

Buy (1)
Medium Risk (M)

EQUITY
RESEARCH:
UNITED KINGDOM

Price:	£9.91
Target:	£13.00
Mkt Cap:	£1,458m

Diversified and Speciality Finance

8 March 2006

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Close Brothers

Emerging Asset Management Story

- **We initiate coverage with a Buy/ Medium Risk (1M) rating and a £13.00 target price, which implies a total expected return of 34%**
- **Asset Management profits forecast to almost treble by 2010E and account for ~35% of group profits**
- **Shift in mix from Banking to Asset Management should drive multiple expansion**
- **Market valuation fails to recognise substantial internal capital generation available for reinvestment**

Initiation of Coverage							UK	
CBG.L							Price: £9.91	
Year to Jul	PBT (£)	EPS (p)	Growth (%)	P/E	P/BV	DPS (p)	Div Yield (%)	ROE (%)
2005	129.5	61.9	11	16.0	2.5	28.5	2.9	16.6
2006E	150.3	70.7	14	14.0	2.3	31.5	3.2	17.0
2007E	166.8	78.0	10	12.7	2.1	34.7	3.5	17.0
2008E	190.0	88.4	13	11.2	1.9	38.1	3.8	17.5
2009E	217.4	100.6	14	9.8	1.7	41.9	4.2	17.9
52W Price Range: £10.28 to 6.79							Price Performance (%)	
Expected Share Price Return	31.1%	Shares Outstanding	145.2	Absolute	10.2	0.0	12.0	24.0
Expected Dividend Yield	3.2%	Market Cap.	£1,458m	Relative to Local	NA	-2.0	5.0	12.0
Expected Total Return	34.3%							

Sources: Company reports and Citigroup Investment Research estimates.

Europe

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Table of Contents

Investment Summary	3
Investment Thesis	4
Summary	4
Asset Management growth	4
Securities growth	6
Mix to drive re-rating and increased capital generation.....	7
Reinvesting in growth.....	8
Proven business model and management record.....	8
Banking concerns overemphasised	11
Undervalued.....	12
A UK Smaller Companies proxy?	12
Risk Rating	13
Valuation	14
Valuation issues	14
Fundamental price to book valuation.....	14
Sum of the parts valuation	15
Peer group relatives.....	16
2006 Interims	18
Interims better than forecast.....	18
Positive outlook	19
Divisional Analysis	20
Asset Management.....	20
Banking.....	23
Securities.....	26
Corporate Finance.....	28
Financials	30
Forecast summary	30
Divisional summary	31
Appendix 1 — Company Snapshot	32
Business activities.....	32
Financial snapshot.....	33
Long-term record	33
Appendix 2 — Organisation Structure	34

We believe Close Brothers' market valuation fails to reflect the group's organic growth rate and the potential for additional growth due to internally funded in-fill acquisitions. Whilst assuming continued dividend growth, we forecast Close will generate ~£280m in net cash flows between 2006E and 2010E (~19% of the group's current market value) which are available for reinvestment. We initiate coverage with a Buy/ Medium Risk (1M) rating and a £13.00 target price.

Emerging asset manager

Asset Management has been Close's fastest growing business line over the past two years, and we expect this to continue to be the case. We forecast 23% pa growth in Asset Management profits between 2005 and 2010E, which combined with 14% pa growth from Securities, 11% from Corporate Finance and 7% from Banking drives overall group earnings growth of 14% pa over the period.

High margins and returns

Close's business model is focused on high-margin, high-growth activities where it can become a dominant player and where it can avoid competition with mainstream financial businesses. This strategy has delivered compound annual earnings and dividend growth of 14% and 15% respectively over the 12 years to 2005, based on revenue and profit growth of 19% and 18%. On average, management has delivered a 20% net return on shareholders' equity over the period.

Reinvesting substantial capital generation

High returns on equity combined with relatively low marginal capital requirements have generated substantial free cash flows available for distribution and/or reinvestment. After funding dividends and banking division loan growth, Close retains ~40% of its attributable profit for reinvestment, and we forecast Close will internally generate ~£280m of capital available for reinvestment over the five years to 2010E, ~19% of the group's current market value.

Undervalued

Basic one or two year-ahead price/earnings comparisons with quoted peers will almost inevitably undervalue Close's substantial free cash flow generation and also the emergence of asset management as a more substantial profit centre. Using methodologies that take into account Close's free cash flow generation and evolving profit mix, we estimate a conservative current fair value for Close of around £12.00, ~20% above current levels, at which the shares would trade on 16.3x annualised 2006E earnings, and 14.6x 2007E earnings.

Initiate with a BUY, target price £13.00

With reference to our fair value estimates, we set a 12-month target price of £13.00 which, together with our dividend forecasts, equates to an expected total return of 34%. We therefore initiate coverage with a Buy/ Medium Risk rating.

Investment Thesis

- We forecast Asset Management profits will almost treble between 2005 and 2010E by which time the division will account for 35% of group profits
- This shift in mix will underpin re-rating, in our view, and increase the rate at which Close internally generates capital for reinvestment
- Reinvestment of free cash flows at the group's underlying RoE would raise our 2010E base case forecast by 20%

Summary

We believe Close's market valuation fails to reflect the group's organic growth rate and the potential for additional growth due to internally funded in-fill acquisitions.

- The organic growth outlook will be driven by Investment Banking activities, and Asset Management in particular: we forecast a near trebling of Asset Management profits over the five years from 2005-2010E.
- This drives ~14% pa forecast EPS growth over the five years and should also underpin re-rating.
- Upside to this outlook would follow the successful reinvestment of Close's substantial internal capital generation.
- We forecast Close will generate ~£280m of free cash flows over the next five years — which if reinvested at the group's underlying RoE would result in an additional £50m of PBT by 2010E, ~20% higher than our base case forecast.

There are good reasons to expect such incremental returns: the acquisition of 89% of German securities business Seydler for ~£21m last March generated a pre-tax profit contribution of £4m in the half-year to end-January 2006, an annualised return on investment in excess of 25%.

In summary, we believe the market currently undervalues (i) the emergence of Asset Management as a significant profit centre; (ii) the incremental growth that could result from the reinvestment of the group's substantial internal capital generation; and (iii) management's superior track record.

Asset Management growth

Asset Management has been Close's fastest growing business line over the past two years, and we expect this to continue to be the case. We forecast Asset Management profits to almost treble between 2005 and 2010E, driven by strong new asset gathering, and improving profit margins.

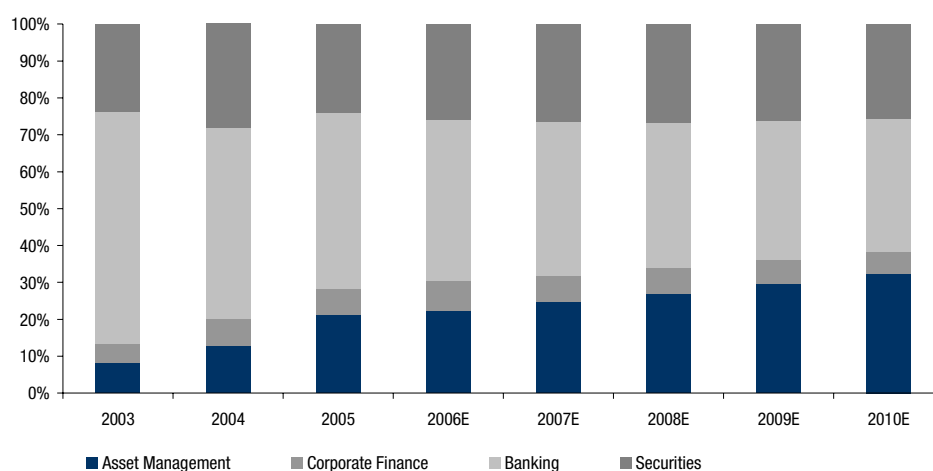
As shown in the table below, we forecast 23% pa growth in Asset Management profits between 2005-2010E which, combined with 14% pa growth from Securities and 11% from Corporate Finance, offsets slower growth from Banking (we forecast 7% pa over the five years) and drives overall group earnings growth of 14% pa over the period.

Figure 1. Forecast Divisional Mix and PBT Growth Rates

Year to July	2005	2006E	2007E	2008E	2009E	2010E	2005-2010E profit CAGR
Banking	54%	49%	47%	44%	42%	40%	7.1%
Securities	28%	29%	30%	30%	29%	28%	14.1%
Asset Management	24%	25%	28%	30%	33%	35%	22.7%
Corporate Finance	8%	9%	8%	8%	7%	7%	10.6%
Net central costs	-14%	-13%	-12%	-11%	-10%	-10%	6.0%
GROUP	100%	100%	100%	100%	100%	100%	13.9%

Source: Company reports and Citigroup Investment Research estimates.

As a result, we forecast the division will account for 35% of Close's PBT in 2010E, up from 24% in 2005 (and only 15% in 2004).

Figure 2. Profit Mix* — An Emerging Asset Management Story

Source: Company reports and Citigroup Investment Research estimates. *Before central costs.

The 2006 interim results (discussed in greater detail on pages 18-19) reported Asset Management profits up 22% on the first half last year. Excluding the ~£5m 'exceptional' private equity investment gain included in last year's comparative, underlying Asset Management growth was closer to 80%.

Figure 3. Half-Year Mix Progression

Year to July (£m)	1H05	2H05	2005	1H06
Banking	54%	54%	54%	48%
Securities	26%	29%	28%	28%
Asset Management	24%	25%	24%	24%
Corporate Finance	7%	8%	8%	12%
Centre	-12%	-16%	-14%	-13%
Operating profit	100%	100%	100%	100%

Source: Company reports.

An exceptionally strong performance from Corporate Finance, a first-time and significant contribution from the recently acquired Seydler to the Securities result, and the absence of lumpy private equity gains within Asset Management together masked the significance of underlying Asset Management profit as far as first-half mix was concerned. Adjusting for these items, the Asset Management contribution continued to rise, contrasting with the reduction in the contribution from Banking.

Securities growth

The market has focused on the potential impact of the recent extension of the LSE's SETSmm platform to include ~650 stocks (up from 200 in early 2005) on Close's UK Securities profits (ie Winterflood Securities).

In addition to reporting 5% profit growth from Winterflood, somewhat better than feared in some quarters, the division as a whole reported profits up 28%, well ahead of market forecasts, and highlighted the growth potential offered by two recent diversifications away from the core business.

Seydler

In March 2005, Close announced the acquisition of an 89% stake in Seydler AG, a specialist broker/dealer and market maker based in Frankfurt, for an initial €23.5m with a further consideration of up to €4-6m.

- Seydler is one of the leading securities trading firms present on the floor of the Frankfurt stock exchange, the largest of the seven floor exchanges operating in Germany.
- In response to Deutsche Börse's efforts to enhance liquidity in the shares of smaller companies traded on Xetra, Seydler is mandated by ~100 German companies to act as their "designated sponsor", effectively a kind of corporate broker, giving it the longest list of such quoted clients in the German market.
- In the six months to January 2006, Seydler achieved revenues of £14.0m and profits of £4.0m, 22% and 18% of the Securities division's first-half revenues and profits respectively. Annualised, this first-half performance represents a return on Close's investment in Seydler of more than 25%.
- Longer term, Seydler also presents Close with a strategic platform for the development of the retail share trading market in Germany.

PLUS Markets

On 17 October 2005, PLUS Markets Group announced details of its new equity trading service for both listed and unlisted securities, a service developed in response to demand from leading financial institutions and brokers looking for an alternative to trading on the LSE.

- Many of those requiring this alternative service were the private client stockbroker clients of Close's UK market making business Winterflood Securities.
- The service was opened on 5 December, initially covering just 50 stocks and supported by the five main small-cap market makers, including Winterflood. The system was extended to cover the whole of the FTSE Small Cap index on 12 December.
- Within the first three months of trading, PLUS has attracted a 10% share of the volume of trades in the 600 stocks it covers.
- Close Brothers has a 19% equity stake in Plus Markets Group, which should provide it with strategic options should SETSmm become more of a threat than at present.

