Close Brothers
Annual Report 2009

Close Brothers is a diversified group of specialist financial services businesses with a long and successful track record.

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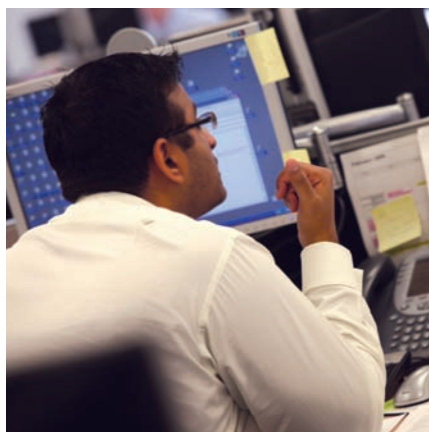
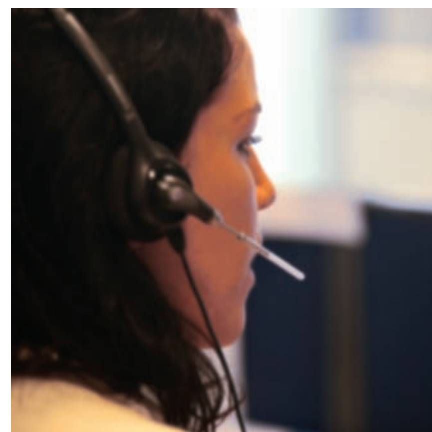




Overview

Group Results

for the year ended 31 July 2009

Financial Highlights

£113.7m
Adjusted* operating profit from continuing operations
(2008: £127.5m)

60.5p
Adjusted* earnings per share from continuing operations
(2008: 63.7p)

39.0p
Ordinary dividend per share
(2008: 39.0p)

£88.3m
Operating profit before tax from continuing operations
(2008: £118.4m)

43.6p
Basic earnings per share from continuing operations
(2008: 58.3p)

£697.7m
Total equity
(2008: £720.4m)

*Stated before exceptional items, goodwill impairment and amortisation of intangible fixed assets on acquisition.

Adjusted operating profit from continuing operations
£ million

Year	£ million
09	113.7
08	127.5
07*	172.8
06*	157.3
05*	129.5

*Continuing and discontinued operations.

Adjusted basic earnings per share from continuing operations
pence

Year	pence
09	60.5
08	63.7
07*	82.8
06*	74.1
05*	62.0

*Continuing and discontinued operations.

Ordinary dividend per share
pence

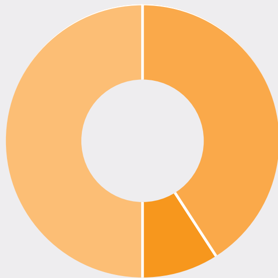
Year	pence
09	39.0
08	39.0
07	37.0
06	32.5
05	28.5

Overview

Our Business

Close Brothers has three operating divisions: Banking, Asset Management and Securities. We derive our revenue from a mix of fees, dealing profits and interest margin. We employ over 2,400 people, principally across the UK and Channel Islands and also in Continental Europe, Cayman Islands and South Africa.

Divisional adjusted operating profit 31 July 2009



- **41%** Banking
- **9%** Asset Management
- **50%** Securities

Adjusted operating income from continuing operations

£502.1m

Adjusted operating profit from continuing operations

£113.7m

Total equity

£697.7m

Loan book

£2.4bn

Funds under Management

£6.8bn

Total assets

£6.0bn

Banking

Adjusted operating profit was £54.0 million, contributing 41% to group profit in 2009. The loan book increased 6% to £2.4 billion. The division employs over 1,300 people.

The Banking division comprises a number of specialist businesses focused on secured lending to SMEs, professionals and consumers across a wide range of asset classes, mainly in the UK.

Asset Management

Adjusted operating profit was £12.0 million, contributing 9% to group profit in 2009. Closing Funds under Management were £6.8 billion. The division employs over 750 people.

The Asset Management division focuses on managing, protecting and enhancing the wealth of private and corporate clients through a broad range of capabilities in investment and wealth management, trust and fund administration and banking.

Securities

Adjusted operating profit for the division was £64.9 million, representing half of the group profit in 2009. The division employs over 250 people.

The Securities division has two principal trading companies, Winterflood and Close Brothers Seydler, and a strategic investment in Mako. Winterflood is a leading market-maker in UK equities. Close Brothers Seydler is a Frankfurt based broker dealer and order book specialist. Mako is a leading market-maker in exchange traded derivatives.

Overview
Chairman's and Chief Executive's Statement

Strone Macpherson
Chairman

Close Brothers Group has achieved a solid overall performance for the year. This is despite some of the most challenging financial and economic market conditions in its history, and is thanks to the strength of its businesses, the experience of its people and the resilience of its business model. It remains soundly funded and well capitalised, and has successfully avoided the worst effects of the financial crisis.

Close Brothers has also made considerable internal progress in the past year. There has been significant change in the senior management team, including the appointment of Preben Prebensen as group chief executive. The group has been strengthening the capabilities at its centre, including making a number of new senior hires. Following the sale of the Corporate Finance division, the group is concentrating on developing those areas where it has the strongest capabilities and potential for growth.

Results and Dividend
Adjusted operating profit from continuing operations, which excludes the trading result and gain on disposal of the Corporate Finance division, was £113.7 million (2008: £127.5 million), an 11% reduction year on year. Adjusted earnings per share from continuing operations reduced 5% to 60.5p (2008: 63.7p) and basic earnings per share from continuing operations reduced 25% to 43.6p (2008: 58.3p).

Basic earnings per share from continuing and discontinued operations, which includes the trading result and gain on disposal of the Corporate Finance division, was 50.5p (2008: 61.5p).

Basic earnings per share from continuing operations includes the impact of exceptional expenses of £6.0 million (2008: £9.1 million) relating to restructuring costs, primarily in the Asset Management division. In aggregate, restructuring measures across the group undertaken in 2008 and 2009 have resulted in cost savings of around £11 million in 2009, out of a total run-rate of around £13 million expected to be achieved by the end of 2010. In 2008 exceptional expenses included £4.1 million of restructuring costs and £5.0 million related to advisers' fees in respect of an offer for the group.

At the half year, the group also recorded a £19.0 million (2008: £nil) goodwill impairment charge related to a number of past acquisitions in the Asset Management division.

The group retains a sound funding position and a strong capital base. During the year the group has diversified its sources of funding in order to increase the resilience and flexibility of its funding model, and has raised over £1 billion of term retail deposits via its Premium Gold offerings. At the year end the group had a core tier 1 ratio of 14.8% (31 July 2008: 14.4%) and total capital ratio of 16.6% (31 July 2008: 16.1%). These ratios are a source of strength in the current environment and give the group good flexibility.

The board is recommending a maintained final dividend of 25.5p (2008: 25.5p) per share in cash, resulting in a total dividend for the year of 39.0p (2008: 39.0p) per share. This reflects the group's solid performance in the 2009 financial year and strong capital position. The final dividend will be paid on 19 November 2009 to shareholders on the register as at 9 October 2009.

Preben Prebensen
Chief Executive

Divisional Performance

The Banking division has had a resilient performance and overall adjusted operating profit was £54.0 million (2008: £74.5 million). The loan book increased 6% to £2.4 billion, including the acquisition of an £80 million premium finance loan book in August 2008. The division is seeing continued good demand, notably in asset, motor and property finance, and maintained a strong net interest margin of 9.4% (2008: 8.6%). As a result, adjusted operating income increased 14% to £235.5 million (2008: £207.1 million) although the division's profit was impacted by an increase in the bad debt ratio to 2.6% (2008: 1.3%) reflecting the impact of the recession on our borrowers.

The group retains a sound funding position and a strong capital base.

Overview
Chairman's and Chief Executive's Statement continued

The Banking division continues to apply prudent and consistent criteria to its lending decisions, and to focus on managing credit quality through the cycle. Going forward, the division will be operating under a new structure in order to more effectively evaluate new growth opportunities and has been reorganised into four business units: Retail, which includes the premium finance and motor finance businesses; Commercial, which incorporates the asset finance operations as well as invoice finance; Property; and Treasury. Within each of these units the division will be exploring potential opportunities for growth, within and outside existing business lines whilst retaining its niche, high margin, expertise based lending model.

In the Asset Management division, adjusted operating profit reduced 63% to £12.0 million (2008: £32.6 million), reflecting difficult financial market conditions. Closing Funds under Management ("FuM") reduced 17% to £6.8 billion (31 July 2008: £8.2 billion) as a result of the deconsolidation of the group's three private equity businesses and negative market movements, while net new funds were broadly neutral. The Private Clients business has been resilient and achieved positive net new funds of £161 million and stable FuM overall.

The Asset Management division continues to focus on the three core areas of Private Clients, Funds, and Banking and Administration, and is continuing the process of strategy development and investment to identify and realise growth opportunities. The Private Clients business is looking to leverage its existing offering to the mid-high net worth market, and is exploring the expansion of its discretionary offering through Independent Financial Advisers as well as direct distribution. In Funds, the division is focusing on positioning its specialist businesses to take advantage of any upturn in the cycle. It will also continue to develop the offshore Banking and Administration business, which provides resilience and diversification.

The Securities division has had an excellent year and the division's adjusted operating profit increased 68% to £64.9 million (2008: £38.7 million). In a turbulent market environment, Winterflood has strengthened its position as the leading market-maker to the retail stockbroking industry in the UK. Winterflood has benefited from volatility in the markets and increased bargains per day to over 42,000 (2008: 27,000). This resulted in a doubling of adjusted operating profit to £47.3 million (2008: £23.5 million).

