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CLOSE BROTHERS GROUP plc
The specialist merchant banking group
announces
results for the year to 31st July, 2002

HIGHLIGHTS

	2002	2001
* Profit before taxation, exceptional costs and goodwill amortisation	£78.5m	£94.2m
* Earnings per share before exceptional costs and goodwill amortisation	38.9p	47.4p
* Profit before taxation	£68.4m	£89.5m
* Earnings per share	32.3p	44.0p
* Dividends per share	26.0p	26.0p
* Shareholders' funds	£472m	£408m
* Total assets	£3.1bn	£2.8bn
* Overview – another difficult year, yet second half profits steady with the first half.		
* Asset Management – funds under management were maintained at £3.1 billion.		
* Corporate Finance – a very difficult year with profits sharply lower and head count reduction.		
* Banking – good progress with substantial profits growth (35 per cent.).		
* Market-Making – a commendable result given the continued bear market.		

Sir David Scholey, Chairman, said:

“The financial year 2002 was a difficult one and, as we move into 2003, the short-term economic outlook remains neither clear nor particularly encouraging.

Whilst our banking division continues to grow, the current uncertainty of sentiment in markets means that growth in our other divisions would be hard won.

However, the harsher environment may well provide us with some good development opportunities and with our liquidity, which was recently augmented by a £55 million share placing, we will be well placed to take advantage of them. We remain confident in our strategy for the longer term; in the short term our stance remains one of continued caution.”

Enquiries to:

Rod Kent/Colin Keogh	Close Brothers Group plc	020 7426 4000
Sir David Scholey	Close Brothers Group plc	020 7568 2402
John Sunnucks	Brunswick Group Limited	020 7404 5959

Webcast video interview with Rod Kent, managing director, and Colin Keogh, chief executive designate, Close Brothers Group plc at www.closebrothers.co.uk or www.cantos.com

CLOSE BROTHERS GROUP plc
PRELIMINARY ANNOUNCEMENT OF AUDITED GROUP RESULTS
AND CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31ST JULY, 2002

The following is the full text of the preliminary announcement of results for the financial year ended 31st July, 2002. The financial information in relation to 31st July, 2002 has been extracted from the statutory accounts of the company, which have yet to be adopted by shareholders at general meeting and have yet to be filed with the Registrar of Companies.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	For the year ended 31st July, 2002			Year ended 31st July, 2001
	Ordinary activities before exceptional costs and goodwill amortisation	Exceptional costs and goodwill amortisation	Total ordinary activities	
	£'000	£'000	£'000	£'000
Interest receivable	198,890	-	198,890	208,982
Interest payable	(88,449)	-	(88,449)	(112,598)
Net interest income	110,441	-	110,441	96,384
Dividend income	64	-	64	153
Fees and commissions receivable	140,795	-	140,795	153,753
Fees and commissions payable	(24,740)	-	(24,740)	(21,542)
Net dealing income - market-making	48,365	-	48,365	58,331
Other operating income	1,429	-	1,429	5,600
Other income	165,913	-	165,913	196,295
Operating income	276,354	-	276,354	292,679
Administrative expenses	170,937	3,446	174,383	173,732
Depreciation	7,614	-	7,614	6,861
Provisions for bad and doubtful debts	19,256	-	19,256	17,919
Amortisation of goodwill	-	6,681	6,681	4,671
Total operating expenses	197,807	10,127	207,934	203,183
Operating profit on ordinary activities before taxation	78,547	(10,127)	68,420	89,496
Taxation on profit on ordinary activities	22,855	(1,016)	21,839	28,639
Profit on ordinary activities after taxation	55,692	(9,111)	46,581	60,857
Minority interests - equity	2,252	-	2,252	1,754
Profit attributable to shareholders	53,440	(9,111)	44,329	59,103
Dividends:				
Interim dividend 9.0p per share (2001 - 9.0p)			12,195	12,121
Proposed final dividend 17.0p per share (2001 - 17.0p)			24,214	22,927
Total dividends 26.0p per share (2001 - 26.0p)			36,409	35,048
Retained profit for the year			7,920	24,055
Earnings per share before exceptional costs and amortisation of goodwill			38.9p	47.4p
Earnings per share on profit attributable to shareholders			32.3p	44.0p
Diluted earnings per share			32.0p	43.6p

All income and profits are in respect of continuing operations.