Mix to drive re-rating and increased capital generation

The high growth we forecast for Asset Management (23% per annum compounded 2005-2010E) offsets lower forecast growth from Banking (7% pa), Corporate Finance (11% pa) and Securities (14% pa), which results in forecast group PBT growth of 14% per annum over the period, and a significant shift in mix. This change in earnings mix has two key implications:

Re-rating potential

Based on earnings multiples afforded to quoted, mono-line asset managers, Close's Asset Management earnings ought to be the most highly valued within the portfolio, with Banking arguably the lowest, if we were to use current UK bank multiples as the relevant proxy.

The shift in mix away from Banking to Asset Management should lead to price/earnings multiple expansion for the group as a whole.

As indicated below, the shift in mix we forecast for Close between 2005 and 2010E would, based on the range of P/E multiples used, result in an 11% increase in the group's blended multiple.

Figure 4. Re-Rating Potential as a Result of Shift in Mix

	PER	2005	2010E
Asset Management	22.0	24%	35%
Corporate Finance	8.0	8%	7%
Securities	16.0	27%	28%
Banking	10.0	54%	40%
Central	8.0	-13%	-10%
Blended PER		14.6	16.0

Source: Citigroup Investment Research estimates.

Free cash flow generation

The shift in earnings mix from relatively capital-consumptive Banking to cash-generative Investment Banking activities should result in a significant increase in Close's free cash flow generation.

In the table below, we set out the group's free cash flow dynamics (we have normalised loan growth in 2006E to adjust for the run-off of the Singer & Friedlander used car book bought in January 2005).

Figure 5. Normalising for Mid-Cycle Loan Growth

Year to July (£m)	2006E	2007E	2008E	2009E	2010E
Banking net profit	52.7	55.4	59.2	64.3	69.8
Actual loan book growth	-38.8	95.0	199.5	219.5	241.4
Normalised (10%) loan book growth	193.9	190.0	199.5	219.5	241.4
Capital requirement @ 12%	-23.3	-22.8	-23.9	-26.3	-29.0
Banking FCF	29.5	32.6	35.2	37.9	40.8
Securities net profit	31.0	35.3	40.1	44.7	49.1
Asset Management net profit	26.8	32.8	40.7	50.4	62.4
Corporate Finance net profit	10.1	9.7	10.4	11.1	11.8
Net central costs & minorities	-17.3	-18.5	-19.7	-21.1	-22.6
Equity free cash flow	80.2	91.9	106.7	123.0	141.6
Equity dividends	-43.2	-46.5	-52.1	-56.8	-62.8
Internal capital generation	37.0	45.4	54.6	66.2	78.8

Source: Citigroup Investment Research estimates.

- According to our estimates, Close will internally generate more than £280m of free cash flow after dividends and loan growth funding, ~19% of the current market value. (This is after holding back capital for normalised loan growth in 2006E when in fact we forecast a reduction in loan balances; excluding this, total free capital generation would be ~£300.)
- In addition, Close had ~£70m of unallocated (and available for investment) capital at end-July 2005. This comprised the £54m of net tangible assets allocated to “group” in the accounts, plus the £16m difference between reported Banking net assets of £250m and the division’s normalised capital of £234m (12% of year-end customer loans).
- All other things equal, we therefore forecast Close will have accumulated ~£350m of free funds available for reinvestment (24% of current market value) by 2010E.

Reinvesting in growth

Our base case forecasts make no explicit assumptions regarding the return on unallocated capital; instead, we simply allow it to accumulate in Banking net assets, implicitly assuming it contributes to the division’s net interest income (which in turn makes our margin assumptions for Banking appear even more cautious).

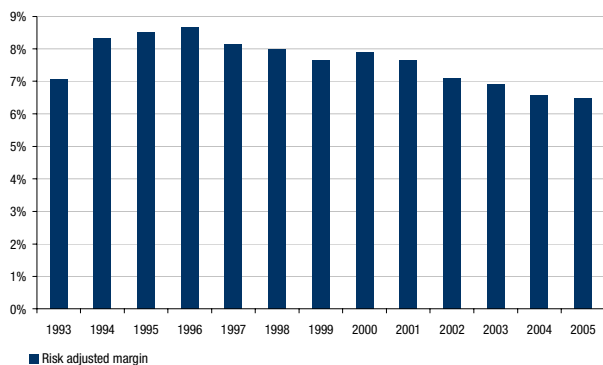
- If we were to assume reinvestment of this capital at the group’s current underlying RoE (20%), the incremental return over a 5% return on cash would raise our 2010E profit forecast by ~£50m or 20%, equivalent to an increase in 2010E EPS from 114p to 137p.
- In this context, we note that during the year to end-July 2005, Close purchased Cattles Commercial Finance Ltd (Banking), Seydler AG (Securities) and Escher UK Asset Management Ltd (Asset Management) for £38.9m in cash up front (and £5.9m deferred).
- It also bought almost £200m in customer loans (~£65m of which came with the Cattles acquisition), which on a notional 12% tier 1 would require an additional £24m of capital backing.
- So Close “spent” — or committed to spending — almost £70m out of existing capital resources while still leaving some £70m unallocated at the year end.

Proven business model and management record

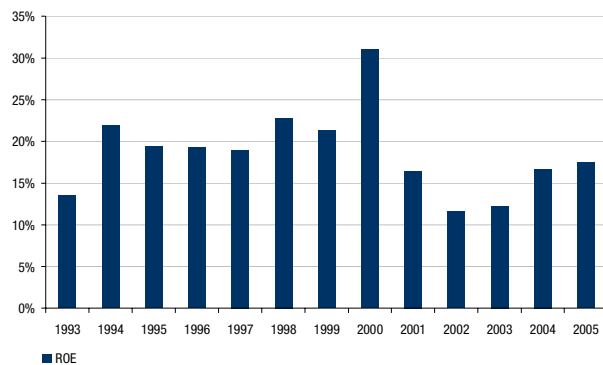
High margins, high returns

Close’s business model is focused on niche, high-margin activities where it can avoid competition with larger financial groups and become a dominant player.

- This strategy has delivered compound annual earnings and dividend growth of 14% and 15% respectively over the 12 years to 2005, based on revenue and profit growth of 19% and 18%.
- On average, management has delivered a 20% net return on shareholders’ equity over the period.

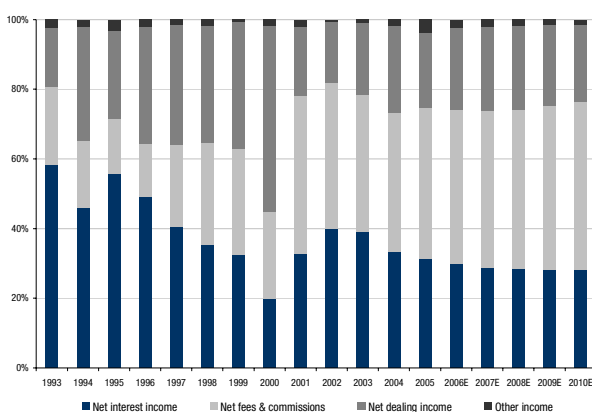
Figure 6. Banking Risk-Adjusted Net Interest Margin

Source: Company reports and Citigroup Investment Research estimates.

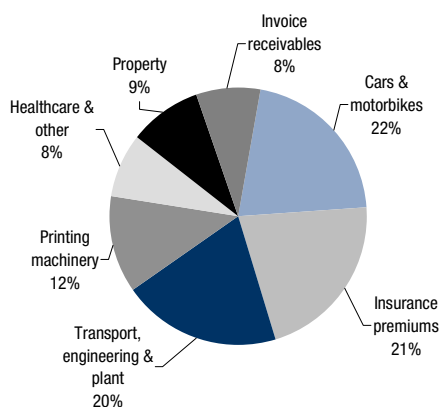
Figure 7. RoE (Pre-Goodwill/Post Exceptionals)

Source: Company reports and Citigroup Investment Research estimates

- **Highly visible banking profits.** As shown above, the Banking division's risk adjusted interest margin (net interest less loan loss provisions as a percentage of average loans) has consistently exceeded 6% per annum over the past 12 years. Since the majority of the group's lending is fixed rate, and since Close locks in these margins by swapping variable rate funding to fixed, the visibility of Banking revenues is high. With ~56% of the end-July 2005 loan book repayable within one year (and all but 1% repayable within five years) management can predict year-ahead revenues from this division with considerable accuracy.
- **Diverse.** At end-July last year, Close's ~£2bn loan book was made up of ~400,000 separate advances (average loan size ~£5,000, three loans over £5m, with a largest loan of £20m). The group's Market-Making division quotes prices in almost 3,000 UK equities, and yet its net long position at end-July was £20m (and average £22m during the financial year), which implies an average position of less than £7,000 per stock. As shown below, the group's income mix is well spread by type, as is the loan book by underlying asset.

Figure 8. Revenue Mix by Type

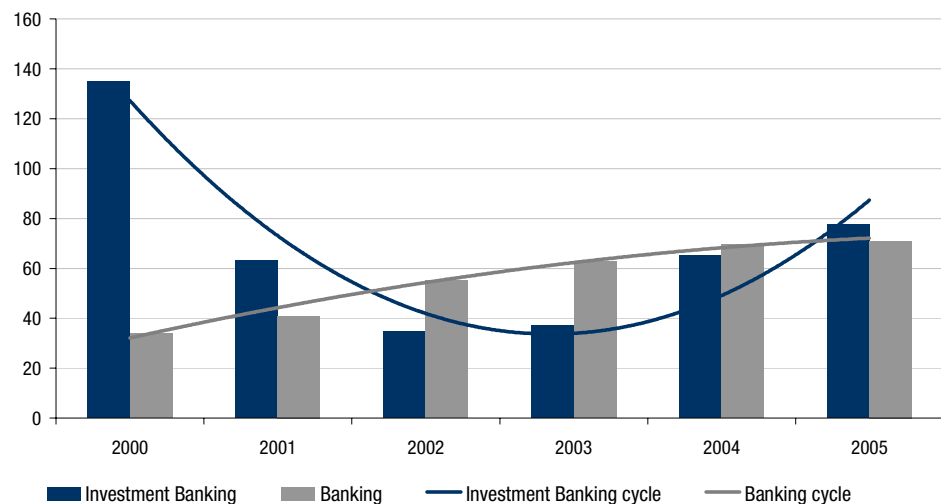
Source: Company reports and Citigroup Investment Research estimates.

Figure 9. End-January 2006 — Loan Book by Asset Class

Source: Company reports.

- **Asset-based lending.** For Close to be able to earn such high Banking margins, it has to take risks with the quality of its loan covenant. As a result, it is very selective when it comes to collateral. Low loan to value ratios, liquid secondary markets, and good second-hand values for the underlying security are more important to the business model than the quality of the borrower's balance sheet.
- **Conservative funding.** As at end-January 2006, Close's loan book amounted to £1,862m. This was funded with £250m of Banking division capital, £75m of subordinated loan capital, £518m of bank loans, £358m of debt securities, £200m of non-recourse borrowings and £461m of customer deposits (out of total customer deposits of £1.9bn). Although Close uses this £461m of customer deposits, primarily because it is less expensive than bank funding, it has unused bank facilities of more than this amount and could therefore fund the loan book without recourse to short-term customer deposits if necessary. With a policy of leveraging its Banking capital only 8x, the division effectively operates on an equity tier 1 ratio of ~12%. At end-July 2005 the group's consolidated risk asset ratio was 20%.
- **Counter-cyclical operating cycles.** The counter-cyclical nature of the main subsidiaries' operating cycles provides a defensive profile to the group's earnings profile. As shown below, although the increase in Banking profits in 2001 and 2002 partially offset the reduction in Investment Banking profits, in return, the increase in Investment Banking profits in 2005 compensated for a levelling off in Banking profits.

Figure 10. Counter-Cyclical Investment Banking and Banking Operating Cycles (£m)



Source: Company reports.