Winterflood's trading performance has been consistently profitable throughout the period, with only seven (2008: 14) loss days out of a total 253 (2008: 254) trading days despite the financial market turbulence.

Winterflood has continued to increase the trading functionality offered to its clients and now offers smart order routing capability across the major pan European exchanges and the Multilateral Trading Facilities such as Chi-X, Turquoise and BATS Europe, in addition to its own pool of internal liquidity. Going forward, Winterflood will continue to build on its existing franchise and leverage its in-house technology whilst retaining a strong focus on its core retail market.

The group's associate Mako also made a significant contribution, due to a very good performance in the first half, although Close Brothers Seydler's ("CBS") performance has been muted reflecting difficult conditions in the German market.

In early July 2009 Close Brothers completed the disposal of its Corporate Finance division to Daiwa Securities SMBC Europe for a net consideration of £67 million.

Going forward, the group will continue to focus its activities around its three core divisions of Banking, Asset Management and Securities, which are well positioned and have strong prospects. The group will be actively evaluating the scope for growth opportunities in each of these areas and has been strengthening the functional capabilities at the centre in order to work more closely with each business on strategy development and implementation.

Going forward, the group will continue to focus its activities around its three core divisions of Banking, Asset Management and Securities.

The group has recently made a number of senior hires including Tazim Essani, group head of corporate development, Elizabeth Lee, general counsel, and Rebekah Etherington, group head of human resources, all of whom will be joining the Executive Committee. As part of strengthening the group's capabilities the board is also planning to introduce new incentive arrangements. These are described in further detail in the Report of the Board on Directors' Remuneration.

Board Changes

Preben Prebensen was appointed chief executive of Close Brothers Group with effect from 1 April 2009. Preben was previously group chief investment officer and a member of the group executive committee at Catlin Group plc. Prior to that he was chief executive of Wellington Underwriting plc and held a number of senior management positions at JPMorgan.

Colin Keogh stepped down as chief executive in April 2009 after 23 years with the group and six as chief executive. The board recognises Colin's significant contribution throughout his time with the group.

Ray Greenshields was appointed to the board as an independent non-executive director with effect from 13 November 2008. Ray has been appointed to the Audit, Nomination and Governance and Remuneration Committees.

Peter Buckley, a member of the board for twelve years who retired on 31 December 2007 but remained an alternate director, sadly passed away in December 2008.

Outlook

We continue to plan for a challenging economic and financial market environment in the current financial year.

In the Banking division, we continue to see good demand for our specialist lending services, but we expect bad debts to continue to run at a high level given the current economic environment.

In Asset Management, the outlook for fund flows remains uncertain but we continue to invest in new business initiatives and structuring the business for long term growth.

In Securities, Winterflood has had a strong start to the financial year with good volumes in August and September, but the division's performance will remain sensitive to market conditions.

Overall, market conditions remain uncertain but we are confident that our strong businesses will allow us to continue to deliver a resilient performance.

Overview
The Board of Directors

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1. Preben Prebensen
Chief Executive
Joined Close Brothers as chief executive in April 2009 having spent his career in a number of senior positions at JP Morgan over 23 years, as well as being chief executive of Wellington Underwriting plc between 2004 to 2006, and then chief investment officer and a member of the group executive committee at Catlin Group plc.
Age 52.

2. Jonathan Howell
Finance Director
Joined Close Brothers as finance director in February 2008 having previously held the same role at the London Stock Exchange Group plc since 1999. Prior to that he was at Price Waterhouse.
Age 47.

3. Stephen Hodges
Managing Director and Banking Chief Executive
Joined the Banking division of Close Brothers as a director in 1985, following eight years at Hambros. He was appointed a director of the company in August 1995 with responsibility for the Banking division. He was appointed managing director in November 2002.
Age 55.

4. Strone Macpherson
Chairman
Appointed a director in March 2003, senior independent director in September 2004, deputy chairman in November 2006 and chairman in June 2008. He is chairman of the Nomination and Governance Committee. He is chairman of British Empire Securities and General Trust plc, Tribal Group plc and JP Morgan Smaller Companies Investment Trust plc and a non-executive director of Kleinwort Benson Private Bank Limited. Formerly a director of Flemings, executive deputy chairman of Misys and non-executive director of AXA UK plc.
Age 61.

5. Bruce Carnegie-Brown
Senior Independent Director
Appointed a director in June 2006, senior independent director in June 2008 and is chairman of the Remuneration Committee. Until June 2009, he was the managing partner of 3i Group's Quoted Private Equity division. Previously with JP Morgan where he became head of debt capital markets in Europe and Asia, and after that Marsh Limited for three years as its chief executive.
Age 49.

6. Ray Greenshields
Non-executive Director
Appointed a director in November 2008. He is a non-executive director of Standard Life Assurance Limited and chairman of Bestinvest Group. Previously he was Managing Director of Barclays Wealth Management, CEO of Zurich Financial Services UK and International Life, and Managing Director of AMP Financial Services.
Age 62.

7. Douglas Paterson
Non-executive Director
Appointed a director in July 2004 and is chairman of the Audit Committee. Within the Goldman Sachs Group he is a director of Goldman Sachs International Bank and of Rothesay Life Limited and is a non-executive officer of Generation Investment Management LLP. Formerly a senior partner in the banking and capital markets division of PricewaterhouseCoopers.
Age 65.

8. Jamie Cayzer-Colvin
Non-executive Director
Appointed a director in January 2008. He is a director of Caledonia Investments plc and a non-executive director of Polar Capital Holdings plc and India Capital Growth Fund. Previously with Whitbread and GEC and a former director of Rathbone Brothers plc.
Age 44.

Overview
Executive Committee

Preben Prebensen
Chief Executive

Jonathan Howell
Finance Director

Stephen Hodges
Managing Director and Banking Chief Executive

Julian Palfreyman
Winterflood Chief Executive

Martin Andrew
Asset Management Chief Executive

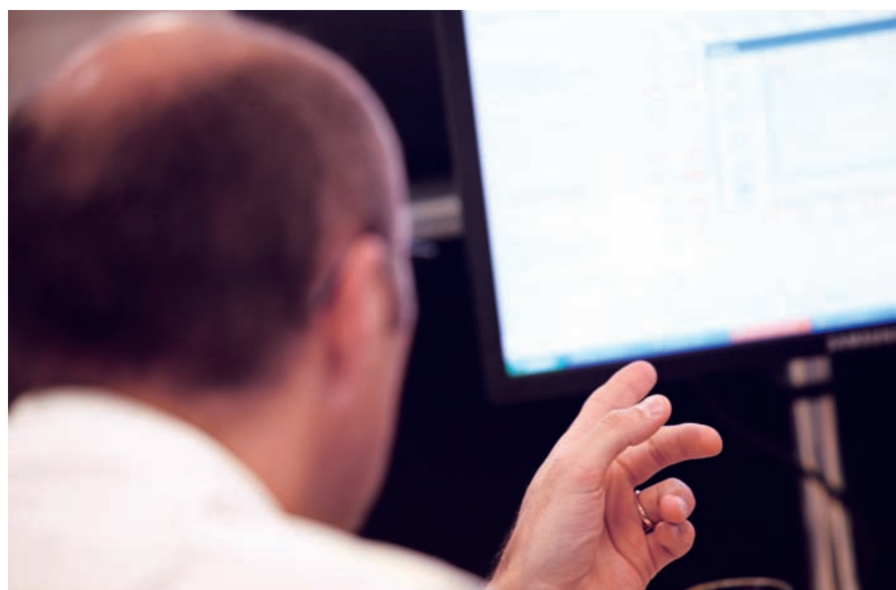
Tazim Essani
Group Head of Corporate Development

Elizabeth Lee
General Counsel

Rebekah Etherington
Group Head of Human Resources

The Executive Committee has been established by the chief executive and replaces the former Management Board. The Committee meets regularly thoughout the year to develop strategy and set business objectives and to assist the chief executive with the management of the group.

Business Review
Overview



Summary Income Statement

	2009 £ million	2008 £ million	Change %
Continuing operations[1]			
Adjusted operating income	**502.1**	452.7	11
Adjusted operating expenses	**(328.5)**	(297.7)	10
Impairment losses on loans and advances	**(59.9)**	(27.5)	118
Adjusted operating profit	**113.7**	127.5	(11)
Exceptional expenses	**(6.0)**	(9.1)	
Impairment losses on goodwill	**(19.0)**	–	
Amortisation of intangible fixed assets on acquisition	**(0.4)**	–	
Operating profit before tax	**88.3**	118.4	(25)
Tax	**(26.1)**	(32.1)	(19)
Minority interests	**(0.3)**	(1.0)	(70)
Profit attributable to shareholders: continuing operations	**61.9**	85.3	(27)
Profit from discontinued operations	**10.4**	6.3	65
Minority interests: discontinued operations	**(0.6)**	(1.6)	(63)
Profit attributable to shareholders: continuing and discontinued operations	**71.7**	90.0	(20)
Adjusted earnings per share: continuing operations[2]	**60.5p**	63.7p	(5)
Basic earnings per share: continuing operations	**43.6p**	58.3p	(25)
Basic earnings per share: continuing and discontinued operations	**50.5p**	61.5p	(18)
Ordinary dividend per share	**39.0p**	39.0p	–

[1]Results from continuing operations for 2009 and 2008 exclude both the trading result and gain on disposal related to the Corporate Finance division, the sale of which was completed on 1 July 2009.
[2]Adjusted earnings per share: continuing operations excludes discontinued operations, exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition.

