account	22		207,018		198,284
Total equity shareholders funds			289,498		280,764
Total liabilities and shareholders funds			3,432,880		3,387,001
Memorandum items					
Contingent liabilities — guarantees	23		9,670		9,752
Commitments — other	24		298,213		224,253

Approved by the Board of Directors on 21st September, 2006.

S.R. Hodges	}	<i>Directors</i>
R.H. Norman		

COMPANY BALANCE SHEET

At 31st July, 2006

	Note	2006	2006	2005	2005
		£'000	£'000	£'000	(restated) £'000
Assets					
Cash and balances at central banks			1,235		1,198
Loans and advances to banks	7		93,638		360,867
Loans and advances to customers		414,564		391,682	
Securitised receivables	8	156,000		208,000	
Total loans and advances to customers		570,564		599,682	
Less: non-recourse borrowings	8	(150,000)		(200,000)	
	8		420,564		399,682
Debt securities	10		987,387		630,791
Investments in subsidiaries	11		74,120		74,023
Amounts due from group undertakings			1,153,586		1,193,268
Tangible fixed assets	12		2,275		3,168
Other assets			12,547		16,197
Prepayments and accrued income			32,143		28,127
Total assets			2,777,495		2,707,321
Liabilities					
Deposits by banks	13		164,968		105,632
Customer accounts	14		1,188,769		1,172,235
Bank loans and overdrafts	15		359,199		481,268
Amounts due to group undertakings	17		753,160		649,248
Other liabilities	18		27,846		15,959
Accruals and deferred income			41,013		38,140
Subordinated loan capital	20		75,000		75,000
			2,609,955		2,537,482
Shareholders funds					
Called up share capital	21		82,480		82,480
Profit and loss account	22		85,060		87,359
Total equity shareholders funds			167,540		169,839
Total liabilities and shareholders funds			2,777,495		2,707,321
Memorandum items					
Contingent liabilities — guarantees	23		8,982		8,980
Commitments — other	24		144,811		78,818

Approved by the Board of Directors on 21st September, 2006.

S.R. Hodges	}	<i>Directors</i>
R.H. Norman		



Close Brothers Limited

THE NOTES

1. Accounting policies

(a) Format of financial statements

The group and company financial statements are prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking groups and are prepared in accordance with applicable accounting standards and Statements of Recommended Practice issued by the British Bankers' Association and the Finance and Leasing Association.

(b) Accounting convention

The financial statements have been prepared under the historical cost convention.

(c) Net interest income

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

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

(d) Fees and commissions

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

(e) Loans and advances

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

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

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

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

(f) Finance leases, operating leases and instalment finance

A finance lease is a lease or hire purchase contract that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Finance leases are recognised as loans at an amount equal to the gross investment in the lease discounted at its implicit interest rate. Finance charges on finance leases are taken to income in proportion to the net funds invested. Rental costs under other leases and hire purchase contracts are charged to the profit and loss account in equal annual amounts over the period of the leases.

(g) Debt securities

Debt securities are held for liquidity and investment purposes. Debt securities are stated in the balance sheet at cost net of provision for any material decline in market value.

THE NOTES

(h) **Depreciation**

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

Fixtures, fittings and equipment	10%-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.

(i) **Foreign currencies**

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

The balance sheets of subsidiaries denominated in foreign currencies are translated into sterling at the closing rates. The profit and loss accounts for these subsidiaries are translated at the average rates and exchange differences arising in these cases are taken to reserves.

(j) **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 for which they are included in the financial statements.

(k) **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 capitalized in intangible assets and is amortised in equal annual instalments, unless there is impairment, over its estimated useful life of up to 20 years.

(l) **Pensions**

Contributions to defined contribution schemes are charged in the profit and loss account when they become payable. For the group's one defined benefits scheme, which was closed to new entrants in 1996 and involved at 31st July, 2006 only 87 members, the cost of providing pensions is charged to the profit and loss account so as to spread the cost for those employees over their expected service lives.

(m) **Derivatives**

Interest rate and exchange rate contracts are entered into for hedging purposes. These derivatives are measured on an accruals basis consistent with the underlying hedged items.

(n) **Investments in subsidiaries**

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

(o) **Cash flow statement**

The company has taken advantage of the exemption within Financial Reporting Standards No. 1 (Revised) for 90 per cent. or more owned subsidiaries. Accordingly, it has not presented a cash flow statement.