- **Avoids multiple counterparty exposures.** As a rule, Close avoids the risk of multiple exposures to a single counterparty. So the Banking division does not normally lend to Corporate Finance advisory clients; Banking subsidiaries do not seek to lend to customers of other lending units.

Banking concerns overemphasised

Recent recommendation downgrades have focused on the potential for flat to reduced profits from the group's Banking division — the combined impact of regulation on mortgage and insurance broking fees and commissions, a difficult period for used car finance and most importantly of all, reduced insurance premium finance receivables.

While each of the above has impacted Banking receivables and profits growth to a degree, the 2006 interim results demonstrated that these concerns have been overemphasised:

- First of all, first-half 2006 Banking profits increased by 7%, driven by a combination of net interest and non-interest income growth. Loan book and interest income growth is not the only determinant of Banking income.
- Secondly, although there has been a reduction in insurance premium finance receivables — a reflection of lower commercial insurance premiums offsetting underlying business volume growth — there has been good growth in other segments of the loan book.

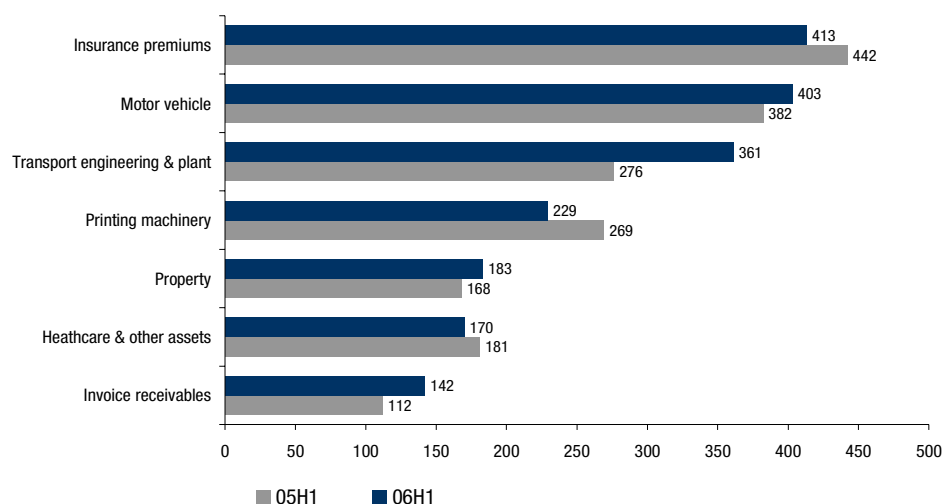
Figure 11. Banking Income — Interest and Non-Interest Income

6m to end-January (£m)	1H05	1H06	Ch £m	Ch %
Net interest	64.8	68.7	3.9	6.0%
Non-interest income	25.2	28.0	2.8	11.3%
Total income	90.0	96.7	6.7	7.4%

Source: Company reports.

- Finally, we believe the market has underestimated the income and profit impact of the two Banking in-fill acquisitions Close made during January last year (Cattles Commercial Finance and the Singer & Friedlander user car loan book) and funded from existing resources. Although the run-off of the Singer book will depress aggregate loan growth, income from these acquisitions has helped compensate for reduced growth elsewhere in the loan book.

Figure 12. Average Loans by Asset Segment — 1H06 versus 1H105 (£m)



Source: Company reports.

In our view, Close has the capacity to internally finance a number of similar such in-fills if required to deliver “continued progress at a modest level” from the Banking division.

Undervalued

Price performance

Although the shares have performed well in absolute terms over the past 12 months, they have performed only in line with the wider UK All Share and Smaller Companies indices, despite the market-sensitive nature of the group's Investment Banking activities. The shares have significantly underperformed relative to the FTSE General Financials index over the past year.

Figure 13. Absolute and Relative Price Performance*

	1M	3M	6M	12M
Absolute	0%	12%	24%	21%
Relative to FTSE All Share	-2%	5%	12%	2%
Relative FTSE Smaller Companies	-2%	0%	9%	2%
Relative FTSE General Finance	-4%	-5%	-5%	-15%

Source: Datastream. *At close 6 March 2006.

Valuation

Basic one or two year-ahead price/earnings comparisons with quoted peers will almost inevitably undervalue Close's substantial free cash flow generation and also perhaps the emergence of asset management as a more substantial profit centre.

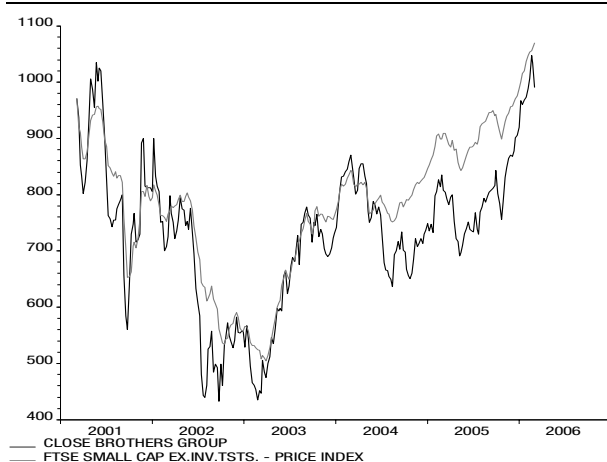
In the valuation section of this note we use methodologies that try to take into account Close's free cash flow generation and also how the mix might look in 2010E based on our divisional forecasts.

Based on these methodologies, we derive a current fair value of around £12.00, ~20% above current levels, at which the shares would trade on 16.3x annualised 2006E earnings, and 14.6x 2007E.

A UK smaller companies proxy?

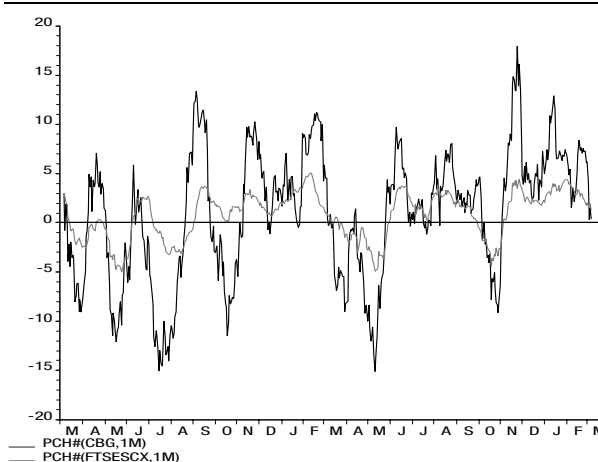
Close's share price has shown strong correlation with the FTSE Small Cap index. As shown below, price performance over the past five years has virtually mirrored the index.

Figure 14. Close Brothers & the FTSE Small Cap Index



Source: Datastream.

Figure 15. Close & the Small Cap Index — Monthly Returns



Source: Datastream.

There are strong fundamental reasons underlying this correlation: (i) Close's commercial lending is focused on UK SMEs; (ii) its Corporate Finance unit specialises in UK mid-market M&A and corporate restructuring; and (iii) its UK Securities profits are in part driven by the price performance of UK small-cap shares.

Risks

We rate Close Brothers Medium Risk. The risk rating on the stock is derived after the consideration of industry-specific risks, financial risk and management risk. In addition, we consider historical share price volatility, based on the input of the Citigroup Investment Research quantitative research team, as a possible indicator of future stock-specific risk.

There are some generic risks that apply to Close Brothers: the competitive and volatile nature of the capital market activities in which it operates, the impact of regulation and compliance on income margins and expenses, and the credit risks associated with its lending activities.

More specific factors that could cause earnings and/or share price to deviate from our estimates and target price include:

- The group's asset management strategy is still relatively unproven with recent earnings growth being driven by rising markets, significant property investment inflows and private equity realisation profits.
- The group's UK Securities business is seeing some margin erosion following the launch of SETSmm, the London Stock Exchange's mid-market electronic order book. SETSmm was recently extended to cover the smaller end of the mid-caps and the AIM market which could further erode margins.
- The group's Banking division has seen a reduction in loan loss provisions to 1.1% of its average receivables, as compared with a historical average of closer to 1.5%. A reversion to mean would reduce Banking (and group) profits by ~£10m (7% of 2006E profits).
- As shown in Appendix 1, the group's main divisions comprise more than 50 operating companies, some of which have outstanding minority interests, which could hinder the process of integrating operating units (particularly in asset management) where cross-selling and cost saving opportunities exist.
- Close's business model is built around organic growth augmented by in-fill acquisitions. As such, the group bears acquisition/integration risk. Since acquisitions are generally small in relation to the group's equity and internal capital generation, this risk is modest, in our view.

Valuation

- We favour fundamental price to book and sum-of-the-parts valuation methodologies as they incorporate surplus free cash flow generation
- Even so, peer group relative approaches also indicate Close is undervalued at current levels
- We think £12.00 a conservative estimate of current value and set £13.00 as our 12-month target price

Valuation issues

Basic one or two year-ahead price/earnings comparisons with quoted peers will almost inevitably undervalue Close's business mix — unique in the UK Speciality & Other Finance sector — and also its substantial free cash flow generation.

We therefore value Close using the fundamental price to book approach used by the Citigroup UK Banks team. This is based on underlying profitability and sustainable returns, and it explicitly takes into account dividends and surplus free cash flows. As an alternative to the price to book approach, we adapt the methodology to incorporate a sum-of-the-parts valuation based on forecast profit mix in 2010E.

Finally, we value Close in relation to a wide range of UK Speciality & Other Finance company peers.

Fundamental price to book valuation

Our preferred valuation approach is summarised in the table below, alongside our earnings and loan growth projections to 2010E. Our objective is to estimate a fundamental fair value for the shares as at end-July 2006. There are three parts to this estimate:

- First, we calculate a terminal value for the business at end-2010E. Based on attributable profit, we calculate annual returns on normalised equity (normalised to reflect a fully leveraged Banking division, ie a 12% equity:loan assets ratio). We use these normalised returns as the basis for estimating a sustainable RoE assumption in the fair value price to book formula: $\text{Fair P/BV} = (\text{RoE} - g) / (\text{CoE} - g)$.
- Our sustainable RoE estimate is therefore a return on notional equity rather than our actual equity forecast (which includes surplus capital). This terminal value is discounted to net present value (NPV) at end-July 2006E using an estimate of cost of equity as the discount rate.
- Next, we calculate the NPV of unallocated capital: our forecast for end-July 2010E net assets includes a "surplus" that in theory could be distributed without altering the operating outlook. This surplus is also discounted to NPV as at end-December 2006E.
- Finally, we calculate the NPV of our dividend forecasts for 2007E-2010E.

The sum of these three items produces our estimate of a fair end-2006E market value for the group of £1,872m, which equates to £12.74 per share.

Figure 16. Fundamental Price to Book Valuation

Year to July (£m)	2005	2006E	2007E	2008E	2009E	2010E
Receivables	1939.2	1900.4	1995.4	2195.0	2414.5	2655.9
Memo: receivables growth*	10%	-2%	5%	10%	10%	10%
NTAV/receivables ratio - normalised	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Normalised NAV	443.9	439.4	450.8	474.8	501.1	530.1
NAV	578.5	638.8	707.1	785.6	878.3	986.1
Surplus capital	134.6	199.4	256.3	310.9	377.2	456.0
Attributable profit	90.1	103.4	114.6	130.5	149.3	170.5
Return on surplus capital	-6.7	-10.0	-12.8	-15.5	-18.9	-22.8
Normalised return	83.4	93.4	101.8	115.0	130.4	147.7
Normalised return on NAV	18.8%	21.3%	22.6%	24.2%	26.0%	27.9%
Dividends	40.9	43.1	46.4	52.0	56.7	62.6
Discount factor			1.095	1.199	1.313	1.438
PV dividends			42.3	43.4	43.2	43.6
Sustainable return on NTAV	26.0%					
Long-term growth assumption	3.5%					
Cost of equity	9.5%					
Fair value P/NTAV	3.8					
2010 terminal value	1987.8					
2010 surplus capital	456.0					
NPV terminal value	1382.6					
NPV dividends	172.4					
NPV surplus capital	317.2					
Fair value	1872.3					
Shares in issue	147.0					
Fair value per share (p)	1274					

Source: Company reports and Citigroup Investment Research estimates.