Close Brothers has achieved a solid overall result in the 2009 financial year notwithstanding difficult economic and market conditions. The Securities division in particular delivered a strong performance, although the group's overall profitability was impacted by higher bad debts in the Banking division and lower profit in the Asset Management division.

Adjusted operating income from continuing operations was £502.1 million (2008: £452.7 million), an 11% increase principally reflecting good trading volumes at Winterflood and a strong net interest margin on a larger loan book, partly offset by lower management fees in the Asset Management division.

Adjusted operating expenses from continuing operations increased 10% to £328.5 million (2008: £297.7 million). Higher variable costs in the Securities division, as a result of increased income and activity, and ongoing investment costs in the Banking division have been partially offset by cost savings, particularly in the Asset Management division.

Overall, the group's cost savings programme has resulted in savings of approximately £11 million across the group in 2009, out of a total run-rate of around £13 million of cost savings expected by the end of the 2010 financial year.

Impairment losses on loans and advances ("bad debts") increased to £59.9 million (2008: £27.5 million) reflecting the impact of the deteriorating economic environment on borrowers and falling asset values across the lending businesses. This corresponds to an increase in the bad debt ratio to 2.6% (2008: 1.3%).

As a result, adjusted operating profit from continuing operations was £113.7 million (2008: £127.5 million), down 11%. This corresponds to an operating margin of 20% (2008: 27%).

The group reports adjusted operating profit after a number of standard adjustments in order to more accurately represent the underlying performance of the business. These adjustments include exceptional items, impairment losses on goodwill, and the amortisation of intangible fixed assets on acquisition.

Business Review
Overview continued

Exceptional expenses in the period were £6.0 million of restructuring costs, the majority of which related to cost saving initiatives in the Asset Management division. In 2008, exceptional expenses were £9.1 million. No exceptional income was recorded in 2008 or 2009.

The group incurred a £19.0 million (2008: £nil) goodwill impairment charge which was taken at 31 January 2009 and related to a number of past acquisitions in the Asset Management division. The annual goodwill impairment review carried out at the year end resulted in no additional goodwill impairment. The group also incurred a £0.4 million (2008: £nil) charge for amortisation of intangible assets on acquisition, related to acquisitions in the Banking division.

After these items, operating profit before tax from continuing operations was £88.3 million (2008: £118.4 million), down 25%.

The tax charge for the year on continuing operations was £26.1 million (2008: £32.1 million), corresponding to an effective tax rate of 30% (2008: 27%). The tax rate was affected by two broadly offsetting factors. The non tax deductible goodwill impairment of £19.0 million increased the effective tax rate by 6%, while the £16.1 million of associate income from Mako, which is included in operating profit before tax on a post-tax basis, reduced the effective tax rate by 5%. Excluding these factors, the underlying effective tax rate was 29% (2008: 29%).

Adjusted earnings per share from continuing operations reduced 5% to 60.5p (2008: 63.7p) and basic earnings per share from continuing operations reduced 25% to 43.6p (2008: 58.3p).

On 1 July 2009 the group completed the sale of its Corporate Finance division to Daiwa Securities SMBC Europe for a net consideration of £67 million. This business has been classified as a discontinued operation. The post-tax profit from discontinued operations was £10.4 million (2008: £6.3 million), which includes a gain on disposal of £12.4 million (2008: £nil) and a trading loss up to the date of disposal of £2.0 million (2008: profit of £6.3 million).

Basic earnings per share from continuing and discontinued operations was 50.5p (2008: 61.5p), down 18%.

The board is recommending a maintained final dividend of 25.5p (2008: 25.5p) per share, resulting in a total dividend for the year of 39.0p (2008: 39.0p) per share. This reflects the group's solid performance in the 2009 financial year and strong capital position.

Divisional Performance

The Banking division accounted for 41% (2008: 51%) of adjusted operating profit from continuing operations before group net expenses. Performance has been resilient in a tough environment, with a 14% increase in operating income. However this was more than offset by higher bad debts, resulting in a 28% reduction in adjusted operating profit to £54.0 million (2008: £74.5 million).

The Asset Management division accounted for 9% (2008: 22%) of adjusted operating profit from continuing operations before group net expenses. The 63% reduction in adjusted operating profit to £12.0 million (2008: £32.6 million) reflects the difficult market conditions faced by the division and the impact of negative market movements on Funds under Management.

Divisional Adjusted Operating Profit (Continuing Operations)

	2009		2008		Change
	£ million	**%**	£ million	%	%
Banking	**54.0**	**41**	74.5	51	(28)
Asset Management	**12.0**	**9**	32.6	22	(63)
Securities	**64.9**	**50**	38.7	27	68
Total divisions	**130.9**	**100**	145.8	100	(10)
Group	**(17.2)**		(18.3)		(6)
Adjusted operating profit	**113.7**		127.5		(11)

Summary Balance Sheet

	31 July 2009 £ million	31 July 2008 £ million
Assets		
Cash and loans and advances to banks	**198.2**	309.3
Settlement balances, long trading positions and loans to money brokers	**728.9**	656.8
Loans and advances to customers	**2,364.9**	2,232.2
Non trading debt securities*	**2,261.3**	2,098.9
Intangible assets	**107.6**	134.4
Other assets	**358.4**	321.1
Total assets	**6,019.3**	5,752.7
Liabilities		
Settlement balances, short trading positions and loans from money brokers	**590.7**	556.9
Deposits by banks	**48.0**	298.2
Deposits by customers	**2,919.6**	2,641.7
Borrowings	**1,436.9**	1,241.5
Other liabilities	**326.4**	294.0
Total liabilities	**5,321.6**	5,032.3
Equity	**697.7**	720.4
Total liabilities and equity	**6,019.3**	5,752.7

* Excludes long trading positions in debt securities.

Close Brothers has maintained a strong balance sheet and remains soundly funded.

The contribution of the Securities division to adjusted operating profit from continuing operations before group net expenses increased to 50% (2008: 27%) as a result of a 68% increase in adjusted operating profit to £64.9 million (2008: £38.7 million). This reflects a very strong performance at Winterflood and a good contribution from Mako in the first half of the year.

Group adjusted operating expenses were £21.0 million (2008: £20.4 million), partially offset by adjusted operating income of £3.8 million (2008: £2.1 million), resulting in adjusted group net expenses of £17.2 million (2008: £18.3 million).

Balance Sheet

Close Brothers has maintained a strong balance sheet and remains soundly funded. Assets principally comprise the customer loan book, debt securities, and assets related to the group's market-making activities. Sources of funds principally comprise customer deposits, borrowings under bank facilities and equity.

As at 31 July 2009, Close Brothers had total assets of £6,019.3 million (31 July 2008: £5,752.7 million).

Loans and advances to customers ("the loan book") increased by 6% to £2,364.9 million (31 July 2008: £2,232.2 million). This includes the £80 million acquisition of a premium finance loan book in August 2008. The loan book comprises loans to SMEs and consumers with an average maturity of twelve months, and the vast majority of loans are secured.

Business Review
Overview continued

The company's treasury assets principally comprise cash and loans and advances to banks of £198.2 million (31 July 2008: £309.3 million) and non trading debt securities of £2,261.3 million (31 July 2008: £2,098.9 million). Non trading debt securities include certificates of deposit, gilts and government guaranteed debt, and floating rate notes ("FRNs") issued by a range of financial institutions.

Non trading debt securities include £754.7 million (31 July 2008: £751.3 million) of FRNs classified as available for sale. The decline in the market prices of these instruments has resulted in a mark to market charge to equity reserves during the year of £15.2 million (2008: £15.7 million), net of tax, although the overall book value has increased as a result of foreign exchange movements. As at 31 July 2009, the aggregate negative mark to market adjustment was £31.6 million net of tax, an improvement relative to £46.5 million as at 31 January 2009.

Assets related to market-making activities comprise settlement balances, long trading positions and loans to money brokers against stock advanced. These short-term balances increased to £728.9 million (31 July 2008: £656.8 million) reflecting higher activity levels in the Securities division. These were offset by £590.7 million (31 July 2008: £556.9 million) of liabilities related to settlement balances, short trading positions and loans from money brokers against stock advanced, resulting in a net balance of £138.2 million (31 July 2008: £99.9 million).

Intangible assets principally comprise goodwill and reduced to £107.6 million (31 July 2008: £134.4 million). This reflects a £19.0 million impairment of goodwill related to the Asset Management division and the sale of the Corporate Finance division, which had £11.5 million of intangible assets at 31 July 2008.

Customer deposits increased to £2,919.6 million (31 July 2008: £2,641.7 million) reflecting additional term retail deposits raised during the year. Deposits by banks were £48.0 million (31 July 2008: £298.2 million).

As at 31 July 2009, total borrowings were £1,436.9 million (31 July 2008: £1,241.5 million) and comprised loans and overdrafts from banks, debt securities in issue, non-recourse borrowings and subordinated loan capital. The movement in borrowings reflects new debt facilities drawn in the period.