Close Brothers Limited

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2. Administrative expenses	2006	2005 (restated)
	£'000	£'000
Staff costs:		
Wages and salaries	49,718	45,605
Social security costs	5,087	4,580
Other pension costs	2,381	2,413
	<hr/>	<hr/>
Other administrative expenses	57,186	52,598
	<hr/>	<hr/>
	33,182	28,181
	<hr/>	<hr/>
	90,368	80,779
	<hr/>	<hr/>

The average number of persons employed by the group during the year was 1,065 (2005 — 1,024).

3. Information regarding directors

Directors' fees were £nil (2005 — £nil) and directors' emoluments, excluding pension contributions, were £2,896,000 (2005 — £2,309,000).

The highest paid director received emoluments of £1,066,000 (2005 — £627,000) and pension contributions of £15,000 (2005 — £25,000).

Contributions paid to money purchase pension schemes, of which five directors were members, amounted to £68,000. Two directors were members of a defined benefits pension scheme, and the company paid £85,000 to the scheme on their behalf.

4. Profit on ordinary activities before taxation	2006	2005
	£'000	£'000
The profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration:		
Audit fees	584	559
Other fees	326	335
Operating lease rentals payable	3,812	2,781

Aggregate rentals received in respect of finance leases and hire purchase contracts amounted to £560,289,000 (2005 — £533,808,000). Aggregate rentals received in respect of operating leases amounted to £5,615,000 (2005 — £3,132,000).

Interest receivable and similar income arising from debt securities amounted to £41,641,000 (2005 — £35,132,000).

Other interest receivable and similar income amounted to £233,914,000 (2005 restated — £241,092,000).

Substantially all income, profits and net assets relate to merchant banking activities which are located in the British Isles.

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5. Taxation on profit on ordinary activities	2006	2005 (restated)
	£'000	£'000
UK corporation taxation	18,321	21,195
Overseas taxation	969	743
Deferred taxation — (note 19)	1,175	(2,571)
Prior year under/(over) provision	1,109	(81)
	<u>21,574</u>	<u>19,286</u>
Reconciliation to current year taxation charge:		
Profit on ordinary activities before taxation	72,146	61,496
Taxation on above operating profit at 30% (2005 — 30%)	21,644	18,449
Goodwill amortisation disallowed	615	2,555
Disallowable expenses and other permanent differences	(1,794)	(1,637)
Prior year under/(over) provision	1,109	(81)
	<u>21,574</u>	<u>19,286</u>

6. Profit of parent undertaking

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent undertaking is not presented as part of these financial statements. The parent undertaking's profit for the financial year, before dividends payable, amounted to £38,901,000 (2005 restated — £38,569,000).

7. Loans and advances to banks

	Group		Company	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Repayable:				
On demand	291,471	333,379	15,344	177,379
Within three months	162,733	403,582	77,807	182,147
Between three months and one year	487	2,110	487	1,341
	<u>454,691</u>	<u>739,071</u>	<u>93,638</u>	<u>360,867</u>

8. Loans and advances to customers

	Group		Company	
	2006	2005 (restated)	2006	2005 (restated)
	£'000	£'000	£'000	£'000
Loans and advances (net of provisions and non-recourse borrowings) comprise:				
Hire purchase agreement receivables	738,284	777,541	—	—
Finance lease receivables	266,568	334,852	—	—
Other loans and advances	707,171	625,310	420,564	399,682
	<u>1,712,023</u>	<u>1,737,703</u>	<u>420,564</u>	<u>399,682</u>

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



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8. Loans and advances to customers *continued*

	Group		Company	
	2006	2005 (restated)	2006	2005 (restated)
	£'000	£'000	£'000	£'000
Loans and advances are repayable:				
On demand or at short notice	82,389	67,651	22,160	18,658
Within three months	440,832	341,557	172,265	87,607
Between three months and one year	510,721	525,728	200,324	199,216
Between one and two years	345,092	436,805	24,812	94,835
Between two and five years	367,574	400,226	11,891	10,734
After more than five years	11,919	13,576	—	242
Provisions	(46,504)	(47,840)	(10,888)	(11,610)
	<u>1,712,023</u>	<u>1,737,703</u>	<u>420,564</u>	<u>399,682</u>

	Group		Company	
	2006	2005 (restated)	2006	2005 (restated)
	£'000	£'000	£'000	£'000
Non-performing loans and advances:				
— before provisions	77,272	74,049	22,648	20,246
— after provisions	<u>39,594</u>	<u>39,949</u>	<u>14,794</u>	<u>13,111</u>