Sum of the parts valuation

In this approach we replace the 2010E terminal value from the above price to book methodology with a sum-of-the-parts (SOTP) valuation based on 2010E earnings estimates.

Figure 17. Sum-of-the-Parts — Based on 2010E Estimates

Year to July 2010E (£m)						2010E	Sustainable long-term						
	PBT	Tax	Minorities	PAT	NAV	ROE	ROE	Growth	COE	P/NAV	PER	£m	p
Banking	98.3	-28.5	-2.0	67.8	336.1	20%	15%	3.0%	9.5%	1.8	9.2	620.4	422
Asset Management	87.8	-25.5	-3.8	58.6	130.3	45%	40%	5.5%	9.5%	8.6	19.2	1124.1	765
Corporate Finance	16.7	-4.8		11.8	11.0	108%	80%	2.0%	10.0%	9.8	9.1	107.5	73
Market-Making	69.2	-20.1		49.1	70.0	70%	50%	3.0%	10.0%	6.7	9.6	470.0	320
Operating divisions	272.0	-78.9		187.3	547.4	34%					12.4	2322.0	1580
Central costs	-23.7	6.9		-16.8							10.0	-168.5	-115
Group capital					400.5					1.0		400.5	273
Total	248.3	-72.0	-5.8	170.5	947.9	18%				2.7	15.0	2554.0	1738

Source: Citigroup Investment Research estimates.

Note: this approach results in a different estimate of “surplus capital” in 2010E in that there is no normalisation of the Banking division’s capital structure (our 2010E estimate for Banking NAV equals 12.6% of end-2010E customer loans as opposed to a normalised 12%)

The result of substituting the above SOTP-based terminal value (the operating divisions less the centre) and surplus capital estimates into the price to book methodology are set out below.

Figure 18. Fundamental Sum-of-the-Parts Fair Valuation

Year to July (£m)	2006	2007	2008	2009	2010
Terminal value					2,154
Surplus capital					400
Dividends		46.4	52.0	56.7	62.6
Discount rate		1.095	1.199	1.313	1.438
PV dividends		42.3	43.4	43.2	43.6
Discount rate	9.5%				
PV terminal value	1,498				
PV surplus capital	279				
PV dividends	172				
Total value	1,949				
Shares	147.0				
Value per share (p)	1326				

Source: Citigroup Investment Research estimates. * 2010E sum-of-the-parts valuation for operating divisions less central costs.

The SOTP approach results in an end-2006E fair value estimate of £13.26, ~4% higher than the fundamental price to book approach.

Peer group relatives

We have used a broad range of consumer and commercial credit companies, asset managers and liquidity providers within the UK Speciality & Other Finance Sector for the following comparative analysis.

Figure 19. Peer Group P/E Ratios and Yields

	Price (p)	Mkt Val (£m)	Year-end	2006E	2007E	2006E	2007E
Commercial & consumer credit:							
Cattles*	336	1,103	Dec	12.7	11.6	5.1%	5.6%
Davenham Group	336	86	Jun	11.6	9.9	2.7%	4.6%
Intermediate Capital Group	1396	932	Jan+	11.5	12.4	3.4%	3.5%
Kensington Group*	1181	611	Nov	12.6	10.4	2.5%	3.1%
London Scottish Bank	97	138	Oct	11.8	11.3	5.1%	5.6%
Paragon Group	685	827	Sep	13.0	11.6	2.4%	3.0%
Provident Financial	607	1,551	Dec	11.1	10.5	5.7%	5.9%
				12.1	11.1	3.9%	4.5%
Asset management:							
Aberdeen Asset Management	171	1,034	Sep	22.8	19.1	2.3%	2.8%
AMVESCAP	520	4,252	Dec	18.6	15.8	2.1%	2.3%
Henderson Group	78	901	Dec	19.8	22.6	2.4%	2.6%
Man Group*	2245	6,884	Mar+	13.7	9.5	2.7%	3.1%
New Star Asset Management*	371	1,160	Dec	21.1	16.8	0.8%	1.1%
Rathbone Brothers	1195	493	Dec	18.7	16.5	2.7%	3.0%
Schroders*	1147	3,354	Dec	18.4	16.7	2.0%	2.2%
				19.1	17.1	2.1%	2.4%
Liquidity provision:							
Collins Stewart Tullett	687	1,458	Dec	15.7	14.7	1.8%	1.9%
ICAP	437	2,656	Mar+	18.6	17.1	2.3%	2.4%
London Stock Exchange*	842	2,156	Mar+	20.6	14.4	1.9%	2.6%
				18.3	15.4	2.0%	2.3%
Group average				16.1	14.3	2.8%	3.2%
Close Brothers*				991	1,458	Jul	14.0
							12.7
							3.2%
							3.5%

Source: Citigroup Investment Research estimates* and consensus estimates (Reuters). Prices at close on 7 March 2006. +Following year.

In estimating an end-2006E fair value, we have taken the following approaches:

- We have applied the peer group consensus P/E ratio for 2006E to our (calendarised) Close Brothers EPS estimate for 2007E, which suggests an end-2006E fair value of £12.52.
- We have applied the peer group sub-segment P/E ratios for 2006E to our Close Brothers EPS estimate for 2007E, allocated by main activity. As shown in the table below, this suggests a 2006E fair value of £12.49.

Figure 20. Peer Group Relative Valuation by Main Activity

	%	PER	Value (p)
Banking (commercial & consumer credit)	46%	12.1	428
Asset Management (asset management)	29%	19.1	428
Securities (liquidity provision)	30%	18.3	424
Corporate finance/central	-4%	10.0	-31
Group	100%	16.0	1249

Source: Citigroup Investment Research estimates.

Valuation summary

The average of our two fundamental valuation approaches — price to book and SOTP — results in an average end-December fair value estimate of £13.00. The average of our two peer group relative-based approaches is £12.50.

With reference to these year-end estimates, we consider £12.00 a conservative estimate of current fair value, and set a 12-month target price of £13.00.

2006 Interims

- Results were ahead of market expectations due to exceptional performance from Corporate Finance and stronger-than-forecast growth from Securities and Banking

Interims better than forecast

The 2006 interim results, reported under IFRS for the first time, are summarised in the table below. The impact of the change from UK GAAP to IFRS was negligible, resulting in a reduction in profit before tax of around 2% (£76.5m under IFRS, £78.2m under UK GAAP), largely due to £1.7m of additional share-based payment costs.

Figure 21. 2006 Interim Results

Year to July (£m)	1H05	2H05	2005	1H06	1H06/1H05	1H06/2H05
Banking	90.0	95.3	185.3	96.7	7%	1%
Securities	44.6	53.0	97.6	62.5	40%	18%
Asset Management	57.3	61.7	119.0	62.0	8%	0%
Corporate Finance	21.5	20.8	42.3	30.5	42%	47%
Centre	1.4	1.9	3.3	0.9	-36%	-53%
Income	214.8	232.7	447.5	252.6	18%	9%
Banking	34.6	35.1	69.7	36.9	7%	5%
Securities	17.0	18.8	35.8	21.8	28%	16%
Asset Management	15.3	16.3	31.6	18.6	22%	14%
Corporate Finance	4.8	5.3	10.1	8.8	83%	66%
Centre	-7.5	-10.2	-17.7	-9.6	28%	-6%
Operating profit	64.2	65.3	129.5	76.5	19%	17%
GROUP:						
Net interest income	69.3	73.2	142.5	73.9	7%	1%
Net fees & commissions	86.7	104.9	191.7	114.6	32%	9%
Dealing income	48.1	48.1	96.3	59.3	23%	23%
Other operating income	10.6	6.4	17.0	4.7	-55%	-26%
Total operating income	214.8	232.7	447.5	252.6	18%	9%
Operating expenses	-142.1	-155.9	-298.0	-167.0	18%	7%
Pre-provision profit	72.7	76.8	149.5	85.6	18%	11%
Provisions	-8.5	-11.5	-20.0	-9.1	7%	-21%
Profit before tax	64.2	65.3	129.5	76.5	19%	17%
Goodwill amortisation	0.0	-17.7	-17.7			
Taxation	-18.4	-18.7	-37.2	-22.1		
Minorities	-1.0	-1.2	-2.2	-1.6		
Attributable profit	44.7	27.7	72.4	52.8		
Customer loans	1,962	1,939	1,939	1,862	-5%	-4%
Assets under management	6,100	7,100	7,100	7,700	26%	8%
Net assets	540.4	540.3	540.3	565.5	5%	5%
Expense ratio	-66%	-67%	-67%	-66%	0%	-1%
Net interest margin	7.5%	7.5%	7.7%	7.7%	4%	3%
Bad debts % loans	0.92%	1.18%	1.08%	0.96%	4%	-19%
RoE	16.8%	16.0%	16.6%	17.7%	5%	11%
Tax rate	28.7%	28.6%	28.7%	28.9%	0%	1%
EPS (p)	30.8	31.1	61.9	36.0	17%	16%
DPS (p)	9.5	19.0	28.5	10.5	11%	-45%
Cover (x)	3.2	1.6	2.2	3.4	6%	109%
NAV (p)	382	398	398	418	9%	5%

Source: Company reports.

The results exceeded market forecasts, largely due to:

- An exceptional performance from Corporate Finance, where profits increased from £4.8m in 1H05 (and £5.3m in 2H05) to £8.8m in 1H06. M&A remained the dominant activity (it contributed 72% of the division's PBT, up from 65% in 1H05), aided by a number of sizeable transactions.
- A strong performance from the newly renamed Securities division (previously Market-Making), which saw its profits increase by 28%. This reflected a more moderate performance from Winterflood, where profits increased by 5%, and a maiden first-half contribution of £4m from Seydler, acquired in March 2005.
- A better than expected 7% increase in profits from Banking, which benefited from strong organic growth in areas such as property lending and acquisition-aided growth in motor finance, transport engineering & plant and invoice receivables more than offsetting the expected decline in insurance premium and printing machine finance.
- Good growth from Asset Management, which saw interim profits up 22% to £18.6m, despite 1H05 having benefited from an unusually large private equity investment gain (we estimate ~£5m). Excluding the impact of this gain, we estimate underlying Asset Management profit growth of ~80%.

Better-than-forecast M&A fees aside, a significant proportion of first-half outperformance resulted from the impact of acquisitions. Close bought three businesses in 2005 for ~£45m and two loan books (~£200m), all of which contributed for the whole of 1H06.

In this context, it is worth noting that 1H06 profits were still 17% higher than 2H05, and EPS 17% higher; excluding ~£4m of Corporate Finance profits would reduce these sequential growth rates to 11% and 10% respectively.

Positive outlook

The results statement included the following outlook comments:

- The Banking division started the second half well and the outlook was for continued "modest progress". We interpret this to mean continued single-digit profit growth despite a flattish loan book due to a combination of (i) the run-off of the Singer & Friedlander motor finance book, (ii) a further modest decline in the insurance premium book, (iii) continued growth from invoice receivables and the property and transport, engineering & plant books, and (iv) good growth in non-interest Banking income.
- The Investment Banking division made a strong start to the second half, driven by strong and active markets. We expect further growth from Asset Management and Securities, although, following the exceptionally strong 1H, a reduced Corporate Finance contribution in 2H06.

The interims also included details of forthcoming management changes. Sir David Scholey is to step down as the group's Chairman following the AGM on 26 October, when he will be replaced by former CEO and existing non-executive director Rod Kent. Strone Macpherson, currently senior independent director, will become Deputy Chairman at the same time.

Divisional Analysis

- **Asset Management and Securities are the fastest growing of Close's divisions**
- **The near-term outlook for Banking is for modest growth, followed by a recovery in 2008E**

Asset Management

Our forecasts for Asset Management out to 2010E are set out in the table below. Figures for 2003-2004 were compiled under UK GAAP; thereafter the numbers are consistent with IFRS.