Total equity as at 31 July 2009 was £697.7 million (31 July 2008: £720.4 million). Share capital and the share premium account remained broadly flat in the year at £37.4 million (31 July 2008: £37.3 million) and £274.5 million (31 July 2008: £274.1 million) respectively. The profit and loss account increased £13.7 million to £445.7 million (31 July 2008: £432.0 million), principally due to a profit for the year of £71.7 million partially offset by £55.2 million of dividend payments. Other reserves and minority interests decreased £36.9 million to £(59.9) million (31 July 2008: £(23.0) million) primarily due to the purchase of shares into treasury and the mark to market reserve movement on FRNs.

As at 31 July 2009, 5.5 million (31 July 2008: 2.0 million) of the company's shares were held in treasury. The net increase of 3.5 million (2008: 2.0 million) reflects purchases by the company for the purposes of satisfying option grants and share awards made under employee share plans, net of shares released due to the exercise of options or vesting of share awards, for a net consideration of £17.8 million (2008: £16.0 million).

Funding and Liquidity

The group remains soundly funded through a combination of drawn and undrawn bank facilities, long and short-term customer deposits and equity, and has strengthened its funding position against a backdrop of reduced market liquidity.

The group has traditionally used principally equity and wholesale debt facilities to fund its £2.4 billion loan book, with a policy of borrowing long and lending short, with the short-term deposit base invested in high quality money market instruments. Over the past year, the group has diversified its sources of funding by raising longer term retail deposits, to further increase the resilience of the funding model and reduce its reliance on the wholesale markets in a difficult credit environment. This has allowed the group to further strengthen its funding position and retain good headroom and flexibility.

During the year, the group has for the first time raised funds in the form of term retail deposits. To date the group has raised over £1 billion of retail deposits, resulting in £0.9 billion (31 July 2008: £0.0 billion) of deposits with a maturity of twelve months or more as at 31 July 2009. Whilst overall short-term deposits have reduced, the core corporate deposit base has proven its resilience in the financial turmoil experienced over the past year.

Notwithstanding the general reduction in the availability of wholesale funding in the market, the group has also replaced its expiring facilities during the year, and total drawn and undrawn facilities remained at £1.8 billion (31 July 2008: £1.8 billion). As at 31 July 2009, the group's wholesale funding had an average maturity of 24 months (31 July 2008: 30 months), and £1.4 billion (31 July 2008: £1.1 billion) had a maturity of twelve months or more.

Funding Overview

	31 July 2009 £ million	31 July 2008 £ million	Change £ million
Drawn facilities[1]	**1,409.7**	1,227.3	182.4
Undrawn facilities	**392.6**	588.0	(195.4)
Deposits by customers > twelve months	**888.8**	36.6	852.2
Deposits by customers < twelve months[2]	**2,029.7**	2,605.1	(575.4)
Equity	**697.7**	720.4	(22.7)
Total available funding	**5,418.5**	5,177.4	241.1

[1] Drawn facilities exclude £27.2 million (2008: £14.2 million) of non-facility overdrafts included in borrowings.
[2] Deposits by customers < twelve months exclude £1.1 million (2008: £nil) of deposits held within Securities division.

In January 2009, Close Brothers was granted eligibility to access the Government's Credit Guarantee Scheme, which gives the group access to a further potential source of medium-term funding. To date, the group has not issued debt under the scheme.

The Bank's long-term and short-term credit ratings were recently reaffirmed at A2/P1 by Moody's and A/F1 by Fitch, with the outlook ratings downgraded to negative in light of the deterioration in the UK economy.

Capital

The group has maintained a strong capital base with a core tier 1 capital ratio of 14.8% (31 July 2008: 14.4%) and total capital ratio of 16.6% (31 July 2008: 16.1%).

Total regulatory capital increased by £38.0 million during the year to £651.6 million (31 July 2008: £613.6 million). This reflects profit for the year of £71.7 million, dividend payments of £55.2 million and a £26.8 million reduction in the deduction for intangible assets. The net effect of other movements, including a £16.3 million increase in the exchange movements reserve and a £17.8 million net investment in own shares to hedge share-based award schemes, was broadly neutral.

Notional risk weighted assets increased by £132.8 million to £3,936.8 million (31 July 2008: £3,804.0 million). This primarily reflects an increase in credit and counterparty risk due to higher loan book exposures, partly offset by a reduction in operational risk as a result of the sale of the Corporate Finance division.

Key Financial Ratios

The group uses a number of key financial ratios ("KFRs") to monitor performance of the group as a whole and its divisions.

Given the diverse nature of the group's businesses, there are significant variations in these KFRs between divisions and the blended ratios reported for the group as a whole will reflect the mix of business in any given period.

The group has maintained a strong capital base.

Funding Maturity Profile as at 31 July 2009

	Less than one year £ million	One to two years £ million	Greater than two years £ million
Drawn facilities[1]	199.7	1,003.6	206.4
Undrawn facilities	177.6	–	215.0
Deposits by customers[2]	2,029.7	814.9	73.9
Total available funding at 31 July 2009	**2,407.0**	**1,818.5**	**495.3**
Total available funding at 31 July 2008	3,363.3	407.4	686.3

[1] Drawn facilities exclude £27.2 million (2008: £14.2 million) of non-facility overdrafts included in borrowings.
[2] Deposits by customers less than one year exclude £1.1 million (2008: £nil) of deposits held within Securities division.

Capital Position

	31 July 2009 Basel II £ million	31 July 2008 Basel II £ million
Core tier 1 capital	**581.9**	547.2
Total regulatory capital	**651.6**	613.6
Risk weighted assets (notional)*	**3,936.8**	3,804.0
Core tier 1 capital ratio	**14.8%**	14.4%
Total capital ratio	**16.6%**	16.1%

* Notional risk weighted assets calculated under Basel II include a notional adjustment for Pillar 1 operational and market risk requirements.

Group Key Financials Ratios

	2009	2008
Operating margin[1]	**20%**	27%
Expense/income ratio[2]	**68%**	67%
Compensation ratio[3]	**42%**	43%
Return on opening capital[4]	**10%**	12%

[1] Adjusted operating profit on adjusted operating income.
[2] Adjusted operating expenses on adjusted operating income.
[3] Total staff costs excluding exceptional items on adjusted operating income.
[4] Adjusted operating profit after tax and minority interests on opening total equity.

Note: All KFRs exclude associate income, exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition, and are in respect of continuing operations.

The operating margin reduced to 20% (2008: 27%). This reflects a reduction of the operating margin in the Banking division as a result of higher bad debts and lower profit in the Asset Management division. The expense/income ratio remained broadly stable at 68% (2008: 67%), as did the compensation ratio at 42% (2008: 43%).

Return on opening capital reduced to 10% (2008: 12%) as higher profit in Securities was more than offset by lower returns in Asset Management and Banking.

Business Review
Banking

- 6% growth in loans and advances to customers to £2.4 billion
- 14% growth in adjusted operating income to £236 million
- Adjusted operating profit down 28% to £54 million
- Bad debt ratio increased to 2.6%

Banking adjusted operating profit
£ million

Year	£ million
2009	54.0
2008	74.5
2007	71.7
2006	74.0
2005	69.7

The performance of the Banking division has been resilient through the difficult financial markets.

Key Divisional Metrics

	2009 £ million	2008 £ million	Change %
Adjusted operating income	**235.5**	207.1	14
Net interest and fees on loan book	**216.2**	180.3	20
Treasury and other non-lending income	**19.3**	26.8	(28)
Adjusted operating expenses	**(121.6)**	(105.1)	16
Impairment losses on loans and advances	**(59.9)**	(27.5)	118
Adjusted operating profit	**54.0**	74.5	(28)
Net interest margin[1]	**9.4%**	8.6%	
Bad debt ratio[2]	**2.6%**	1.3%	
Closing loan book	**2,364.9**	2,232.2	6

[1] Net interest and fees on average net loans and advances to customers.
[2] Impairment losses on average net loans and advances to customers.

The performance of the Banking division has been resilient through the difficult financial markets and challenging economic conditions. Whilst the overall result has been impacted by higher bad debts, the division continues to see good demand for its lending services and closing loans and advances to customers ("the loan book") increased 6% to £2.36 billion as at 31 July 2009 (31 July 2008: £2.23 billion).

Adjusted operating income increased 14% to £235.5 million (2008: £207.1 million). Net interest and fees on the loan book increased 20%, driven by 10% growth in the average loan book whilst maintaining a strong net interest margin of 9.4% (2008: 8.6%) notwithstanding an ongoing increase in funding costs. Treasury and other non-lending income reduced by 28% to £19.3 million (2008: £26.8 million) and was impacted by lower interest income on deposits and higher cost of funding in the second half of the year.

Adjusted operating expenses increased 16% to £121.6 million (2008: £105.1 million), driven by an £11 million impact of acquisitions made in 2008 and 2009, as well as ongoing investment in the businesses.

Impairment losses on loans and advances ("bad debts") increased 118% to £59.9 million (2008: £27.5 million), which reflects the deteriorating economic environment and its impact on borrowers. Business failures and falling asset values have led to a bad debt ratio for the division as a whole of 2.6% (2008: 1.3%). Bad debts have

Loan Book Analysis

	31 July 2009 £ million	31 July 2008 £ million	Change %
Asset finance	**808.4**	757.3	7
Premium finance	**455.5**	403.8	13
Property finance	**487.2**	446.4	9
Motor finance	**443.5**	414.3	7
Invoice finance	**170.3**	210.4	(19)
Closing loan book	**2,364.9**	2,232.2	6

increased across all areas of the loan book although property remains a significant contributor.