Receivables securitised by non-recourse borrowings

The company has securitised £156 million (2005 — £208 million) of its insurance premium finance receivables with Cruise Limited ("Cruise") in return for non-refundable finance of £150 million (2005 — £200 million). If the receipts from the finance receivables exceed interest and principal loan liabilities due to Cruise, the surplus is due to the company. Should there be a shortfall, neither the company nor the group is obliged to, and does not intend to, support any losses and the providers of the funding have agreed to this. The company has the option to replace these securitised loans as they are repaid and to increase the amount of securitised receivables up to £200 million.

At 31st July, 2006 the balance sheet of Cruise comprised principally insurance premium finance receivables of £156 million (2005 — £208 million) and borrowings of £150 million (2005 — £200 million). The profit and loss account, other recognised gains and losses and cashflows of Cruise are negligible.

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9. Provisions for bad and doubtful debts

	2006			2005 (restated)		
	Specific	General	Total	Specific	General	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Group						
At 1st August, 2005	40,207	7,633	47,840	35,928	8,079	44,007
Charge/(credit) for the year	23,025	(4,404)	18,621	21,043	(446)	20,597
Arising on acquisition	—	—	—	4,472	—	4,472
Amounts written off net of recoveries	(19,957)	—	(19,957)	(21,236)	—	(21,236)
At 31st July, 2006	43,275	3,229	46,504	40,207	7,633	47,840
	2006			2005		
	Specific	General	Total	Specific	General	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Company						
At 1st August, 2005	7,135	4,475	11,610	6,985	4,529	11,514
Charge/(credit) for the year	5,359	(1,763)	3,596	4,115	(54)	4,061
Amounts written off net of recoveries	(4,318)	—	(4,318)	(3,965)	—	(3,965)
At 31st July, 2006	8,176	2,712	10,888	7,135	4,475	11,610

10. Debt securities

	Group		Company	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Certificates of deposit (held for liquidity purposes at cost)	833,655	576,766	688,161	434,983
Floating rate notes (held for investment purposes at cost)	312,211	210,808	299,226	195,808
	1,145,866	787,574	987,387	630,791

At both 31st July, 2006 and 31st July, 2005 the certificates of deposit were unlisted, issued by banks and building societies and were due to mature within one year.

The floating rate notes, of which £8,000,000 (2005 — £7,000,000) mature within one year are listed. £14,462,000 (2005 — £9,924,000) have been issued by bank holding companies, the remainder by banks and building societies. The fair value of debt securities is shown in note 28.



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11. Investments in subsidiaries

The group's principal subsidiaries at 31st July, 2006 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
Armed Services Finance Limited	Motor financing	80	England
Close Asset Finance Limited	Commercial asset financing	100	England
Close Bank (Cayman) Limited	Private banking	100	Cayman Islands
Close Bank Guernsey Limited	Private banking	100	Guernsey
Close Bank (Isle of Man) Limited	Private banking	100	Isle of Man
Close Brothers Finance plc	Finance company	100	England
Close Brothers Military Services Limited	Financial services for the Armed Forces	80	England
Close Business Finance Limited	Commercial asset financing	100	England
Close Finance (CI) Limited	Commercial and consumer asset financing	91	Jersey
Close Finance GmbH	Non-recourse debt factoring	87	Germany
Close Invoice Finance Limited	Debt factoring and invoice discounting	100	England
Close Motor Finance Limited	Motor financing	100	England
Commercial Finance Credit Limited	Commercial asset financing	100	England
Kingston Asset Finance Limited	Commercial asset financing	100	England
Surrey Asset Finance Limited	Commercial asset financing	100	England

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

	£'000
At 1st August, 2005	74,023
Investments in subsidiaries during the year	97
	<hr/>
At 31st July, 2006	74,120

The movement of goodwill was as follows:

	£'000
Original cost capitalised at 1st August, 2005	33,540
Amortisation in prior years	(22,446)
	<hr/>
Net book value at 1st August, 2005	11,094
Amortisation for the year	(2,049)
Goodwill arising during the year from the acquisition of a subsidiary and minority interests	161
	<hr/>
Net book value at 31st July, 2006	9,206

The amortisation for the year included £nil (2005 — £6,473,000) of writedown of goodwill.