Figure 22. Asset Management — Financial Record & Estimates*

Year to July (£m)	2003	2004	2005	2006E	2007E	2008E	2009E	2010E
Net interest income	5.0	6.0	7.0	8.5	8.5	8.5	8.5	8.5
Net fees & commissions	55.5	77.4	99.4	109.9	133.5	164.3	201.3	245.6
Dealing income	2.0	3.3	-1.3	4.0	4.0	4.0	4.0	4.0
Other operating income	3.1	6.2	13.9	8.0	8.0	8.0	8.0	8.0
Total operating income	65.6	92.9	119.0	130.4	154.0	184.8	221.8	266.1
Operating expenses	-57.5	-75.5	-87.4	-92.6	-107.8	-127.5	-150.8	-178.3
Pre-provision profit	8.1	17.4	31.6	37.8	46.2	57.3	71.0	87.8
Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit	8.1	17.4	31.6	37.8	46.2	57.3	71.0	87.8
Assets under management	3,700	5,500	7,100	8,236	9,883	11,860	14,232	17,078
Avg AUM	3,400	4,600	6,300	7,668	9,060	10,872	13,046	15,655
Net assets	136.9	136.3	130.3	130.3	130.3	130.3	130.3	130.3
Average headcount	522	698	694					
Net fees/avg AUM	1.63%	1.68%	1.58%	1.43%	1.47%	1.51%	1.54%	1.57%
Income/avg AUM	1.93%	2.02%	1.89%	1.70%	1.70%	1.70%	1.70%	1.70%
Income/avg headcount (£'000)	125.6	133.1	171.5					
Expense ratio	-87.7%	-81.3%	-73.4%	-71.0%	-70.0%	-69.0%	-68.0%	-67.0%
Pre-tax RoAvgNAV	6.3%	12.7%	23.7%	29.0%	35.4%	44.0%	54.5%	67.4%

Source: Company reports and Citigroup Investment Research estimates. *Operating income breakdown for 2003-2005 is estimated.

- Close has been involved in asset management activities since the acquisition of a specialist Business Expansion Scheme (BES) team — now Close Brothers Investment — in 1991.
- The company set up Close Fund Management in 1995 around the old John Govett quantitative products team and launched a range of risk-protected index-tracking “Escalator” funds.
- In 1997, Close acquired a specialist AIM and smaller companies investment trust business and in 1999 launched the mid-market wealth manager Close Wealth Management.
- The scale of the group's asset management activities stepped up significantly following the acquisition of Rea Brothers in 1999, which brought in trust, asset management and banking businesses in the Isle of Man and Guernsey and the Finsbury range of investment trusts and funds.

- These were augmented through the acquisition of Olim Partners shortly thereafter, and more recently Nelson Money Managers (October 2003, now part of Close Wealth Management) and Escher UK Asset Management (July 2005, now Close TEAMS).
- Previous amalgamated with a range of other activities with a 'City Merchant Banking' division, Close realigned its reporting structure in 2001 to separately identify Asset Management as a division in its own right, and Jonathan Sieff was recruited to manage the division in May 2003.

The table and charts below show the mix of assets under management (AUM) at end-1H05 and 1H06.

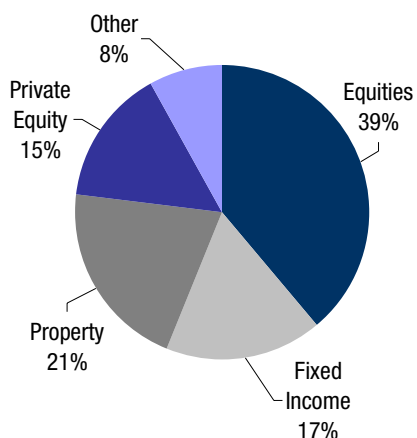
Figure 23. Assets Under Management (AUM) — Asset Mix and Growth

£bn	Jan-05	Jan-06	Ch £m	Ch %
Equities	2.4	3.4	1.0	42%
Fixed Income	1.0	1.4	0.3	34%
Property	1.3	1.4	0.1	8%
Private Equity	0.9	0.9	0.0	1%
Other	0.5	0.6	0.1	26%
Total	6.1	7.7	1.6	26%

Source: Company reports.

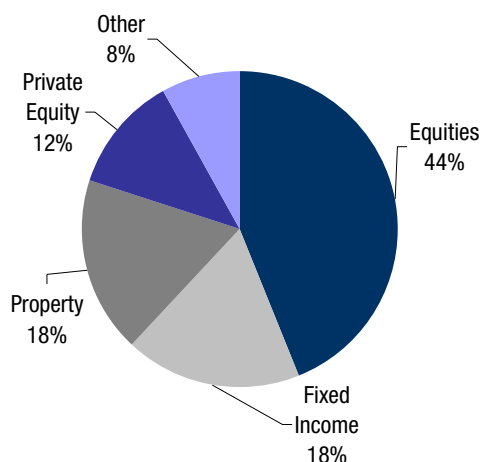
At end-January, 44% of the division's assets were invested in public equities, 18% in fixed income, 18% in property and 20% in alternatives (including private equity).

Figure 24. Assets Under Management (AUM) Mix — Jan 2005



Source: Company reports.

Figure 25. Assets Under Management (AUM) Mix — Jan 2006



Source: Company reports.

Although the division consists of some 25 separate corporate entities, many with outstanding minority interests (see Appendix 2), management organises these businesses into two segments for reporting purposes, Private Clients and Funds.

The table below shows end-January 2006 AUM by sub-segment together with first-half fund flows and investment returns.

Figure 26. AUM Flows by Key Segment

£bn	Private Clients	Funds	Total
Opening AUM (Jul-05)	2,688	4,369	7,057
Gross inflows	175	356	531
Redemptions/maturities	-123	-202	-325
Net inflows	52	154	206
Markets	160	277	437
Closing AUM (Jan-06)	2,900	4,800	7,700
Net flows/AUM	1.9%	3.5%	2.9%
Markets/AUM	6.0%	6.3%	6.2%

Source: Company reports.

Private Clients

The Private Clients business can be further segmented into the onshore Close Wealth Management (CWM, now including Nelson Money Managers and in the previous Nelson HQ in Northwich, Cheshire), London-based Close Private Asset Management (CPAM), and the offshore British Isles businesses now amalgamated under the Close Private Bank banner (CPB).

Close Wealth Management currently manages ~£1.3bn of the £2.9bn within Private Clients and is managed by Jamie Simmonds. CPAM currently manages ~£500m and is managed by Martin Andrew. The offshore British Isles Close Private Bank, under the management of Andrew Henton, manages the remaining £1.1bn of Private Clients AUM.

Funds

As shown in Appendix 2, the Funds sub-segment is a collection of fairly disparate onshore and offshore operating companies. The appointment of Rufus Warner as CEO of Close Finsbury Asset Management in April 2005 (he now also manages Close TEAMS and Close Property Management) should help with coordinated marketing and the positioning of key areas of expertise such as property and technology. In aggregate, the Funds businesses managed £4.8bn at end-January 2006.

Growth outlook

We forecast 23% pa compound growth in Asset Management division profits over 2005-2010E (22% in 1H06, 80% adjusted for private equity gains in 1H05). Growth opportunities within Asset Management include:

- Coordinated marketing of the recently integrated Close Wealth Management and Nelson Money Managers offering.
- The recruitment of additional private client account executives becoming available following recent private client asset management consolidation activity.
- More focussed distribution within the Funds division.
- Improved positioning of the division's key areas of expertise — property, technology and private equity.
- The development of Close Teams' manager of manager product for the retail market.

Banking

Our forecasts for Banking out to 2010E are set out in the table below.

Figure 27. Banking — Financial Record & Estimates

Year to July (£m)	2003	2004	2005	2006E	2007E	2008E	2009E	2010E
Net interest income	119.4	126.3	132.2	136.9	138.7	150.3	170.2	192.1
Net fees & commissions	38.2	47.1	49.9	54.0	55.1	56.2	57.3	58.5
Other operating income	0.0	1.1	3.1	3.0	3.0	3.0	3.0	3.0
Total operating income	157.6	174.4	185.3	193.9	196.7	209.5	230.5	253.5
Operating expenses	-72.7	-82.0	-95.6	-99.9	-97.4	-102.7	-112.9	-124.2
Pre-provision profit	84.9	92.4	89.7	94.0	99.4	106.9	117.5	129.3
Provisions	-22.0	-22.8	-20.0	-19.7	-21.4	-23.5	-27.0	-31.0
Operating profit	62.9	69.7	69.7	74.3	78.0	83.3	90.5	98.3
Customer loans	1,616	1,757	1,939	1,900	1,995	2,195	2,414	2,656
Average loans	1,513	1,686	1,848	1,920	1,948	2,095	2,305	2,535
Net assets	209.7	228.5	250.1	245.4	256.8	280.8	307.1	336.1
Average headcount	1068	1129	1244					
Net interest/avg loans	7.9%	7.5%	7.2%	7.1%	7.1%	7.2%	7.4%	7.6%
Income/avg loans	10.4%	10.3%	10.0%	10.1%	10.1%	10.0%	10.0%	10.0%
Provisions/pre-provision profit	-25.9%	-24.6%	-22.3%	-21.0%	-21.5%	-22.0%	-23.0%	-24.0%
Provisions/avg loans	-1.45%	-1.35%	-1.08%	-1.03%	-1.10%	-1.12%	-1.17%	-1.22%
Income/avg headcount (£'000)	147.5	154.5	149.0					
Expense ratio	-46.1%	-47.0%	-51.6%	-51.5%	-49.5%	-49.0%	-49.0%	-49.0%
Pre-tax RoAvgNAV	30.1%	31.8%	29.1%	30.0%	31.1%	31.0%	30.8%	30.6%

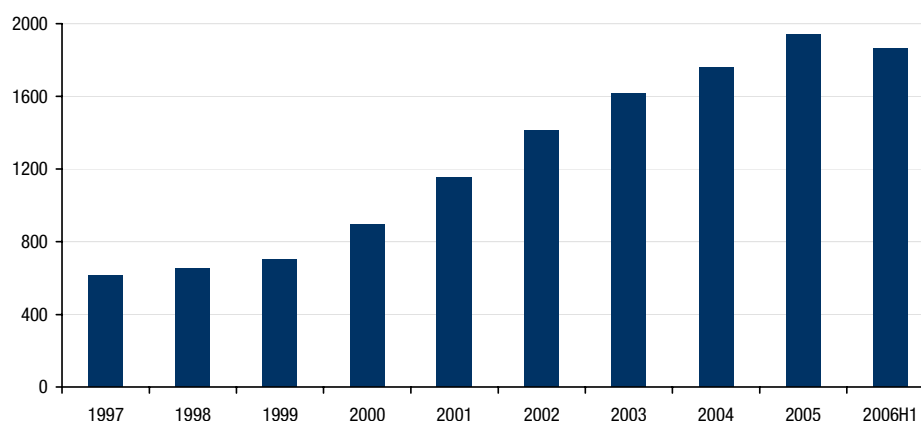
Source: Company reports and Citigroup Investment Research estimates. *Operating income breakdown for 2003-2005 is estimated.

The Banking division can be segmented into two sub-divisions: Specialist Financing and Asset Financing.

- **Specialist Financing** includes property finance (the provision of residential development finance, commercial pre-let development finance and loans to acquire and add value to investment property), insurance premium financing (financing annual insurance premiums on monthly payment terms, for both commercial and personal customers), credit management (UK debt factoring and invoice discounting, German debt factoring business, and credit management) and mortgage broking.
- **Asset Financing** includes commercial asset finance (plant and machinery, printing machines, healthcare), consumer finance (used car and motorcycle finance, and UK armed forces credit), and equipment rental finance in Guernsey and Jersey.