Adjusted operating profit declined 28% to £54.0 million (2008: £74.5 million). This corresponds to an operating margin of 23% (2008: 36%).

During the year, the loan book increased 6% to £2,364.9 million as at 31 July 2009 (31 July 2008: £2,232.2 million) including an £80 million premium finance loan book acquired from Kaupthing Singer & Friedlander in August 2008. Excluding the impact of this acquisition, organic loan book growth was 2%. This reflects good demand for new business, particularly in asset, motor and property finance, although the loan book in invoice finance reduced as a result of lower new lending and increased business failures. Throughout the year, the division has consistently maintained a cautious approach to new lending with conservative loan to value ratios.

The division's operating margin reduced to 23% (2008: 36%) as a result of higher bad debts. The expense/income ratio, which excludes bad debts, increased slightly to 52% (2008: 51%) while the compensation ratio reduced slightly to 28% (2008: 30%).

The division achieved a return on opening capital of 12% (2008: 18%) and a return on the average net loan book of 2.3% (2008: 3.6%), notwithstanding the impact of higher bad debts on profitability.

Banking Key Financial Ratios

	2009	2008
Operating margin	**23%**	36%
Expense/income ratio	**52%**	51%
Compensation ratio	**28%**	30%
Return on opening capital	**12%**	18%
Return on net loan book*	**2.3%**	3.6%

* Banking division adjusted operating profit before tax on the average net loan book.

Note: All KFRs exclude associate income, exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition.

The Banking division continues to see good demand for its lending services.

Business Review
Asset Management

- Closing Funds under Management down 17% to £6.8 billion reflecting deconsolidations and market movements
- Adjusted operating profit down 63% to £12 million
- Private Clients net new funds £161 million

Asset Management adjusted operating profit
£ million

Year	£ million
2009	12.0
2008	32.6
2007	56.6
2006	38.2
2005	31.6

The Asset Management division has continued to be affected by difficult financial markets.

Key Divisional Metrics

	2009 £ million	2008 £ million	Change %
Adjusted operating income	**95.0**	133.5	(29)
Management fees on FuM	**54.3**	79.5	(32)
Income on Assets under Administration and deposits	**37.6**	41.8	(10)
Performance fees and investment income	**3.1**	12.2	(75)
Adjusted operating expenses	**(83.0)**	(100.9)	(18)
Adjusted operating profit	**12.0**	32.6	(63)
Management fees/average FuM (bps)	**72**	92	(22)
Closing FuM	**6,839**	8,195	(17)

The Asset Management division has continued to be affected by difficult financial markets, although the private client business has remained resilient. Closing Funds under Management ("FuM") reduced 17% to £6.8 billion (2008: £8.2 billion) primarily reflecting the deconsolidation of the group's private equity businesses (£0.7 billion) and negative market movements (£0.6 billion) although net new funds were broadly neutral.

Adjusted operating income for the year declined 29% to £95.0 million (2008: £133.5 million).

Lower Management fees on FuM was the most significant contributor to the reduction in income, declining by 32% to £54.3 million (2008: £79.5 million). This reflects a 13% reduction in average FuM to £7.5 billion, as well as a 20 bps reduction in management fees/average FuM ("the revenue margin") to 72 bps (2008: 92 bps). The lower revenue margin primarily reflects changes in the mix of FuM, including the impact of the deconsolidation of the group's private equity businesses during the course of the year which accounted for approximately half of the reduction.

Income on Assets under Administration and deposits reduced by 10% to £37.6 million (2008: £41.8 million). This primarily reflects the impact of the lower interest rate environment on margins earned on customer deposits and corporate balances.

Performance fees and investment income was £3.1 million (2008: £12.2 million), reflecting the changing business mix and a smaller contribution from the group's private equity activities.

Adjusted operating expenses reduced 18% to £83.0 million (2008: £100.9 million). This primarily reflects the benefit of cost saving measures and the deconsolidation of the private equity businesses. In aggregate, cost reduction measures undertaken in 2008 and 2009 resulted in cost savings of around £7 million in 2009. A full run-rate of cost savings of around £9 million is expected to be achieved by the end of the 2010 financial year. These measures resulted in exceptional restructuring costs of £4.4 million in 2009 (2008: £2.1 million).

Adjusted operating profit was £12.0 million (2008: £32.6 million). This corresponds to an operating margin of 13% (2008: 24%).

Funds under Management

	Private Clients £ million	Funds £ million	Total £ million
As at 1 August 2008	3,316	4,879	**8,195**
New funds raised	533	625	**1,158**
Redemptions, realisations and withdrawals	(372)	(806)	**(1,178)**
Net new funds	161	(181)	**(20)**
Market movement	(128)	(500)	**(628)**
Deconsolidations*	–	(708)	**(708)**
As at 31 July 2009	**3,349**	**3,490**	**6,839**
Change	**1%**	**(28)%**	**(17)%**

*Deconsolidations relate to Close Brothers Private Equity, Close Ventures Limited, and Close Growth Capital.

As at 31 July 2009, total closing FuM were £6.8 billion (31 July 2008: £8.2 billion), a 17% decline. This reflects the £0.7 billion impact of the deconsolidation of the private equity businesses, £0.6 billion of negative market movements, and broadly neutral net new funds. In Private Clients, FuM were maintained at £3.3 billion (31 July 2008: £3.3 billion) as a negative market movement of £128 million (4% of opening FuM) was more than offset by £161 million (5% of opening FuM) of net new funds. However, Funds was impacted by net outflows of £181 million (4% of opening FuM) and a negative market movement of £500 million (10% of opening FuM), which partly reflects its higher exposure to the property sector. Including the impact of the deconsolidation of the private equity businesses, this resulted in a 28% reduction in FuM in Funds to £3.5 billion (31 July 2008: £4.9 billion).

The mix of assets and investment performance have provided some insulation against falling markets and overall negative market movements of 8% of opening FuM compare to a decline in the FTSE 100 of 15% over the same period.

The last twelve months have seen a shift in the mix of asset classes towards equities, fixed income and cash which now account for 70% (2008: 60%) of total FuM in aggregate. This reflects the deconsolidation of the private equity businesses as well as the lower FuM in Funds, which has a higher exposure to property, hedge funds and structured funds.

Funds under Management by Asset Class

	31 July 2009	31 July 2008
Equities	**42%**	37%
Fixed income and cash	**28%**	23%
Property	**13%**	15%
Private equity	**–**	9%
Hedge funds	**8%**	8%
Structured funds	**9%**	8%

Despite challenging market conditions, investment performance in the Private Client business was strong, outperforming the APCIMS indices during the year. Performance for the products in the Funds business was mixed, reflecting difficult market conditions.

The division's profitability has been impacted by the significant reduction in income in the year. Despite a £17.9 million reduction in costs, the expense/income ratio increased to 87% (2008: 76%) and the compensation ratio increased to 57% (2008: 48%). This corresponds to a reduction in operating margin to 13% (2008: 24%) and in return on opening capital to 6% (2008: 17%).

Net new funds/opening FuM stabilised at 0% (2008: (4)%) reflecting net new funds of £161 million (2008: net outflow of £45 million) in Private Clients and a lower net outflow of £181 million (2008: net outflow of £322 million) in Funds.

Asset Management Key Financial Ratios

	2009	2008
Operating margin	**13%**	24%
Expense/income ratio	**87%**	76%
Compensation ratio	**57%**	48%
Return on opening capital	**6%**	17%
Net new funds/opening FuM	**0%**	(4)%

Note: All KFRs exclude associate income, exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition.

Business Review
Securities

- Adjusted operating profit up 68% to £65 million
- Winterflood bargains per day increased 54% to 42,000
- Good contribution from Mako of £16 million
- A muted performance for Close Brothers Seydler

Securities adjusted operating profit
£ million

Year	£ million
2009	64.9
2008	38.7
2007	44.1
2006	48.0
2005	35.8

Winterflood benefited from its strong market position in a period of higher market volumes.

Key Divisional Metrics

	2009 £ million	2008 £ million	Change %
Adjusted operating income	**167.8**	110.0	53
Adjusted operating expenses	**(102.9)**	(71.3)	44
Adjusted operating profit	**64.9**	38.7	68

Note: 2009 adjusted operating income and adjusted operating profit include £16.1 million of post tax associate income (2008: £7.2 million) from Mako.

The Securities division has had a strong performance, benefiting from good volumes at Winterflood and a good contribution of associate income from Mako. This has resulted in a 53% increase in adjusted operating income to £167.8 million (2008: £110.0 million) and a 68% increase in adjusted operating profit to £64.9 million (2008: £38.7 million).

Adjusted operating profit excludes £0.9 million (2008: £1.3 million) of exceptional expenses related to restructuring costs.

Winterflood adjusted operating income increased 59% to £128.4 million (2008: £81.0 million). This was the result of a significant increase in trading volumes, as Winterflood benefited from its strong market position in a period of higher market volumes, supported by retail activity and the rally in equity markets in the second half of the financial year. Average bargains per trading day increased 54% to 42,364 (2008: 27,437), corresponding to 10.7 million (2008: 7.0 million) total bargains. Income per bargain was broadly stable at £11.98 (2008: £11.58).

Trading performance was consistent with a total of only seven (2008: 14) loss days out of a total 253 (2008: 254) trading days.

Adjusted operating expenses increased 41% to £81.1 million (2008: £57.5 million) reflecting higher variable costs as a result of a strong trading performance.

Adjusted operating profit increased 101% to £47.3 million (2008: £23.5 million). This corresponds to an operating margin of 37% (2008: 29%).