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12. Tangible fixed assets

	Land and buildings	Fixtures, fittings and equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000
Group				
Cost				
At 1st August, 2005	2,799	40,490	1,856	45,145
Operating lease additions	—	13,865	—	13,865
Other additions	240	3,399	490	4,129
Disposals	—	(6,873)	(624)	(7,497)
At 31st July, 2006	3,039	50,881	1,722	55,642
Depreciation				
At 1st August, 2005	944	17,404	757	19,105
Charge for the year	180	7,469	415	8,064
Disposals	—	(2,746)	(411)	(3,157)
At 31st July, 2006	1,124	22,127	761	24,012
Net book value at 31st July, 2006	1,915	28,754	961	31,630
Net book value at 31st July, 2005	1,855	23,086	1,099	26,040
Company				
Cost				
At 1st August, 2005		7,489	535	8,024
Additions		612	89	701
Disposals		(329)	(135)	(464)
At 31st July, 2006		7,772	489	8,261
Depreciation				
At 1st August, 2005		4,564	292	4,856
Charge for the year		1,393	106	1,499
Disposals		(250)	(119)	(369)
At 31st July, 2006		5,707	279	5,986
Net book value at 31st July, 2006		2,065	210	2,275
Net book value at 31st July, 2005		2,925	243	3,168
The net book value of land and buildings comprises:				
			2006	2005
			£'000	£'000
Freehold			1,000	1,028
Long leasehold			476	569
Short leasehold			439	258
			1,915	1,855

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



Close Brothers Limited

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13. Deposits by banks	Group		Company	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Repayable:				
On demand or at short notice	11,466	3,081	8,375	1,022
Within three months	44,242	69,020	43,923	68,610
Between three months and one year	108,670	35,000	108,670	35,000
Between one and two years	4,000	1,000	4,000	1,000
	<u>168,378</u>	<u>108,101</u>	<u>164,968</u>	<u>105,632</u>

14. Customer accounts	Group		Company	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Repayable:				
On demand or at short notice	631,279	464,241	253,655	270,600
Within three months	998,634	1,206,012	735,178	761,329
Between three months and one year	181,584	128,656	168,359	121,823
Between one and two years	30,077	19,278	30,077	18,483
Between two and five years	1,500	—	1,500	—
	<u>1,843,074</u>	<u>1,818,187</u>	<u>1,188,769</u>	<u>1,172,235</u>

15. Bank loans and overdrafts	Group		Company	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Repayable:				
On demand or at short notice	2,748	12,882	151	1,343
Within three months	588	5,000	588	5,000
Between three months and one year	127,148	112,774	127,148	112,774
Between one and two years	101,606	80,151	101,606	80,151
Between two and five years	129,706	282,000	129,706	282,000
	<u>361,796</u>	<u>492,807</u>	<u>359,199</u>	<u>481,268</u>

16. Debt securities — loan notes issued

	2006	2005
Group	£'000	£'000
Repayable:		
Between one and two years	350,000	—
Between two and five years	—	350,000
After more than five years	17,130	17,130
	<u>367,130</u>	<u>367,130</u>

The loan notes are euro denominated. £350,000,000 of loan notes are repayable on 10th December, 2007 and £17,130,000 on 20th April, 2015.

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17. Amounts due to group undertakings	Group		Company	
	2006	2005 (restated)	2006	2005 (restated)
	£'000	£'000	£'000	£'000
Amounts due to ultimate parent undertaking	131,442	75,808	130,931	75,808
Amounts due to fellow subsidiary undertakings	68,389	48,645	622,229	573,440
	<u>199,831</u>	<u>124,453</u>	<u>753,160</u>	<u>649,248</u>

18. Other liabilities	Group		Company	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Current corporation taxation	6,023	10,103	4,432	6,178
Other liabilities	59,521	48,426	23,414	9,781
	<u>65,544</u>	<u>58,529</u>	<u>27,846</u>	<u>15,959</u>

19. Deferred taxation	2006	2005 (restated)
	£'000	£'000
Group		
Capital allowances	12,364	10,409
Short term and other timing differences	1,252	4,373
Total deferred taxation asset	<u>13,616</u>	<u>14,782</u>
Movement in the year:		£'000
Deferred taxation asset at 1st August, 2005		14,782
Charged to the profit and loss account		(1,175)
Other movements		9
Deferred taxation asset at 31st July, 2006		<u>13,616</u>



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20. Subordinated loan capital

Final maturity date	Prepayment date at issuer's option	Initial rate (%)	2006 £'000	2005 £'000
2020	2015	7.39	30,000	30,000
2026	2021	7.42	15,000	15,000
2026	2021	7.62	30,000	30,000
			<u>75,000</u>	<u>75,000</u>

The subordinated loan capital is denominated in sterling. If the company opts not to prepay at the prepayment date, 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 company, in which case the loan capital is subordinated to the claims of all unsubordinated creditors, including depositors.