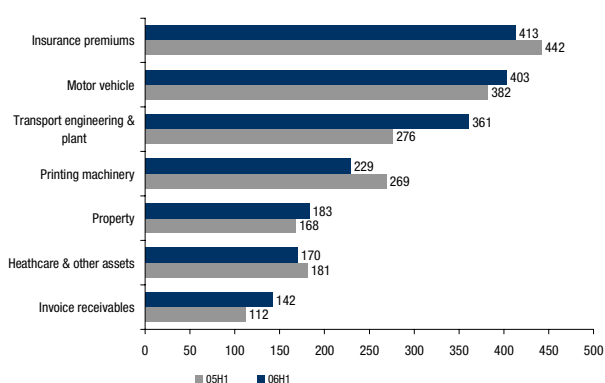
Loan growth and mix

The chart below sets out the growth in aggregate Banking loans over the past 10 years. Following strong organic loan growth in 2000-04, the cyclical downturn in commercial insurance premiums from 2004-05 offset underlying business volume growth within the premium financing unit and reduced the rate of growth. The purchase of Cattles Commercial Finance and a used car loan book from Singer & Friedlander in January 2005 brought in an additional £200m of loan assets which bolstered loan growth in the year to end-July 2005. Since then, the continued decline in insurance premium financing receivables and the run-off in the Singer & Friedlander motor finance portfolio resulted in a 5% reduction in total loan balances between end-July 2005 and end-January 2006, from £1,939m to £1,862m.

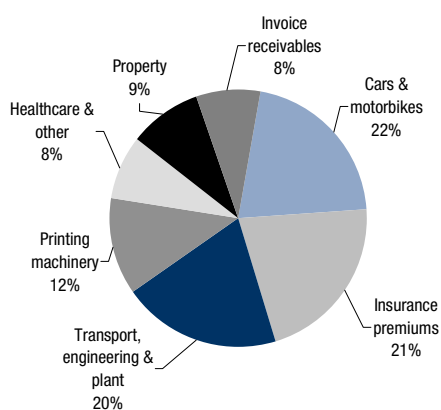
Figure 28. Period-End Loan Book Balances (£m)

Source: Company reports.

The charts below show the loan book mix at end-January 2006 and the change in average loan balances between 1H05 and 1H06.

Figure 29. Average Loans by Asset — 1H06 versus 1H05 (£m)

Source: Company reports.

Figure 30. End-January 2006 — Loan Book by Asset Class

Source: Company reports.

- At end-July last year, Close's ~£2bn loan book was made up of ~400,000 separate advances (average loan size ~£5,000, three loans over £5m, with a largest loan of £20m).

Margins and returns

Banking division margins and returns on average loans are set out in the table below (ratios for 2002-04 are based on results reported under UK GAAP; thereafter ratios relate to income and profits reported under IFRS). For Close to be able to earn such high Banking margins, it has to take risks with the quality of its loan covenant. As a result, it is very selective when it comes to collateral. Low loan to value ratios, liquid secondary markets, and good second-hand values for the underlying security are more important to the business model than the quality of the borrower's balance sheet.

Figure 31. Banking Returns on Average Loans (RoA), Leverage and Returns on Average Equity (RoE)*

Year to July (£m)	2003	2004	2005	2006E	2007E	2008E	2009E	2010E
Net interest income	7.9%	7.5%	7.2%	7.1%	7.1%	7.2%	7.4%	7.6%
Net fees & commissions	2.5%	2.8%	2.7%	2.8%	2.8%	2.7%	2.5%	2.3%
Other operating income	0.0%	0.1%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%
Total operating income	10.4%	10.3%	10.0%	10.1%	10.1%	10.0%	10.0%	10.0%
Operating expenses	-4.8%	-4.9%	-5.2%	-5.2%	-5.0%	-4.9%	-4.9%	-4.9%
Pre-provision profit	5.6%	5.5%	4.9%	4.9%	5.1%	5.1%	5.1%	5.1%
Provisions	-1.5%	-1.4%	-1.1%	-1.0%	-1.1%	-1.1%	-1.2%	-1.2%
Operating profit	4.2%	4.1%	3.8%	3.9%	4.0%	4.0%	3.9%	3.9%
Tax	-1.2%	-1.2%	-1.1%	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%
Net profit (RoA)	2.9%	2.9%	2.6%	2.7%	2.8%	2.8%	2.7%	2.7%
Average loans	1,513	1,686	1,848	1,920	1,948	2,095	2,305	2,535
Avg NAV	209	219	239	248	251	269	294	322
Leverage	7.2	7.7	7.7	7.7	7.8	7.8	7.8	7.9
RoE	21.1%	22.3%	20.4%	21.0%	21.7%	21.7%	21.6%	21.4%

Source: Company reports and Citigroup Investment Research estimates. Based on UK GAAP financial in 2002-2003, IFRS thereafter.

Funding

As at end-January 2006, Close's loan book amounted to £1,862m. This was funded with £250m of Banking division capital, £75m of subordinated loan capital, £518m of bank loans, £358m of debt securities, £200m of non-recourse borrowings and £461m of customer deposits (out of total customer deposits of £1.9bn). Although Close uses this £461m of customer deposits, primarily because it is less expensive than bank funding, it has unused bank facilities of more than this amount and could therefore fund the loan book without recourse to short-term customer deposits if necessary. With a policy of leveraging its Banking capital only 8x, the division effectively operates on an equity tier 1 ratio of ~12%. At end-July 2005 the group's consolidated risk asset ratio was 20%.

Growth outlook

We forecast 7% pa compound growth in Banking profits over 2005-2010E:

- The near-term outlook is for a further insurance premium deflation and hence a further reduction in average insurance premium finance receivables, and the continued run-off of Singer's car book, offset by continued growth from property and invoice financing.
- Looking further ahead, we see a return to ~10% loan growth — the group's long-term average — as the commercial insurance premium cycle turns (in 2007?) and as the run-off of the used car book is complete.
- In profit terms, and in the absence of additional in-fills, this translates into modest growth only during 2006E and 2007E, aided by continued growth in fees and commissions from the non-lending debt collection and mortgage broking businesses, before a pick-up in net interest income and profit growth in 2008E.

Figure 32. Banking Income — Interest and Non-Interest Income

6m to end-January (£m)	1H05	1H06	Ch £m	Ch %
Net interest	64.8	68.7	3.9	6.0%
Net fees & commissions	25.2	28.0	2.8	11.3%
	90.0	96.7	6.7	7.4%

Source: Company reports.

Securities

Our forecasts for Securities out to 2010E are set out in the table below.

Figure 33. Securities — Financial Record & Estimates

Year to July (£m)	2003	2004	2005	2006E	2007E	2008E	2009E	2010E
Dealing income	64.7	96.7	97.6	124.9	139.9	156.7	172.4	189.6
Total operating income	64.7	96.7	97.6	124.9	139.9	156.7	172.4	189.6
Operating expenses	-41.2	-58.8	-61.8	-81.2	-90.2	-100.3	-109.5	-120.4
Operating profit	23.5	37.9	35.8	43.7	49.7	56.4	62.9	69.2
Net assets	51.3	51.3	70.6	70.0	70.0	70.0	70.0	70.0
Average headcount	137	146	226					
Income/avg headcount (£'000)	472.5	662.4	431.9					
Expense ratio	-63.6%	-60.8%	-63.3%	-65.0%	-64.5%	-64.0%	-63.5%	-63.5%
Pre-tax RoAvgNAV	46.0%	73.9%	58.7%	62.2%	71.0%	80.6%	89.9%	98.9%

Source: Company reports and Citigroup Investment Research estimates.

As was made very clear in the 2006 interim results the newly re-named Securities division now includes two operating units: Winterflood Securities and Seydler AG. The contributions made to the division's profits in 1H06 are set out below.

Figure 34. Securities Division — Winterflood and Seydler Profit Contributions

6m to end-January (£m)	1H05	1H06	Ch £m	Ch %
Winterflood Securities:				
-Income	44.6	48.5	3.9	8.7%
-Profit	17.0	17.8	0.8	4.7%
-Margin	38.1%	36.7%		
Seydler AG:				
-Income	0.0	14.0	14.0	-
-Profit	0.0	4.0	4.0	-
-Margin	0.0%	28.6%		
Securities Division:				
-Income	44.6	62.5	17.9	40.1%
-Profit	17.0	21.8	4.8	28.2%
-Margin	38.1%	34.9%		

Source: Company reports.

Winterflood Securities

Formed in 1988 and owned by Close since 1993, Winterflood (WINS) is a market-maker in more than 5,000 different securities including some 2,600 UK equities (from AIM to FTSE100 plus about 500 investment trusts), UK gilts, preference shares and corporate bonds, and selected continental European and North American equities. The company's main business is that of a retail service provider (RSP) to its core client base, the private client stockbrokers.

- WINS is ranked No1 by the LSE in the Principal to Agent sector by volume and value in UK equities, making the business one of the largest dedicated liquidity pools in London.
- Up to 85% of the company's business, by volume, is traded electronically via its execution platform Winner.

SETSmm

There has been considerable speculation that the extension of the LSE's SETS automated execution platform to cover mid and small-cap stocks (SETSmm) would ultimately replace WINS as the major provider of liquidity to the retail market. The 2006 interim results, the first full trading period since SETSmm was extended from 200 stocks to the current 652, demonstrated the following:

- With 1H06 profits 5% ahead of 1H05, there is clearly more to WINS than trading in UK smaller-cap equities;
- There remains a role for market makers in the less liquid stocks where order book trading is less effective;
- If anything, the extension of SETSmm has increased trading activity in the smaller-cap end of the London market; and
- SETSmm has reduced spreads and hence margins for market makers.

In other words, SETSmm has negatively impacted WINS' business, albeit only moderately so far. In response, WINS and Close have been quick to diversify away from this exposure: (i) by backing 'the PLUS service', an alternative equity trading service, and (ii) through the acquisition of Seydler, a securities trading and market-making business in Germany.

PLUS Markets and the PLUS service

On 17 October 2005, PLUS Markets Group announced details of its new equity trading service for both listed and unlisted securities, a service developed in response to demand from leading financial institutions and brokers looking for an alternative to trading on the LSE. Many of those requiring this alternative service were the private client stockbroker members of APCIMS — WINS' clients.

The service was opened on 5 December, initially covering just 50 stocks and supported by the five main small-cap market makers (including WINS). The system was extended to cover the whole of the FTSE Small Cap index on 12 December. Within the first three months of trading, PLUS has attracted a 10% share of the volume of trades in the 600 stocks it covers.

Figure 35. SETSmm Stocks

London Stock Exchange	Winterflood stocks	Plus Markets - PLUS	Winterflood stocks
SETS	174	Ofex	158
SETSmm	565	LSE	633
Other	448	AIM	0
AIM (incl 79 SETSmm)	1468		
Total	2655		791

Source: Company reports.

Close Brothers has a 19% equity stake in Plus Markets Group (PMK LN).

Seydler

In March 2005, Close announced the acquisition of an 89% stake in Seydler AG, a specialist broker/dealer and market maker based in Frankfurt, for an initial €23.5m with a further consideration of up to €4-6m.

Seydler is one of the leading securities trading firms present on the floor of the Frankfurt stock exchange, the largest of the seven floor exchanges operating in Germany. The company's strengths are in managing the floor trading order books of foreign equities and bonds and domestic bonds in Frankfurt, where it ranks within the top two by value. It is also the leading market maker in the trading of US equities on Xetra.

- In response to Deutsche Börse's efforts to enhance liquidity in the shares of smaller companies traded on Xetra, Seydler has been active in seeking to become the official designated sponsor to such companies.
- This fee-earning role includes a requirement to promote liquidity in the client's shares with the potential to increase Seydler's trading volumes and participate in share placements on behalf of both client companies and institutional investors. Seydler is currently mandated by ~100 German companies to act as their designated sponsor, providing it with the longest list of such quoted corporate clients in the German market.

In the six months to January 2006, Seydler achieved revenues of £14.0m and profits of £4.0m, 22% and 18% of the Securities division's first-half revenues and profits respectively.

Annualised, this first-half performance represents a return on Close's investment in Seydler of more than 25%.