Key Winterflood Metrics

	2009 £ million	2008 £ million	Change %
Adjusted operating income	**128.4**	81.0	59
Adjusted operating expenses	**(81.1)**	(57.5)	41
Adjusted operating profit	**47.3**	23.5	101
Number of bargains (million)	**10.7**	7.0	53
Average bargains per trading day	**42,364**	27,437	54
Income per bargain	**£11.98**	£11.58	3

Performance at Close Brothers Seydler ("CBS") has been muted. Adjusted operating income increased 7% to £23.3 million (2008: £21.8 million) but reduced 7% on a constant currency basis. This reflects low retail volumes in the German market and a particularly difficult environment for small and mid cap stocks, and income was also affected by a write-down of investment assets. However, CBS has maintained a strong market position with 2,158 specialist floor mandates (2008: 2,151) and 164 (2008: 160) designated sponsoring clients and has continued to invest and strengthen its team during the year.

Adjusted operating expenses were £21.8 million (2008: £13.8 million). The £8.0 million increase is principally due to a £4.1 million provision reversal in 2008 and a £2.8 million impact of foreign exchange translation. Adjusted operating profit was £1.5 million (2008: £8.0 million, including the impact of the provision reversal).

The 49.9% investment in Mako generated £16.1 million (2008: £7.2 million) of post tax associate income. This was the result of a very good performance in the first half, when Mako benefited from high volatility and market activity related to interest rate movements. The result also benefited from foreign exchange translation.

The operating margin in the division increased slightly to 32% (2008: 31%) as higher profitability in Winterflood was partly offset by the 2008 provision reversal at CBS. This corresponds to a slight reduction in the expense/income ratio to 68% (2008: 69%). The compensation ratio increased slightly to 46% (2008: 45%).

The return on opening capital increased to 35% (2008: 25%) reflecting the increased profitability of the division.

Key Close Brothers Seydler Metrics

	2009 £ million	2008 £ million	Change %
Adjusted operating income	**23.3**	21.8	7
Adjusted operating expenses	**(21.8)**	(13.8)	58
Adjusted operating profit	**1.5**	8.0	(81)

Key Mako Metrics

	2009 £ million	2008[2] £ million	Change %
Adjusted operating profit[1]	**22.3**	10.5	112
Tax on adjusted operating profit[1]	**(6.2)**	(3.3)	88
Profit after tax[1]	**16.1**	7.2	124

[1] Close Brothers share of result.
[2] Ten months to 31 July 2008; 49.9% acquired October 2007.

Securities Key Financial Ratios

	2009	2008
Operating margin	**32%**	31%
Expense/income ratio	**68%**	69%
Compensation ratio	**46%**	45%
Return on opening capital	**35%**	25%

Note: All KFRs exclude associate income, exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition.

Business Review
Principal Risks and Uncertainties

The group's approach to risk management is outlined in the Governance section of this Annual Report on page 32.

As a diversified financial services group, financial risk management and financial instruments are central to the group's activities. The risks arising from the use of financial instruments and quantitative information associated with those risks are further explained in note 33 to the Financial Statements on pages 89 to 95.

The principal risks and uncertainties currently faced by the group are outlined below. The risks outlined are those that the group believes have the potential to have a significant detrimental impact on its financial performance and future prospects. They should not be regarded as a comprehensive list of all the risks and uncertainties the group may potentially face which could adversely impact its performance.

Reputation
The group considers a loss of reputation to be the most significant risk to a business operating in the financial services sector.

The group believes that the risk to its reputation would arise as a result of a failure to manage the group's other risks and places the highest importance on risk management at all levels of the organisation. It also strives to demonstrate the highest level of integrity in all its activities and dedicates significant senior management time and other resources to ensure all employees are aware of the need to display the highest ethical standards in their day to day work.

Economic Conditions
The group engages in a diversified range of activities within the financial services industry, with the majority of transactions undertaken within the UK. As such the group has an exposure to global economic conditions generally and to economic conditions in the UK in particular. Economic conditions deteriorated significantly during the latter part of 2008 and in 2009 and the outlook remains significantly uncertain. The impact of poor economic conditions on the group's customers and markets has the potential to adversely impact the group's financial performance and prospects, as well as increasing other risks. Specific examples of how a weakened economy could affect the group include but are not limited to:

- Reduced demand for the group's products in both the Banking and Asset Management divisions.
- Failure of an institution where the group's or client funds have been invested.
- Increasing bad debt charges within the Banking division as a result of the inability of customers to repay loans and decreasing values of underlying securities.
- Lower trading volumes in our market-making businesses.
- Write downs to group assets as present values of future cash flows reduce due to reductions in economic activity.

The group has historically operated a conservative business model and has traded profitably in the 2009 financial year despite worsening economic conditions. While there is limited visibility on future economic conditions, the group's risk management, internal control systems and overall business model are designed so as to enable it to continue to trade profitably through downturns in the economic cycle.

Credit/Counterparty Risk

The group has loans and advances to, and has purchased debt securities from, a number of financial institutions. A failure of one or more of these institutions could have a material impact on the group's financial position.

The credit quality of the counterparties with whom the group places deposits or whose debt securities the group holds is monitored by the Treasury Committee. The Committee establishes maximum individual counterparty limits which are monitored on a daily basis. When assessing the suitability of counterparties, the Committee has regard to, inter alia, the following factors:

- Stability of the underlying economy of the country in which the institution is domiciled.
- The scale of the institution and the level of support it is expected to attract in the event of financial difficulties.
- The credit rating of the entity. Only "AA" rated entities are considered suitable as new counterparties. The Committee reviews the ongoing suitability of any counterparty which is subsequently downgraded.

The Banking division's lending activities give rise to credit risk. This credit risk is controlled by a number of local credit committees within centrally set limits of authority. Transactions above those limits are considered by a group level credit committee.

The group adheres to strict lending criteria and places significant emphasis on the quality of any security provided. In addition, the loan book is diversified, short term and the majority of lending is secured. Because the group's loan book is spread over a large number of counterparties with a low average loan size, there are very few individual loans with the capacity to have a material impact on the group's earnings.

Exposure within the Securities division is limited as the businesses trade in the cash markets with regulated counterparties on a delivery versus payment basis such that any credit exposure is limited to price movements in the underlying securities. Counterparty exposure and settlement failure monitoring controls are in place.

Funding

The group requires access to sources of funding to support its client lending and in order to grow its business. Significant uncertainty around credit markets remains following the dislocation in those markets seen in the second half of 2008 which continued into 2009. Access to the wholesale credit markets, which the group has historically utilised to fund a significant proportion of its lending to customers, has been and remains severely restricted. In addition, the cost of wholesale funding, where available, has increased significantly. There is significant uncertainty, particularly in the short term, over the levels of funding that will be available to the group via the wholesale credit markets.

The group has responded to these challenging and volatile conditions by increasingly borrowing via the retail market to augment its traditional wholesale funding. In the year ended 31 July 2009, the group raised £1.8 billion in the wholesale and retail markets and was granted eligibility to access the Government's Credit Guarantee Scheme, which provides a further potential source of medium term funding. As a result, the group believes it is well placed to continue to be able to access the funding required.

Liquidity

The group requires cash resources to support client lending, trading activities and investments. The liquidity of the group is managed so as to ensure that the group is always able to meet its liabilities as they fall due. However, in the event of a sudden loss of confidence in the group's liquidity position causing a rapid withdrawal of customer deposits, the group's ability to continue to pursue its business objectives could be placed at risk.

The group's policy has been to finance customer loans and advances by capital and reserves, longer-term deposits and committed facilities with only limited financing from shorter-term deposits. This policy is kept under review by the Treasury Committee which monitors compliance on a daily basis. This policy, the average duration of the group's borrowings (24 months versus twelve months for the loan book) and the group's success in raising term retail funds since 31 July 2008 all lead the group to believe it is in a strong position with respect to liquidity risk.

Regulation

The group operates in a highly regulated environment. The regulatory environment is expected to change significantly in the near future in response to the banking crisis of late 2008. The uncertainty over the exact details of these changes, the potential for increased capital requirements and the costs associated with compliance with changes to the regulatory environment all have the potential to impact on the group's earnings.

The group monitors regulatory developments and engages in dialogue with regulatory authorities on a regular basis and continues to maintain a conservative model with a strong, well capitalised balance sheet and believes it is well placed to react to regulatory change.

Each of the group's regulated businesses has a dedicated compliance officer who is responsible for supporting the business in meeting its regulatory compliance objectives and for executing risk-based monitoring programmes to confirm compliance. The activities of these compliance professionals are co-ordinated and overseen on a group wide basis by the head of group compliance to whom they report.

Operational Risk

In common with any large financial services group operational risk, which is defined as the risk of loss or other material adverse impact resulting from failed internal processes, people and systems, or from external events, is inherent in the group's operations on an on-going basis.

The group has implemented an operational risk management framework designed to ensure that operational risks are assessed, mitigated and reported in a consistent manner across the group. The group has adopted a formal approach to operational risk event reporting which involves the identification of an event, assessment of its materiality, analysis of the cause, establishment of remedial action required and escalation to divisional or group level risk committees for monitoring of implementation. The group is also exposed to fraud risk both internal and external and has continued to review and enhance its anti-fraud controls.