21. Share capital

	2006 £'000	2005 £'000
Authorised ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
Allotted, issued and fully paid	<u>82,480</u>	<u>82,480</u>

22. Reserves

	Group £'000	Company £'000
Profit and loss account:		
At 1st August, 2005	192,544	75,294
Prior year adjustment — (note 29)	5,740	12,065
	<u>198,284</u>	<u>87,359</u>
Retained profit/(loss) for the year	8,928	(2,299)
Exchange adjustment	(194)	—
	<u>207,018</u>	<u>85,060</u>

The cumulative goodwill written off directly to reserves since the formation of the group is £11,275,000 (2005 — £11,275,000).

Reconciliation of movements in shareholders funds	2006 £'000	2005 (restated) £'000
Profit for the year	50,128	41,658
Dividends	(41,200)	(17,750)
	<u>8,928</u>	<u>23,908</u>
Exchange adjustment	(194)	78
	<u>8,734</u>	<u>23,986</u>
Net addition to shareholders funds	8,734	23,986
Opening shareholders funds	280,764	256,778
	<u>289,498</u>	<u>280,764</u>

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23. Contingent liabilities

Memorandum items

The company has contingent liabilities in respect of guarantees arising in the normal course of business amounting to £8,982,000 (2005 — £8,980,000). The group has contingent liabilities in respect of guarantees arising in the normal course of business amounting to £9,670,000 (2005 — £9,752,000).

Other contingent liabilities

The company has given guarantees on behalf of subsidiary undertakings in respect of amounts drawn under bank facilities and amounts due in respect of property leases of £1,367,000 (2005 — £7,457,000) and £646,000 (2005 — £411,000) respectively. The company has also given a guarantee of €525,000,000 in respect of floating rate notes issued by its subsidiary Close Brothers Finance plc.

24. Commitments

	Group		Company	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Memorandum items				
Undrawn facilities, credit lines and other commitments to lend				
— Within one year	<u>298,213</u>	<u>224,253</u>	<u>144,811</u>	<u>78,818</u>

Other commitments

The company is committed to purchase minority interests in its subsidiary undertakings at agreed fair valuation.

The group had contracted capital commitments of £365,000 (2005 — £26,000) of which the company had £nil (2005 — £nil).

Annual commitments under non-cancellable operating leases, at 31st July, 2006 were as follows:

	Premises		Other	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Expiring:				
Within one year	96	17	126	—
Between two and five years	1,065	—	617	167
After more than five years	<u>2,472</u>	<u>817</u>	<u>2</u>	<u>—</u>
	<u>3,633</u>	<u>834</u>	<u>745</u>	<u>167</u>



Close Brothers Limited

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25. 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 assets, liabilities and net interest rate derivative contracts as at the year end. The table shows the sensitivity of the group's net assets to interest rate movements. The cumulative gap of interest bearing net assets of £302,076,000 (2005 — £291,848,000) broadly equates to the group's capital and reserves, which are necessarily subject to interest rate fluctuations and as a matter of policy are not hedged. The table therefore demonstrates the group's policy of broadly hedging its interest rate exposure.