Growth outlook

We forecast 14% pa compound growth in Securities profits over 2005-2010E:

- The near-term outlook for both Winterflood and Seydler will be dependent on the outlook for stock market volumes.
- Longer term, both should benefit from increasing retail dealing activity — a result of demographics and technology (the internet).
- The stake in PLUS Markets and the group's involvement in the PLUS service gives Close strategic options should the adverse SETSmm impact increase significantly.
- Longer term, Seydler also presents Close with a strategic platform for the development of the retail share trading market in Germany.

Corporate Finance

Our forecasts for Corporate Finance out to 2010E are set out in the table below.

Figure 36. Corporate Finance — Financial Record & Estimates

Year to July (£m)	2003	2004	2005	2006E	2007E	2008E	2009E	2010E
Net fees & commissions	33.3	35.9	42.3	50.8	54.8	58.8	62.8	66.8
Total operating income	33.3	35.9	42.3	50.8	54.8	58.8	62.8	66.8
Operating expenses	-28.0	-26.0	-32.2	-36.5	-41.1	-44.1	-47.1	-50.1
Operating profit	5.3	9.8	10.1	14.2	13.7	14.7	15.7	16.7
Net assets	11.5	11.0	10.3	11.0	11.0	11.0	11.0	11.0
Average headcount	132	135	145					
Income/avg headcount (£'000)	252.6	265.6	291.7					
Expense ratio	-84.0%	-72.6%	-76.1%	-72.0%	-75.0%	-75.0%	-75.0%	-75.0%
Pre-tax RoAvgNAV	47.3%	87.2%	94.8%	133.4%	124.2%	133.3%	142.4%	151.4%

Source: Company reports and Citigroup Investment Research estimates.

The Corporate Finance division can be sub-divided into three sub-groups: M&A, Debt Advisory and Corporate Restructuring. Each sub-group has representatives in the UK (London) and in continental Europe (Frankfurt, Paris, Madrid and Milan).

The division's domestic activities are carried out through the wholly owned subsidiary Close Brothers Corporate Finance Ltd. The international activities are performed through Close's 50% owned associates Close Brothers GFmbH in Germany and Close Brothers SA in France, and through a 20% interest in Atlas Capital Close Brothers in Spain and a 10% interest in Eidos Partners in Italy. In addition Close has strategic alliances with Chanin Capital Partners (corporate restructuring) and Harris Williams (M&A) in the US.

In its 1H06 results, Close reported the profit contribution for the three sub-groups for the first time.

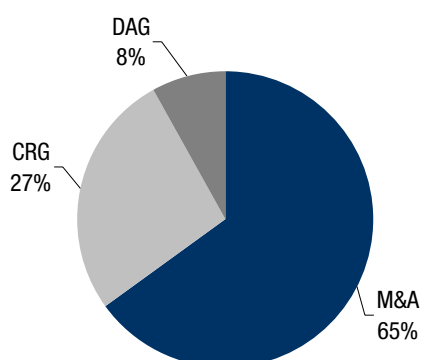
Figure 37. Corporate Finance Division — Profit by Sub-Segment

6m to end-January (£m)	1H05	1H06	Ch £m	Ch %
Mergers & Acquisitions	13.5	21.7	8.2	61%
Corporate Restructuring Group	5.6	6.0	0.4	8%
Debt Advisory Group	1.7	2.4	0.8	45%
	20.7	30.1	9.4	45%

Source: Company reports.

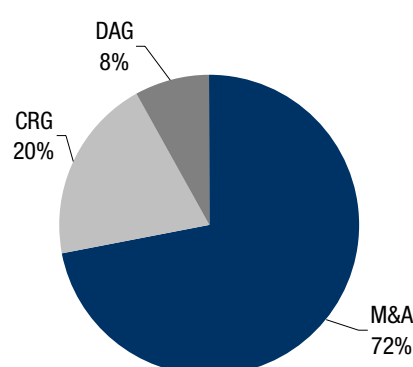
The charts below highlight the strength of the M&A contribution in 1H06.

Figure 38. Corporate Finance Profit by Sub-Group —1H05



Source: Company reports.

Figure 39. Corporate Finance Profit by Sub-Group —1H06



Source: Company reports.

Growth outlook

We forecast 11% pa compound growth in Corporate Finance profits 2005-2010E:

- Management reported at the 2006 interims that although the near-term pipeline was good, it was lower than at the beginning of the first half. Thus the current outlook is for a lower profit contribution from Corporate Finance in the second half.
- Longer term, the prospects are good. With many of the larger investment banks retreating from the UK middle market, Close's market share in this segment looks set to increase.

Financials

Forecast summary

The table below summarises our forecasts for Close's earnings and key balance sheet items out to 2010E. Historical figures for 2003-2004 are consistent with UK GAAP; for 2005-2010E, these estimates are prepared under IFRS.

Figure 40. Forecast Summary

Year to July (£m)	2003	2004	2005	2006E	2007E	2008E	2009E	2010E
Income & Expenses:								
Net interest income	126.5	133.6	142.5	147.9	150.0	162.1	182.5	204.9
Net fees & commissions	127.0	160.4	191.7	214.6	243.4	279.3	321.3	370.8
Net dealing income	66.7	100.0	96.3	128.9	143.9	160.7	176.4	193.6
Other income	3.1	7.2	17.0	11.0	11.0	11.0	11.0	11.0
Operating income	323.3	401.2	447.5	502.4	548.3	613.1	691.2	780.4
Administrative expenses	-207.5	-248.6	-285.8	-319.7	-346.7	-385.5	-432.0	-485.6
Depreciation	-8.5	-10.8	-12.1	-12.8	-13.4	-14.1	-14.8	-15.5
Bad debt provisions	-22.0	-22.8	-20.0	-19.7	-21.4	-23.5	-27.0	-31.0
Operating expenses	-237.9	-282.2	-318.0	-352.2	-381.5	-423.1	-473.8	-532.1
Pre-exceptional PBT	85.4	118.9	129.5	150.3	166.8	190.0	217.4	248.3
Goodwill amortisation	-7.5	-17.6	-17.7	0.0	0.0	0.0	0.0	0.0
Profit before tax	77.9	101.3	111.8	150.3	166.8	190.0	217.4	248.3
Taxation	-25.3	-33.9	-37.2	-43.6	-48.4	-55.1	-63.0	-72.0
Post-tax profit	52.6	67.4	74.6	106.7	118.5	134.9	154.3	176.3
Minorities	-1.5	-2.2	-2.2	-3.3	-3.8	-4.4	-5.0	-5.8
Attributable profit	51.1	65.2	72.4	103.4	114.6	130.5	149.3	170.5
Dividends	-37.3	-38.5	-40.9	-43.1	-46.4	-52.0	-56.7	-62.6
Retained profit	13.8	26.7	31.5	60.3	68.3	78.5	92.6	107.8
Balance sheets:								
Customer loans	1,615.6	1,757.1	1,939.2	1,900.4	1,995.4	2,195.0	2,414.5	2,655.9
Total assets	3,573.4	3,880.4	4,753.9	4,715.1	4,810.1	5,009.7	5,229.2	5,470.6
Equity	481.8	509.3	578.5	638.8	707.1	785.6	878.3	986.1
Ratios:								
Net interest margin	8.36%	7.92%	7.71%	7.70%	7.70%	7.74%	7.92%	8.08%
Bad debts % loans	1.45%	1.35%	1.08%	1.03%	1.10%	1.12%	1.17%	1.22%
Cost income ratio	66.8%	64.7%	66.6%	66.2%	65.7%	65.2%	64.6%	64.2%
ROE	12.3%	16.7%	16.6%	17.0%	17.0%	17.5%	17.9%	18.3%
ROA	1.54%	1.75%	1.68%	2.18%	2.41%	2.66%	2.92%	3.19%
Equity:loans	29.8%	29.0%	29.8%	33.6%	35.4%	35.8%	36.4%	37.1%
Tax rate	29.7%	28.5%	28.7%	29.0%	29.0%	29.0%	29.0%	29.0%
Per Share Data:								
Avg shares	143.3	145.0	145.5	146.2	147.0	147.7	148.4	149.2
Period-end shares	144.0	144.3	145.5	147.0	147.7	148.4	149.2	149.9
Headline EPS (p)	40.8	57.1	61.9	70.7	78.0	88.4	100.6	114.3
Net dividend (p)	26.0	27.0	28.5	31.5	34.7	38.1	41.9	46.1
Cover (x)	1.6	2.1	2.2	2.2	2.3	2.3	2.4	2.5
NAV (p)	334.6	353.0	397.6	434.7	478.8	529.3	588.8	657.8
Divisions:								
Asset Management	8.1	17.4	31.8	37.8	46.2	57.3	71.0	87.8
Corporate Finance	5.3	9.8	10.1	14.2	13.7	14.7	15.7	16.7
Banking	62.9	69.7	71.1	74.3	78.0	83.3	90.5	98.3
Securities	23.5	37.9	35.7	43.7	49.7	56.4	62.9	69.2
Operating profit	99.8	134.8	148.7	170.0	187.6	211.7	240.1	272.0
Central costs	-14.4	-15.9	-16.9	-19.8	-20.7	-21.7	-22.7	-23.7
Profit before tax	85.4	118.9	131.7	150.3	166.8	190.0	217.4	248.3

Source: Company reports and Citigroup Investment Research estimates. *2003-2004 UK GAAP, IFRS thereafter.

Divisional summary

We set out a divisional analysis of group income and expenses below (we estimate the breakdown of Asset Management income):

Figure 41. Estimated Divisional Income Breakdown*

Year to July (£m)	2003	2004	2005	2006E	2007E	2008E	2009E	2010E
BANKING								
Net interest income	119.4	126.3	132.2	136.9	138.7	150.3	170.2	192.1
Net fees & commissions	38.2	47.1	49.9	54.0	55.1	56.2	57.3	58.5
Other operating income	0.0	1.1	3.1	3.0	3.0	3.0	3.0	3.0
Total operating income	157.6	174.4	185.3	193.9	196.7	209.5	230.5	253.5
Operating expenses	-72.7	-82.0	-95.6	-99.9	-97.4	-102.7	-112.9	-124.2
Pre-provision profit	84.9	92.4	89.7	94.0	99.4	106.9	117.5	129.3
Provisions	-22.0	-22.8	-20.0	-19.7	-21.4	-23.5	-27.0	-31.0
Operating profit	62.9	69.7	69.7	74.3	78.0	83.3	90.5	98.3
SECURITIES								
Dealing income	64.7	96.7	97.6	124.9	139.9	156.7	172.4	189.6
Total operating income	64.7	96.7	97.6	124.9	139.9	156.7	172.4	189.6
Operating expenses	-41.2	-58.8	-61.8	-81.2	-90.2	-100.3	-109.5	-120.4
Operating profit	23.5	37.9	35.8	43.7	49.7	56.4	62.9	69.2
ASSET MANAGEMENT								
Net interest income	5.0	6.0	7.0	8.5	8.5	8.5	8.5	8.5
Net fees & commissions	55.5	77.4	99.4	109.9	133.5	164.3	201.3	245.6
Dealing income	2.0	3.3	-1.3	4.0	4.0	4.0	4.0	4.0
Other operating income	3.1	6.2	13.9	8.0	8.0	8.0	8.0	8.0
Total operating income	65.6	92.9	119.0	130.4	154.0	184.8	221.8	266.1
Operating expenses	-57.5	-75.5	-87.4	-92.6	-107.8	-127.5	-150.8	-178.3
Operating profit	8.1	17.4	31.6	37.8	46.2	57.3	71.0	87.8
CORPORATE FINANCE								
Net fees & commissions	33.3	35.9	42.3	50.8	54.8	58.8	62.8	66.8
Total operating income	33.3	35.9	42.3	50.8	54.8	58.8	62.8	66.8
Operating expenses	-28.0	-26.0	-32.2	-36.5	-41.1	-44.1	-47.1	-50.1
Operating profit	5.3	9.8	10.1	14.2	13.7	14.7	15.7	16.7
CENTRAL								
Total operating income	2.1	1.3	3.3	2.5	2.9	3.3	3.8	4.4
Operating expenses	-16.8	-17.2	-21.0	-22.3	-23.6	-25.0	-26.5	-28.1
Operating profit	-14.6	-15.9	-17.7	-19.8	-20.7	-21.7	-22.7	-23.7
GROUP								
Net interest income	126.5	133.6	142.5	147.9	150.0	162.1	182.5	204.9
Net fees & commissions	127.0	160.4	191.7	214.6	243.4	279.3	321.3	370.8
Dealing income	66.7	100.0	96.3	128.9	143.9	160.7	176.4	193.6
Other operating income	3.1	7.2	17.0	11.0	11.0	11.0	11.0	11.0
Total operating income	323.3	401.2	447.5	502.4	548.3	613.1	691.2	780.4
Operating expenses	-216.1	-259.5	-298.0	-332.4	-360.1	-399.6	-446.8	-501.1
Pre-provision profit	107.2	141.7	149.5	170.0	188.2	213.5	244.4	279.3
Provisions	-22.0	-22.8	-20.0	-19.7	-21.4	-23.5	-27.0	-31.0
Operating profit	85.3	118.9	129.5	150.3	166.8	190.0	217.4	248.3

Source: Company reports and Citigroup Investment Research estimates. *2003-2004 UK GAAP, IFRS thereafter.