CONSOLIDATED BALANCE SHEET

At 31st July, 2002

	2002	2001
	£'000	£'000
Assets		
Cash and balances at central banks	671	586
Loans and advances to banks	443,175	593,894
Loans and advances to customers	1,410,998	1,189,405
Non-recourse borrowings	(175,000)	(33,000)
	1,235,998	1,156,405
Debt securities - long positions	64,352	35,764
Debt securities - other	712,380	481,936
Settlement accounts	246,456	147,750
Equity shares - long positions	15,971	33,413
Equity shares - investments	28,484	27,529
Intangible fixed assets - goodwill	113,065	114,080
Tangible fixed assets	24,667	20,468
Share of gross assets of joint ventures	14,331	3,103
Share of gross liabilities of joint ventures	(13,905)	(2,675)
	426	428
Other assets	134,684	119,060
Deferred taxation	10,345	11,507
Prepayments and accrued income	22,956	23,863
Total assets	3,053,630	2,766,683
Liabilities		
Deposits by banks	83,159	55,643
Customer accounts	1,222,541	1,144,155
Bank loans and overdrafts	505,655	607,629
Debt securities - loan notes issued	100,000	18,140
Debt securities - short positions	52,231	38,182
Settlement accounts	202,343	114,174
Equity shares - short positions	7,589	9,594
Other liabilities	228,068	197,372
Accruals and deferred income	77,105	71,910
Subordinated loan capital	96,937	96,937
Minority interests - equity	6,079	5,056
	2,581,707	2,358,792
Shareholders' funds		
Called up share capital	35,920	34,055
Share premium account	248,456	193,253
Profit and loss account	187,547	180,583
Total equity shareholders' funds	471,923	407,891
Total liabilities and shareholders' funds	3,053,630	2,766,683

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st July, 2002

	2002	2001
	£'000	£'000
Net cash (outflow)/inflow from operating activities	<u>(29,611)</u>	<u>243,901</u>
Returns on investments and servicing of finance:		
Interest paid on subordinated loan capital	(7,825)	(5,838)
Dividends paid to minorities	(178)	(1,703)
	<u>(8,003)</u>	<u>(7,541)</u>
Taxation:		
Taxation paid	(25,586)	(47,608)
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	(14,396)	(8,243)
Sale of tangible fixed assets	2,416	2,073
Purchase of equity shares held for investment	(5,173)	(14,885)
Sale of equity shares held for investment	2,647	5,655
	<u>(14,506)</u>	<u>(15,400)</u>
Acquisitions and disposals:		
Minority interests acquired for cash	(1,194)	(22,537)
Purchase of subsidiaries	(6,685)	(64,424)
	<u>(7,879)</u>	<u>(86,961)</u>
Equity dividends paid	(35,122)	(34,818)
Net cash (outflow)/inflow before financing	(120,707)	51,573
Financing:		
Issue of ordinary share capital including premium	57,068	2,455
Issue of subordinated loan capital	-	45,000
	<u>(63,639)</u>	<u>99,028</u>
(Decrease)/increase in cash		

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.

THE NOTES

1. The calculation of earnings per share on profit attributable to shareholders is based on profit after taxation and minority interests of £44,329,000 (2001 - £59,103,000) and on 137,244,000 (2001 - 134,422,000) ordinary shares, being the weighted average number of shares in issue during the year excluding those held by the employee share benefit trust.
2. The final ordinary dividend of 17.0p per share is proposed to be paid on 5th November, 2002 to holders of ordinary shares on the register at the close of business on 4th October, 2002.
3. The financial information included in this announcement does not constitute the company's statutory accounts for the years ended 31 July, 2002 or 2001, but is derived from those accounts. Statutory accounts for 2001 have been delivered to the Registrar of Companies and those for 2002 will be delivered following the company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985.

CHAIRMAN'S STATEMENT

RESULTS

The operating profit on ordinary activities before taxation, exceptional costs and goodwill amortisation was £78.5 million, compared to £94.2 million last year, and earnings per share, on the same basis, were 38.9p compared to 47.4p.

After deducting a charge for exceptional costs of £3.4 million (2001 - £Nil) and goodwill amortisation of £6.7 million (2001 - £4.7 million), the operating profit on ordinary activities before taxation was £68.4 million (2001 - £89.5 million) and earnings per share, on the same basis, were 32.3p (2001 - 44.0p).