At 31st July, 2006

	Within three months	Between three and six months	Between six months and one year	Between one and five years	After more than five years	Non- interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Cash and balances at central banks	—	—	—	—	—	1,235	1,235
Loans and advances to banks	454,204	126	361	—	—	—	454,691
Loans and advances to customers	527,563	288,021	234,379	651,491	10,569	—	1,712,023
Debt securities	994,560	79,028	72,278	—	—	—	1,145,866
Other assets	4,385	—	—	—	—	114,680	119,065
	<u>1,980,712</u>	<u>367,175</u>	<u>307,018</u>	<u>651,491</u>	<u>10,569</u>	<u>115,915</u>	<u>3,432,880</u>
Liabilities							
Deposits by banks	122,444	41,934	—	4,000	—	—	168,378
Customer accounts	1,641,050	79,390	95,057	27,577	—	—	1,843,074
Bank loans and overdrafts	361,796	—	—	—	—	—	361,796
Debt securities — loan notes issued	367,130	—	—	—	—	—	367,130
Amounts due to group undertakings	197,393	—	—	—	—	2,438	199,831
Other liabilities	2,118	—	—	—	—	123,474	125,592
Subordinated loan capital, minority interests and shareholders funds	—	—	—	—	75,000	292,079	367,079
	<u>2,691,931</u>	<u>121,324</u>	<u>95,057</u>	<u>31,577</u>	<u>75,000</u>	<u>417,991</u>	<u>3,432,880</u>
Net (liabilities)/assets	<u>(711,219)</u>	<u>245,851</u>	<u>211,961</u>	<u>619,914</u>	<u>(64,431)</u>	<u>(302,076)</u>	<u>—</u>
Net interest rate derivative contracts							
Floating rate	418,971	41,000	22,000	42,000	—	—	523,971
Fixed rate	(35,354)	(92,116)	(225,500)	(171,001)	—	—	(523,971)
	<u>383,617</u>	<u>(51,116)</u>	<u>(203,500)</u>	<u>(129,001)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Interest rate sensitivity gap	<u>(327,602)</u>	<u>194,735</u>	<u>8,461</u>	<u>490,913</u>	<u>(64,431)</u>	<u>—</u>	<u>—</u>
Cumulative gap	<u>(327,602)</u>	<u>(132,867)</u>	<u>(124,406)</u>	<u>366,507</u>	<u>302,076</u>	<u>—</u>	<u>—</u>

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25. Interest rate exposure *continued*

At 31st July, 2005 (restated)

	Within three months	Between three and six months	Between six months and one year	Between one and five years	After more than five years	Non- interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Cash and balances at central banks	—	—	—	—	—	1,198	1,198
Loans and advances to banks	736,961	1,753	357	—	—	—	739,071
Loans and advances to customers	486,930	209,901	287,240	740,088	13,544	—	1,737,703
Debt securities	657,138	68,058	62,378	—	—	—	787,574
Other assets	13,965	—	—	—	—	107,490	121,455
	<u>1,894,994</u>	<u>279,712</u>	<u>349,975</u>	<u>740,088</u>	<u>13,544</u>	<u>108,688</u>	<u>3,387,001</u>
Liabilities							
Deposits by banks	102,101	3,000	2,000	1,000	—	—	108,101
Customer accounts	1,684,085	57,479	73,104	2,233	—	1,286	1,818,187
Bank loans and overdrafts	488,213	4,594	—	—	—	—	492,807
Debt securities — loan notes issued	367,130	—	—	—	—	—	367,130
Amounts due to group undertakings	123,983	—	—	—	—	470	124,453
Other liabilities	2,543	—	—	—	—	115,834	118,377
Subordinated loan capital, minority interests and shareholders funds	—	—	—	—	75,000	282,946	357,946
	<u>2,768,055</u>	<u>65,073</u>	<u>75,104</u>	<u>3,233</u>	<u>75,000</u>	<u>400,536</u>	<u>3,387,001</u>
Net (liabilities)/assets	<u>(873,061)</u>	<u>214,639</u>	<u>274,871</u>	<u>736,855</u>	<u>(61,456)</u>	<u>(291,848)</u>	<u>—</u>
Net interest rate derivative contracts							
Floating rate	537,091	79,750	106,000	—	—	—	722,841
Fixed rate	101,896	(137,750)	(222,805)	(464,182)	—	—	(722,841)
	<u>638,987</u>	<u>(58,000)</u>	<u>(116,805)</u>	<u>(464,182)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Interest rate sensitivity gap	<u>(234,074)</u>	<u>156,639</u>	<u>158,066</u>	<u>272,673</u>	<u>(61,456)</u>	<u>—</u>	<u>—</u>
Cumulative gap	<u>(234,074)</u>	<u>(77,435)</u>	<u>80,631</u>	<u>353,304</u>	<u>291,848</u>	<u>—</u>	<u>—</u>



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26. Interest rate and exchange rate contracts	2006	2005
	£'000	£'000
Interest rate contracts:		
Nominal amount	1,298,439	1,492,367
Credit risk weighted amount	<u>2,962</u>	<u>3,601</u>
Exchange rate contracts:		
Nominal amount	366,879	369,240
Credit risk weighted amount	<u>18,798</u>	<u>18,912</u>

Interest rate and exchange rate contracts are entered into with a number of financial institutions and only for hedging purposes. The credit risk weighted amounts have been prepared in accordance with guidelines laid down by the Financial Services Authority and are intended to give an indication of credit risk. Nominal amounts of interest rate contracts totalling £238,301,000 (2005 — £439,818,000) and exchange rate contracts totalling £358,852,000 (2005 — £367,130,000) have a residual maturity of more than one year. The remaining interest rate and exchange rate contracts have a residual maturity of less than one year.