Appendix 1 — Company Snapshot

- Close's business model is focused on high-margin, high-growth activities where it can become a dominant player and where it can avoid competition with mainstream financial businesses
- In the half-year to January 2006, Banking profits accounted for 43% of the mix, Investment Banking 57%

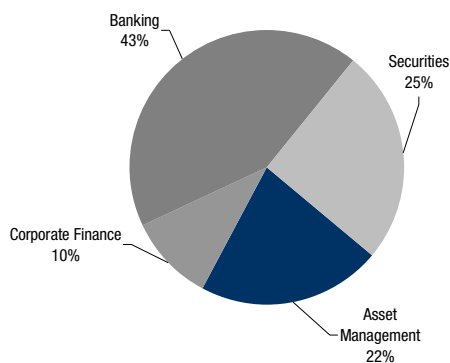
Business activities

Close is a diversified Banking and Investment Banking business operating in a number of high-margin niches.

The banking division maintains a diversified spread of loan assets on its balance sheet, and focuses on specialist corporate lending and consumer finance.

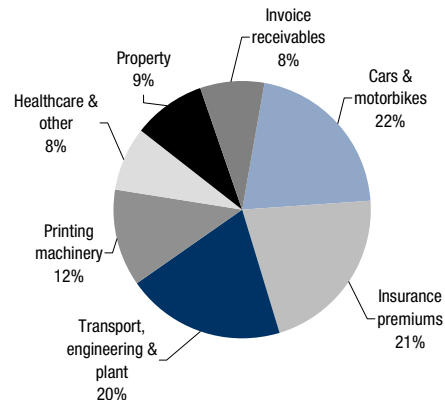
- Around 80% of the loan book is fixed rate, about three-quarters of which is hedged using interest rate swaps.
- The majority of the loans are to SMEs, the main exception being the used-car business (Close Motor Finance), which accounted for 22% of the book at end-January 2005.

Figure 42. Half-Year to Jan 2006 — Operating Profit* by Division



Source: Company reports. *Before central costs.

Figure 43. End-Jan 2006 — Loan Book by Asset Segment



Source: Company reports.

- In the half-year to January 2005, Banking accounted for 43% of pre-central cost profit mix, with Investment Banking businesses accounting for 57%.
- Of the Investment Banking activities, Securities was the largest, contributing 25% of pre-central cost profit, followed by Asset Management with 22% and Corporate Finance with 10%.

A more detailed analysis of Close's divisional structure and its underlying operating companies (and their ownership) is set out in Appendix 2.

Financial snapshot

Figure 44. Company Snapshot — 2005 Key Financials by Segment**

Year to July 2005 (£m)	Securities	Asset Management	Corporate Finance	Investment Banking	Banking	Pre-central Total	Central	Group
Net interest income		7.0			132.2	132.2	3.3	135.5
Net fees & commissions		99.4	42.3	141.7	49.9	191.7		191.7
Dealing income	97.6	-1.3		96.3		96.3		96.3
Other operating income		13.9		13.9	3.1	17.0		17.0
Total operating income	97.6	119.0	42.3	258.9	185.3	444.2	3.3	447.5
Operating expenses	-61.8	-87.4	-32.2	-181.4	-95.6	-277.0	-21.0	-298.0
Pre-provision profit	35.8	31.6	10.1	77.5	89.7	167.2	-17.7	149.5
Provisions					-20.0	-20.0		-20.0
Operating profit	35.8	31.6	10.1	77.5	69.7	147.2	-17.7	129.5
Opening AUM or loan assets		5,500			1,757			
Investment return		600						
Net new assets		400			-19			
Acquisitions		600			201			
Closing AUM or loan assets		7,100			1,939			
Average Assets		6,300			1,848			
Income/avg assets		1.89%			10.0%			
Provisions/avg assets					1.1%			
Provisions/pre-prov profit					22%			
Expense ratio	63%	73%	76%	70%	52%	62%		67%
Opening NAV	51.3	136.3	11.0	198.6	228.5	427.1	82.2	509.3
Closing Nav	70.6	130.3	10.3	211.2	250.1	461.3	79.0	540.3
Pretax return on avg NAV	59%	24%	95%	38%	29%	33%	-22%	25%

Source: Company reports. *Opening and closing Central NAV includes £24m of goodwill relating to Market Making. **Divisional earnings as restated under IFRS.

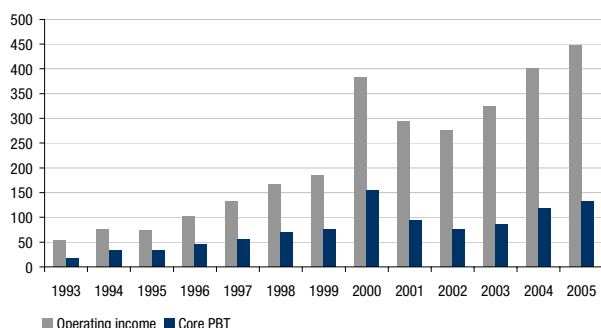
Long-term record

Figure 45. Long-Term Record*

Year to July	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	GAGR
Operating income (£m)	53.0	76.8	73.8	102.0	133.1	165.9	185.2	382.6	292.7	276.3	323.3	401.2	448.0	19%
Core PBT (£m)	17.7	32.9	33.3	44.5	54.8	69.2	75.9	154.6	94.2	75.1	85.4	118.9	131.7	18%
Core EPS (p)	13.4	21.7	22.2	24.3	29.3	38.2	42.1	78.8	47.5	37.2	40.8	57.1	63.1	14%
DPS (p)	5.4	7.4	8.5	10.0	12.0	14.4	16.0	25.0	26.0	26.0	26.0	27.0	28.5	15%

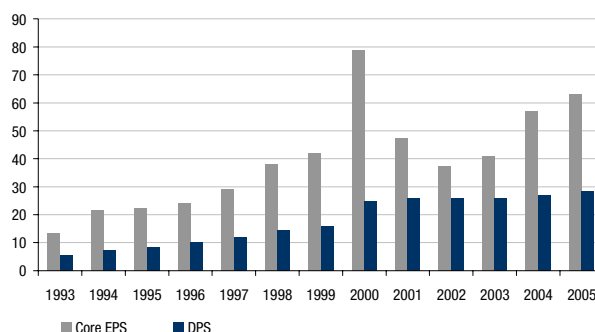
Source: Company reports. *UK GAAP.

Figure 46. Operating Income & PBT Growth* (£m)



Source: Company reports. *UK GAAP.

Figure 47. EPS* and DPS Growth (Pence)



Source: Company reports. *UK GAAP.

Appendix 2 — Organisation Structure

Figure 48. Organisation Structure & Group Companies

Close Brothers Group

Investment Banking			Banking
Asset Management	Corporate Finance	Securities	
Holding Company: -Close Asset Management Holdings Limited Funds - Onshore: -Close Brothers Growth Capital Limited (88%) -Close Brothers Investment Limited (98%) -Close Brothers Private Equity LLP -Close Enterprise Management -Close Finsbury Asset Management Limited -Close Fund Management Limited (90%) -Close Investment Limited (97%) -Close Property Management -Close TEAMS Limited -Close Venture Management Limited (98%) -OLIM Limited (93%) -Reabourne Technology Investment Management Funds - Offshore -Close Brothers (Cayman) Limited (85%) -Close Bank (Cayman) Limited (85%) -Close Trustees (Cayman) Limited (85%) -Close Asset Management (Cayman) Limited (85%) -Close Fund Services Limited (Guernsey) Private Clients: -Close Private Asset Management Limited -Close Wealth Management Limited -Close Trustees (Switzerland) S.A. (70%) -Close Private Bank (Guernsey) -Close Private Bank (Isle of Man)	Advisory Services: -Close Brothers Corporate Finance Limited -Close Brothers GmbH (50%) -Close Brothers S.A. (50%) -Atlas CapitalClose Brothers S.L. (20%) -Eidos Partners (10%)	Holding Company -Winterflood Securities Limited -Close Brothers Seydler AG (89%) -PLUS Markets Plc (19%) -Winterflood Investment Trust	Funding/Treasury: -Close Brothers Limited -Close Brothers Treasury Services -Close Property Finance -Close Premium Finance -Close Brothers Insurance Services Commercial Asset Finance: -Close Asset Finance -Braemar Finance Limited (91%) -Commercial Finance Credit Limited -Kingston Asset Finance Limited -Surrey Asset Finance Limited Commercial & Consumer Asset Finance: -Air & General Finance -Close Finance (CI) Limited (91%) -Close Marine Finance Consumer Asset Finance: -Close Motor Finance Limited -Close Brothers Military Services Limited (80%) -Armed Services Finance Limited (80%) Credit Finance & Management: -Close Invoice Finance Limited -Close Finance GmbH (87%) -Close Credit Management Limited (99%) Mortgage Broking: -Mortgage Intelligence Limited (95%)

Source: Company reports. Subsidiaries are 100% owned unless indicated otherwise.

Notes

Notes

Notes

ANALYST CERTIFICATION

Appendix A-1

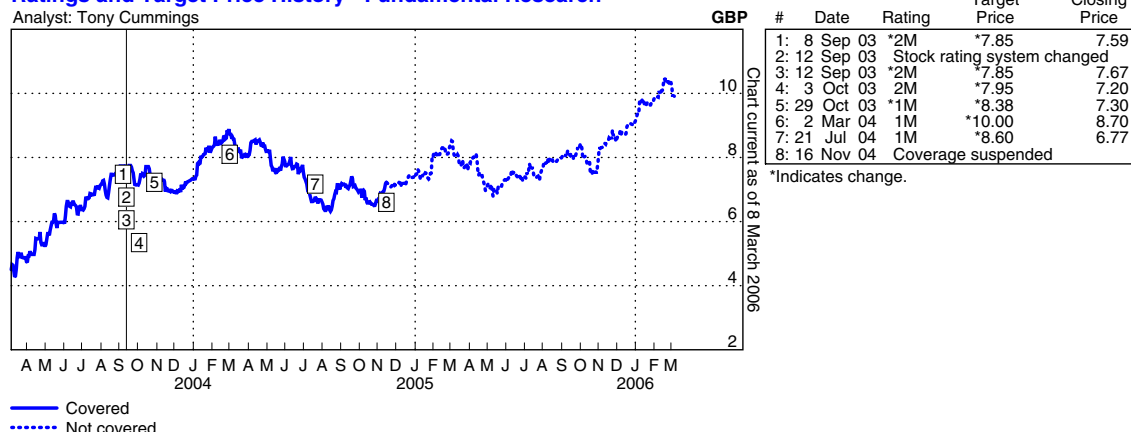
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Ratings and Target Price History - Fundamental Research

Analyst: Tony Cummings



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