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 the above earnings per share of 38.9p, is covered some 1.5 times.

OVERVIEW

The year ended 31st July, 2002 was another difficult one. The tragic events of 11th September, 2001 made for a turbulent start. Whilst stock markets appeared to recover swiftly, the rebound was short lived. Confidence both in business generally and, more particularly, in the City's financial markets continued to suffer, exacerbated in the second half of our financial year as deteriorating economic news and corporate scandals in the USA undermined stock markets.

It is a considerable achievement that in this climate the group has produced consistent profits (before tax and goodwill amortisation) for the last three of the previous four half years as illustrated below:

First half 2001	Second half 2001	First half 2002	Second half 2002
£57.9m	£36.3m	£37.4m	£37.7m

This steadiness has been achieved through our strategy of building a portfolio of diverse and distinct specialist activities. Thus, whilst the fall in equity markets affected to varying degrees our corporate finance, asset management and market-making businesses, this was counterbalanced by substantial growth in our banking division.

External market events had the most severe effect on our corporate finance division. Although the sharp downturn in M&A activity was offset to some extent by the success of our debt advisory and restructuring activities we nevertheless regretfully decided to reduce our headcount in the UK, in November, 2001 and July, 2002, which gave rise to exceptional costs of £3.4 million. These aside, the division managed to make a modest profit.

Our asset management and market-making divisions were, of course, not immune to these cold winds. Despite a commendable net inflow of £417 million of new funds, the decline in market values took its toll and over the year funds under management were broadly unchanged. Furthermore this year we did not benefit from performance fees in our technology funds, which suffered the severest downturn in valuations. As a result, profits in asset management deteriorated by approximately one third.

In market-making the green shoots that seemed to appear in late Autumn last year swiftly withered and the year ended on a subdued note. However, despite profits declining to £16.8 million this year from £27.4 million last year, Winterflood Securities Limited ("WINS") more than maintained its market share and increased its coverage substantially.

Our banking division produced substantial organic growth virtually across the board with pre-tax profits rising by 35 per cent. and the loan book increasing some 19 per cent. to over £1.4 billion. Bad debt levels continued to remain under good control.

As a result of all of the above factors and in the face of the volatility in financial markets, the mix of our operating profit has changed considerably over the past three years, as shown in the table below:

	2000	2001	2002
Asset Management	9%	23%	18%
Corporate Finance	6%	12%	2%
Banking	20%	39%	61%
Market-Making	65%	26%	19%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

TRADING

Asset Management

The asset management division had a disappointing year principally because the success in gaining new funds to manage of £417 million net of withdrawals has been eroded by the falls in the market. As a result of this, our funds under management at the year end of some £3.1 billion have barely improved on the level last year. Our specialist technology funds, while performing well in relation to similar funds, have fallen sharply in absolute terms and we have not benefited from performance fees this year. The upshot was a lower profit, of £15.9 million, down from last year's £23.9 million, but ahead of that two years ago.

A substantial part of our asset management business relates to our offshore and unquoted operations, which are less vulnerable to the vagaries of the market than our listed funds. In the past year, some of our Channel Islands businesses have been going through a period of reorganisation and have moved premises, which will be of long-term benefit.

CHAIRMAN'S STATEMENT

We are confident that our strategy of focussing on specialist areas of asset management, such as private equity, private clients, quant-based products and technology and property funds, will prove to be rewarding over the medium term. The immediate outlook, however, continues to be unexciting.

Corporate Finance

Our corporate finance division had a very difficult year with the initial optimism reversed following 11th September, since when the market has been quiet and declining. This led to a detailed review of our UK cost structure and necessitated some, mainly voluntary, redundancies amongst our staff. By contrast, our French and German businesses, while experiencing testing market conditions, were able to recruit some new professional staff and since the year end we have also doubled our shareholding in Atlas Capital (Spain) to 20 per cent.

During the period we have been active on corporate restructuring work, which has enabled us to declare a modest profit (excluding exceptional costs) for the year of £2.1 million, albeit substantially lower than last year's £11.9 million. Although corporate finance activity generally is currently at a low ebb we believe that our strong focus on the mid market, our international reach and our reputation for independent advice will stand us in good stead when the market recovers.