27. Assets and liabilities in foreign currencies

The aggregate amounts of assets and liabilities held in foreign currencies, mainly U.S. dollars and euro were as follows:

	2006	2005
	£'000	£'000
Assets	<u>442,657</u>	<u>412,995</u>
Liabilities	<u>443,762</u>	<u>414,970</u>

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

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

The tables below highlight the unrecognised gains and losses, attributable to the group's derivative financial instruments and financial assets and liabilities, for which liquid and active markets exist. Debt securities are purchased for either liquidity or investment purposes as shown in note 10. Derivative financial instruments are only entered into for hedging purposes. The fair values of the financial instruments have been obtained from independent, open market sources or using discounted cash flow techniques based on prevailing market rates.

	2006		2005	
	Book value	Fair value	Book value	Fair value
	£'000	£'000	£'000	£'000
Primary financial assets:				
Debt securities	<u>1,145,866</u>	<u>1,145,951</u>	<u>787,574</u>	<u>787,606</u>
Primary financial liabilities:				
Floating rate notes	<u>367,130</u>	<u>358,014</u>	<u>367,130</u>	<u>362,842</u>

The directors deem that the fair value of the group's other 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:

	2006		2005	
	Book value	Fair value	Book value	Fair value
	£'000	£'000	£'000	£'000
Derivative financial instruments held to manage interest rate and currency exposure:				
Interest rate swaps	—	1,912	—	(1,618)
Forward rate agreements	—	38	—	—
Forward foreign currency contracts	—	37	—	16
Currency swaps	—	(9,264)	—	(6,535)
	<u>—</u>	<u>(7,277)</u>	<u>—</u>	<u>(8,137)</u>
		Gains	Losses	Net losses
		£'000	£'000	£'000
Unrecognised gains and losses on hedges:				
At 1st August, 2005		2,635	10,772	(8,137)
Arising in previous years that were recognised in the current year		<u>2,546</u>	<u>3,693</u>	<u>(1,147)</u>
Arising in previous years that were not recognised in the current year		89	7,079	(6,990)
Arising in the current year that have not been recognised		<u>5,004</u>	<u>5,291</u>	<u>(287)</u>
At 31st July, 2006		<u>5,093</u>	<u>12,370</u>	<u>(7,277)</u>
Of which:				
Expected to be recognised next year		4,570	8,307	(3,737)
Expected to be recognised later than next year		523	4,063	(3,540)



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29. Accounting Policy Changes

As stated in the Report of the Directors, the group has changed some of its accounting policies to reflect UKGAAP's convergence with IFRS and to adopt revisions to UKGAAP. These accounting policies are described in note 1 to the financial statements. The tables below and accompanying notes show the impact of these accounting policy changes on the profit and loss account and balance sheets as reported in the 2005 financial statements.

	2005		2005
	Published	Adjustments	Restated
	£'000	£'000	£'000
Profit and Loss Account — Group			
Interest receivable	276,069	155	276,224 ⁽ⁱ⁾
Interest payable	(138,774)	—	(138,774)
Net interest income	137,295	155	137,450
Fees and commissions receivable	56,718	(1,151)	55,567 ⁽ⁱ⁾
Fees and commissions payable	(18,332)	263	(18,069) ⁽ⁱ⁾
Other operating income	3,798	—	3,798
Other income	42,184	(888)	41,296
Operating income	179,479	(733)	178,746
Administrative expenses	80,481	298	80,779 ⁽ⁱ⁾
Depreciation	7,358	—	7,358
Provisions for bad and doubtful debts	20,349	248	20,597 ⁽ⁱ⁾
Amortisation of goodwill	8,516	—	8,516
Total operating expenses	116,704	546	117,250
Profit on ordinary activities before taxation	62,775	(1,279)	61,496
Taxation on profit on ordinary activities	19,708	(422)	19,286 ⁽ⁱⁱ⁾
Profit on ordinary activities after taxation	43,067	(857)	42,210
Minority interests — equity	520	32	552 ⁽ⁱⁱⁱ⁾
Profit attributable to shareholders	42,547	(889)	41,658
Dividends paid	16,000	1,750	17,750 ^(iv)
Retained profit for the year	26,547	(2,639)	23,908