Business Review
Principal Risks and Uncertainties continued

Employees
The success of the group is closely aligned to the abilities and experience of its employees. The earnings of the group could be adversely affected by the loss of the services of certain key teams or individuals. The ability of the group to attract and retain key personnel is critical to the group's prospects in the medium and long term.

In order to manage these risks, the group seeks to create an open and supportive working environment for its employees. Reward and incentive schemes are regularly reviewed in order to ensure the group is successful in attracting and retaining the calibre of employees necessary to meet its objectives, while aligning such schemes with risk, compliance and treating customers fairly objectives. The group has succession plans for key employees.

Technology
A number of the group's banking and securities trading businesses are highly reliant on their IT infrastructure in their daily operations. The ability to continue to compete in many of the markets the group operates in necessitates an ability to respond to new technology. Failure to keep up to date in a number of the group's businesses could lead to a material impact on the group's earnings. All of the group's businesses rely on the existence of secure and stable technological platforms.

Each of the businesses continually invest in their IT platforms to ensure they are up to date and fit for purpose for the markets they operate in. Additionally, disaster recovery plans are in place with alternative business locations maintained to enable the businesses to respond in a timely manner to a disaster event. The group's overall exposure is further mitigated by individual businesses maintaining discrete IT systems rather than group wide IT platforms.

Interest Rates
Interest income is a substantial proportion of the group's revenues. Movements in interest rates have the potential to materially affect the group's earnings.

The group's policy is to match fixed and variable interest rate liabilities and assets utilising interest rate swaps where necessary. Interest rate mismatch policies are established by the Treasury Committee with compliance monitored daily. Returns from the group's capital and reserves are necessarily subject to interest rate fluctuations and as a matter of policy are not hedged.

Securities/Derivative Trading
The group's securities businesses are exposed to market movements deriving from trading in equity and fixed income securities. Senior management is closely involved in risk management processes which are also monitored at group level. There are controls, supplemented by cash limits, on individual large or slow moving equity or fixed income positions. Real time controls on the size and risk profile of trading books and of individual books within these are maintained.

Treasury operations do not trade actively in money market instruments although they are held for liquidity purposes.

Foreign Exchange
The majority of the group's activities are located in the British Isles and are transacted in sterling. The group does however have material currency assets and liabilities primarily due to a range of currency services offered by the Banking division. These currency assets and liabilities are principally certificates of deposit, floating rate notes and lending as well as borrowings and customer deposits. The foreign exchange exposures arising from these assets and liabilities are managed by matching assets and liabilities by currency and the limited use of foreign currency swaps. Exposures are monitored daily against centrally authorised limits. The group does not take speculative proprietary positions in foreign currency.

The group also has a number of overseas subsidiaries, a US dollar investment in its associate Mako and two seed capital investments within currency denominated funds. The exposure from these investments is relatively modest and is not currently hedged. A sensitivity analysis on foreign currency exposures is shown on page 93.

Pandemic
A pandemic has the potential to materially impact the group's ability to maintain service at levels acceptable to its customers and may impact on financial performance.

The group has established plans to react to a potential pandemic and keeps these plans under constant review.

Governance
Report of the Directors

The directors present their report and the audited financial statements for the year ended 31 July 2009.

Business Review and Principal Activities

Close Brothers Group plc is the parent company of a group of companies engaged in financial services.

The principal subsidiary undertakings as at 31 July 2009 and their principal activities are listed in note 26 on page 81 of the Financial Statements.

The information that fulfils the requirements of the Business Review can be found in the following sections of the Annual Report, each of which are incorporated by reference into, and form part of, this Report of the Directors:

	Pages
Chairman's and Chief Executive's Statement	4 to 7
The Board of Directors	8 to 9
Business Review	11 to 21
Principal Risks and Uncertainties	22 to 24
Corporate Governance	27 to 34
Corporate Responsibility	35 to 36
Report of the Board on Directors' Remuneration	37 to 50
Financial Statements	52 to 96

Results and Dividends

The consolidated results for the year are shown on page 52. The directors recommend a final dividend for 2009 of 25.5p (2008: 25.5p) on each ordinary share which, together with the interim dividend of 13.5p (2008: 13.5p), makes an ordinary distribution for the year of 39.0p (2008: 39.0p) per share. The final dividend, if approved by shareholders at the 2009 Annual General Meeting ("AGM"), will be paid on 19 November 2009 to shareholders on the register as at 9 October 2009.

Directors

The current directors of the company at the date of this report appear on pages 8 and 9. Other than Ray Greenshields who joined the board on 13 November 2008, Preben Prebensen who joined the board on 1 April 2009 and Colin Keogh who stepped down from the board on the same date, all the directors held office throughout the year ended 31 July 2009.

Directors' interests

The directors' interests in the share capital of the company as at 31 July 2009 are set out on page 45.

Appointment of directors and powers of directors

Details on the appointment of directors and the powers of directors are set out on page 28.

Directors' indemnity

The company's Articles of Association provide that each director and the company secretary shall be indemnified by the company to the extent permissible under UK company law against any costs incurred by them in defending proceedings brought against them arising out of their positions as director or company secretary in which they are acquitted or judgement is given in their favour or relief from liability for negligence, default, breach of duty or breach of trust is granted to them by the court.

Share Capital

As at 31 July 2009 the company had 149.5 million ordinary shares in issue with a nominal value of 25.0p each. Details of changes in the company's ordinary share capital during the year are given in note 23 on page 77 of the Financial Statements. On a show of hands, each member has the right to one vote at general meetings of the company. On a poll, each member is entitled to one vote for every share held. The shares carry no rights to fixed income. No person has any special rights of control over the company's share capital and all shares are fully paid.

During the year the company issued 90,242 ordinary shares of 25.0p each in satisfaction of option exercises. Full details of the options exercised, the weighted average option exercise price and the weighted average market price at the date of exercise can be found in note 31 on page 86 of the Financial Statements.

Restrictions on the transfer of shares

There are no specific restrictions on the transfer of the company's shares, although the Articles of Association contain provisions whereby the directors may refuse to register a transfer of a certificated share which is not fully paid, provided that such refusal does not prevent dealings in the share from taking place on an open and proper basis. The directors may also refuse to register the transfer of a certificated share unless it is: (i) lodged, duly stamped, at the registered office or at such other place as the directors may appoint, accompanied by the certificate for the shares to which it relates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer; (ii) in respect of only one class of shares; and (iii) in favour of not more than four transferees.

The directors may suspend the registration of transfers of shares or of transfers of any class of shares at such times and for such periods (not exceeding 30 days in any year) as the board may determine, except that they may not suspend the registration of transfers of any uncertificated shares without the consent of CREST.

The directors may refuse to register a transfer of shares if a shareholder has not supplied information to the company in default of a request duly served under section 793 of the Companies Act 2006 and such shares represent at least 0.25% of the class of shares concerned.

The company is unaware of any arrangements between its shareholders that may result in restrictions on the transfer of shares and/or voting rights.

New issues of share capital

Under the Companies Acts, the directors of a company are, within certain exceptions, unable to allot any equity securities without express authorisation, which may be contained in a company's Articles of Association or given by its shareholders in general meeting, but which in either event cannot last more than five years. Under the Companies Acts, the board may also not allot shares for cash (otherwise than pursuant to an employee share scheme) without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by a special resolution of the shareholders.

Governance
Report of the Directors continued

Purchase of Own Shares
The existing authority given to the company at the last AGM to make market purchases of up to 15% of its issued share capital will expire at the conclusion of the next AGM.

The board considers it would be appropriate to renew this authority and intend to seek shareholder approval to make market purchases of up to 10% of its issued share capital at the forthcoming AGM in line with current investor sentiment. Details of the resolution renewing the authority are included in the Notice of Annual General Meeting.

During the year ended 31 July 2009, the company made market purchases of 3.9 million of its own shares ("Treasury Shares"), representing 2.59% of the issued share capital and for an aggregate consideration excluding stamp duty of £22 million. All purchases of Treasury Shares were market purchases through an agent. The minimum price which must be paid for such shares is 25.0p and the maximum price is the higher of: (i) an amount equal to 5% above the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days before the purchase is made; and (ii) an amount equal to the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange Daily Official List at the time the purchase is carried out.

The company's policy is to hold Treasury Shares for the purpose of satisfying option grants and share awards under the company's employee share plans. During the year ended 31 July 2009, 388,694 Treasury Shares were transferred out to satisfy share option awards, for a total consideration of £1.8 million. The maximum number of Treasury Shares held at any time during the year was 5.7 million with a nominal value of £1.4 million.

Substantial Shareholdings
Details on substantial shareholdings in the company are set out on page 33.

Significant Contracts
A change of control of the company following a takeover bid may cause a number of agreements to which the company is party to take effect, alter or terminate. These include certain insurance policies, bank facility agreements and employee share plans.

The group has committed facilities totalling £1.8 billion as at 31 July 2009 which contain clauses which require lender consent for any change of control. Should consent not be given, a change of control would trigger mandatory prepayment of the facility.

All of the company's employee share plans contain provisions relating to a change of control. Outstanding awards and options may vest and become exercisable on a change of control, subject where appropriate to the satisfaction of any performance conditions at that time and pro-rating of awards. In the context of the company as a whole, these agreements are not considered to be significant.

Risk Management
The group has procedures in place to identify, monitor and evaluate the significant risks it faces. The group's risk management objectives and policies are set out in note 33 on pages 89 to 95 to the Financial Statements.

Supplier Payment Policy
All banking, securities and investment transactions are settled in accordance with applicable terms and conditions of business agreed with the counterparty. Average creditor days for all other approved expenses was 21 (2008: 22).