Banking

Our banking division continued its good progress and profits grew substantially to £55.1 million from £40.9 million. This growth was virtually across the board with the loan book increasing to £1.4 billion from £1.2 billion. The climate for bad debts in our markets was benign and we reduced our charge to 1.5 per cent. (2001 - 1.7 per cent.) of our average loan book.

A particular high spot was our insurance premium financing activity which more than doubled its profits and which financed more than £1.3 billion of insurance premiums from 340,000 individual applications. Strong organic growth and the successful integration of the previous year's acquisition were boosted by the growth in our relatively new personal lines business. In addition the hardening of insurance premium rates increased the size of our average advance for commercial lines business and should continue to have a favourable impact during the next year.

Our property and asset finance businesses also made good progress. The UK property market has been strong and we continue to have a well-spread loan book both geographically and by types of property. We have not relaxed our demanding security requirements. On our asset finance side we benefited from the continued development of our machine tool and healthcare businesses, from the revival in fortunes of the UK used car market and from the relative buoyancy of our chosen areas of the transport market. The printing machinery market, however, continued to

be patchy due to overcapacity problems and softness in machine values.

Our armed forces business moved into modest profit and the challenge is now to develop it further. Our invoice finance and credit management businesses had another good year, as did our mortgage network activity, which processed more than 25,000 applications covering some £2.2 billion of mortgages.

During the year our treasury team was active and successful. We replenished and expanded our banking facilities in order to be ready for the further organic growth that we see ahead.

Provided that the UK economy does not slip into recession, the outlook for our banking division continues to be encouraging.

Market-Making

Despite a fall in the FT All-Share Index of some 23 per cent. over our financial year, WINS profits showed resilience. Whilst they fell by some 39 per cent., they showed a significant improvement from the low point in the second half of last year, as set out in the table below:

First half 2001	Second half 2001	First half 2002	Second half 2002
£25.9m	£1.5m	£9.6m	£7.2m

WINS traded profitably during every month in the period except September, producing a 33 per cent. pre-tax return on its capital, which in the circumstances was a commendable result.

The past year has seen continued development at WINS:

- the company moved to modern, open-plan offices, enabling more efficient working, and it up-graded the computer system;
- Bondscape, the joint venture with Barclays to provide a 'yellow strip' for UK gilt edged and other sterling fixed interest investments, has continued to develop and expand its connections;
- trading in NYSE and NASDAQ stocks commenced electronically on WINNER during the year; and
- trading in FTSE-100 SETS stocks commenced in December, 2001.

In addition, we have taken on a specialist investment trust team which, from August, 2002, has been market-making as well as providing an integrated broking and advisory service in its sector.

CHAIRMAN'S STATEMENT

During this period of relatively lower stock market volumes WINS has chosen to increase its market coverage substantially. Although the immediate outlook is unclear, when the market returns to more normal trading this broadening of our business base combined with our strength in electronic trading is expected to enhance our position.

DIRECTORS AND MANAGEMENT

As previously announced, Rod Kent will be stepping down as group managing director at the conclusion of our AGM on 31st October, 2002. We are delighted that he will continue as a non-executive director and consultant. Colin Keogh will become chief executive on 1st November, 2002 and Peter Winkworth and Stephen Hodges will be appointed managing directors at that time, continuing their respective duties as chief financial officer and head of banking. David Pusinelli, who is responsible for group development, joined the board on 26th September, 2002.

As we announced last year, Brian Winterflood retired from the board on 31st January, 2002, his 65th birthday. We are pleased that he is continuing as the non-executive chairman of WINS. Mike Hines, and David Macnamara as his alternate, the joint chief executives of WINS, were appointed to the board on 4th March, 2002. John Llewellyn-Lloyd, who was head of corporate finance, left the board on 31st December, 2001.

OUTLOOK

The financial year 2002 was a difficult one and, as we move into 2003, the short-term economic outlook remains neither clear nor particularly encouraging.

Whilst our banking division continues to grow, the current uncertainty of sentiment in markets means that growth in our other divisions would be hard won.

However, the harsher environment may well provide us with some good development opportunities and with our liquidity, which was recently augmented by a £55 million share placing, we will be well placed to take advantage of them. We remain confident in our strategy for the longer term; in the short term our stance remains one of continued caution.

Sir David Scholey
Chairman