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29. Accounting Policy Changes *continued*

	2005		2005
	Published	Adjustments	Restated
	£'000	£'000	£'000
Balance Sheet (extracts) — Group			
Assets:			
Loans and advances to customers	1,745,031	(15,328)	1,729,703 (i)
Deferred taxation	11,265	3,517	14,782 (ii)
Prepayments and accrued income	34,554	4,362	38,916 (i)
		<u>(7,449)</u>	
Liabilities:			
Amounts due to group undertakings	140,453	(16,000)	124,453 (iv)
Accruals and deferred income	56,984	2,864	59,848 (i)
Minority interests — equity	2,235	(53)	2,182 (iii)
		<u>(13,189)</u>	
Shareholders funds:			
Profit and loss account	192,544	5,740	198,284 (i) to (iv)
		<u>(7,449)</u>	
	2005		2005
	Published	Adjustments	Restated
	£'000	£'000	£'000
Balance Sheet (extracts) — Company			
Assets:			
Loans and advances to customers	392,286	(604)	391,682 (i)
Amounts due from group undertakings	1,196,611	(3,343)	1,193,268 (iv)
Other assets	16,741	(544)	16,197 (ii)
Prepayments and accrued income	26,705	1,422	28,127 (i)
		<u>(3,069)</u>	
Liabilities:			
Amounts due to group undertakings	665,248	(16,000)	649,248 (iv)
Accruals and deferred income	37,274	866	38,140 (i)
		<u>(15,134)</u>	
Shareholders funds:			
Profit and loss account	75,294	12,065	87,359 (i) to (iv)
		<u>(3,069)</u>	

Notes:

- (i) As explained in notes 1(c) to 1(e), the effective interest rate method has now been applied to loans and advances. Accordingly certain interest, fees and commissions are now spread over the life of the loan. The effective interest rate is now used in the calculation of provisions for bad and doubtful debts.
- (ii) The adjustments referred to in (i) also impact taxation, adjustments to which have been shown through deferred tax.
- (iii) The adjustments referred to in (i) relating to profit and loss also impact minority interests in equity.
- (iv) In accordance with FRS21, dividends are now recognised in the profit and loss account in the period in which they are declared.
- (v) The consolidated profit and loss account reserve at 1st August, 2004 has increased by £8,379,000 as a result of these accounting policy changes.
- (vi) The parent undertaking's profit before dividends payable for the year ended 31st July, 2005 has increased by £11,291,000 due primarily to the FRS21 change in accounting for inter-company dividends receivable from subsidiaries.



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30. Pensions

The company and its subsidiaries make payments to defined contribution pension schemes and to a defined benefits pension scheme for eligible employees. Assets of all schemes are held separately from those of the company and the group. The group pension charge for the year for the defined contribution pension schemes and defined benefits pension schemes was £2,381,000 (2005 — £2,413,000).

The defined benefits pension scheme is described in the financial statements of the ultimate parent undertaking. The scheme was closed to new entrants in August 1996 and only has 87 members. Under Financial Reporting Standard No. 17, contributions to this scheme by the company and its subsidiaries would be accounted for as if the scheme were a defined contribution pension scheme since assets and liabilities of the scheme cannot be attributed to each participating employer on a consistent and reasonable basis. Consequently, any surplus or deficit in this scheme would not be regarded as an asset or liability of the company or its subsidiaries, but of the ultimate parent undertaking. The agreed company contribution rate was 29.5 per cent. per annum of pensionable salaries at the date of the most recent actuarial valuation, which was at 31st July, 2006.

31. Related party transactions

Transactions with directors

Certain directors of the company maintained deposit accounts with the company during the course of the year on normal commercial terms.

Transactions with group undertakings

The company has taken advantage of one of the exemptions conferred by Financial Reporting Standard No. 8 ("Related Party Transactions"), whereby certain details regarding transactions with group undertakings do not have to be disclosed where group financial statements are made publicly available.

32. Ultimate parent undertaking

Close Brothers Group plc, which is a listed company registered in England and Wales, is the company's ultimate parent undertaking. The consolidated financial statements of Close Brothers Group plc are available at 10 Crown Place, London EC2A 4FT.