Charitable and Political Donations
The group made charitable donations in the year amounting to £154,000 (2008: £168,000). Further details are set out in the Corporate Responsibility section on pages 35 and 36. No political donations were made during the year (2008: £nil).

Resolutions at the Annual General Meeting
The company's AGM will be held on 18 November 2009. Notice of the Annual General Meeting will be sent to the company's shareholders, which sets out the resolutions to be proposed at the meeting. The resolutions to be proposed include the renewal of the directors' authority to allot shares, the disapplication of pre-emption rights and the authority for the company to purchase its own shares. In addition, the board will be asking shareholders to approve the adoption of a new Omnibus Share Incentive Plan and to approve the adoption of new Articles of Association to take into account a number of developments in law applicable to companies since the current Articles of Association were adopted at last year's AGM.

The full text of the resolutions is set out in the Notice of Annual General Meeting. A letter from the chairman which explains the purpose of the resolutions will accompany the Notice of Annual General Meeting.

Auditors
Resolutions to re-appoint Deloitte LLP as the company's auditors and to give the directors the authority to determine the auditors' remuneration will be proposed at the forthcoming AGM.

Disclosure of Information to Auditors
Each of the persons who are directors at the date of approval of this Annual Report confirm that:

- So far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- He has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

By order of the board

R.D. Sellers
Company Secretary

29 September 2009

Governance

Corporate Governance

The company recognises the importance of ensuring high standards of corporate governance in order to protect the interests of shareholders and other stakeholders and to maintain investor confidence.

Compliance

The directors are responsible for ensuring high standards of corporate governance within the group. The directors confirm that the company's governance regime complies with the Code of Best Practice set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008 (the "Combined Code"), available at www.frc.org.uk/corporate/combinedcode.cfm, except that:

- At least half the board of directors, excluding the chairman, were not independent. Ray Greenshields, an independent non-executive director was appointed to the board in November 2008 to address this imbalance. As stated in last year's Annual Report, the board intends to appoint a further independent non-executive director.
- The Remuneration Committee and the Audit Committee consisted of only two independent directors during the period 1 August 2008 to 13 November 2008. Ray Greenshields was appointed to the Remuneration Committee and the Audit Committee on his appointment as director to address this.

The Board

Role and responsibilities

The board is collectively responsible for ensuring the success of the company. It sets the group's strategic objectives and provides leadership for the group as a whole. The board is the primary decision making body for all matters considered significant to the group as a whole. A formal schedule of matters is submitted to the board for its decision, which enables the board and executive management to operate within a clear governance framework. The schedule is reviewed annually and currently includes:

- Setting and monitoring strategy;
- Risk management;
- Regulatory compliance and internal control;
- Ensuring adequate financial resources;
- Acquisitions and disposals over certain thresholds;
- Board appointments and removals; and
- Communication with shareholders.

Matters which are outside the scope of the schedule of matters reserved to the board are decided by executive management.

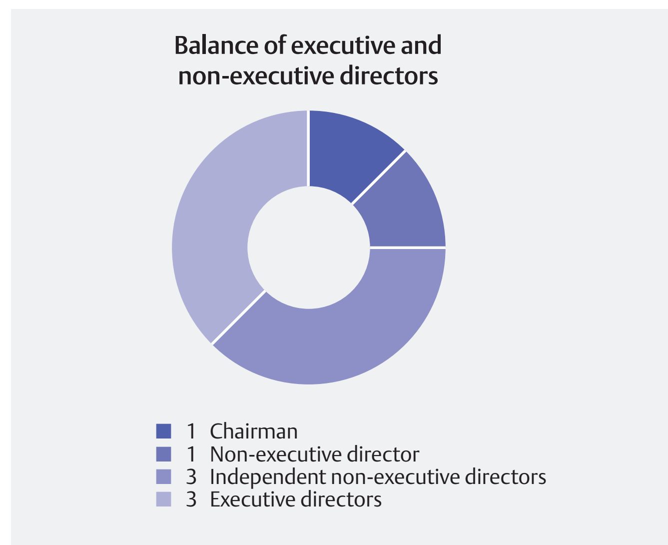
The board also adopts an annual schedule of rolling agenda items to ensure that all matters are given due consideration and reviewed at the appropriate point in the financial and regulatory cycle. Agenda items include consideration of the annual budget and its approval, review of the Internal Capital Adequacy Assessment Process and regular updates from the chief executive and finance director on the performance and results of the group and the individual operating businesses. In addition, senior executives will update the board on specific matters, including compliance, risk and internal audit. During the year, the board has, in particular, focused on:

- The external reporting of the group's financial results;
- The budget for the 2009/2010 financial year;
- Funding and liquidity;
- The disposal of the Corporate Finance division;
- Capital management;
- The implications of the Turner and Walker Reviews; and
- The outcome of the board evaluation process.

In addition, the divisional heads of the Banking and Asset Management divisions updated the board on performance and strategic developments and initiatives in their respective areas.

Composition, balance and independence

At the date of this report, the board comprises eight members: the chairman, three executive directors and four non-executive directors, one of whom is not regarded as independent due to his status as a director of a substantial shareholder of the company.



The directors contribute a range of complementary skills, knowledge and experience. Details of the individual directors and their biographies are set out on pages 8 and 9.

Ray Greenshields and Preben Prebensen were appointed to the board on 13 November 2008 and 1 April 2009 respectively. Colin Keogh stepped down as a director on 1 April 2009.

Governance
Corporate Governance continued

The board is of the opinion that each non-executive director acts in an independent and objective manner and therefore, under the Combined Code, is regarded as independent, with the exception of Jamie Cayzer-Colvin who is a director of a substantial shareholder. The board's opinion was determined by considering for each non-executive director whether he is independent in character and judgement, how he conducts himself in board meetings and board committee meetings, whether he has any interests which may give rise to an actual or perceived conflict of interest and whether he acts in the best interests of the company and all its shareholders at all times. Each non-executive director is required to confirm at least annually, whether any circumstances exist which could impair his independence.

The structure of the board ensures that no individual or group of individuals is able to dominate the decision making process.

Chairman and chief executive
The roles of the chairman and chief executive are separate and there is a clear division of responsibilities between the two roles. In accordance with the Combined Code, there is a written statement of the division of responsibilities which has been reviewed and approved by the board. The chairman is Strone Macpherson. His other significant commitments are set out in his biography on page 9. The board is satisfied that his significant commitments do not unduly restrict him from carrying out his duties effectively.

As chairman, Strone Macpherson is primarily responsible for leading the board and ensuring the effective engagement and contribution of all the directors. His other responsibilities include setting the agenda for board meetings, providing the directors with information in an accurate, clear and timely manner and the promotion of effective decision making. The chairman is also charged with ensuring that the directors continually update their skills and knowledge and that the performance of the board, its committees and the individual directors are evaluated on an annual basis.

The group chief executive is Preben Prebensen, who was appointed to the board on 1 April 2009. Prior to Preben Prebensen's appointment, the group chief executive was Colin Keogh. The group chief executive is primarily responsible for the day to day management of the company's business. His other responsibilities include proposing and developing strategic objectives for the group, managing the group's risk exposures in line with board policies, implementing the decisions of the board and facilitating appropriate and effective communication with shareholders and regulatory bodies.

Senior independent director
The senior independent director is Bruce Carnegie-Brown. In addition to the existing channels for shareholder communications, shareholders may discuss any issues or concerns they have with the senior independent director.

Appointment of directors
The appointment of directors is governed by the company's Articles of Association, the Companies Act 2006 and other applicable regulations and policies. Directors may be elected by shareholders in general meeting or appointed by the board of directors in accordance with the provisions of the Articles of Association. The Articles of Association may be amended by special resolution of the shareholders.

Non-executive directors are appointed by the board for an initial term of three years, subject to any applicable regulatory provisions and the continued satisfactory performance of their duties. Letters of appointment are available for inspection by shareholders at each AGM and during normal business hours at the company's registered office.

If appointed by the board, a director must stand for re-election by the shareholders at the next AGM. Ray Greenshields and Preben Prebensen were appointed to the board on 13 November 2008 and 1 April 2009 respectively and will both stand for election at the forthcoming AGM.

In accordance with the company's Articles of Association, all directors must stand for re-election by the shareholders at least every three years. The board will only recommend to shareholders that executive and non-executive directors be proposed for re-election at an AGM after evaluating the performance of the individual directors. At the 2009 AGM, Strone Macpherson and Stephen Hodges will retire by rotation and each intends to stand for re-election. Following the performance evaluation, the board will be recommending that Strone Macpherson and Stephen Hodges be re-elected by shareholders and confirms that each continues to be effective and demonstrates commitment to his role.

Biographies for Ray Greenshields, Preben Prebensen, Strone Macpherson and Stephen Hodges and are set out on page 9.

Powers of directors
The directors are responsible for the management of the company. They may exercise all powers of the company, subject to any directions given by special resolution and the Articles of Association. The directors have been authorised to allot and issue ordinary shares and to make market purchases of the company's ordinary shares by virtue of resolutions passed at the company's AGM.

Meetings and attendance
The board has regular scheduled meetings. During the year ended 31 July 2009 there were ten scheduled board meetings and five ad hoc board meetings were called to deal with specific time critical business matters. There are also additional board meetings convened to deal with operational issues. The annual schedule of board meetings is decided a substantial time in advance in order to ensure the availability of each of the directors. In the event that directors are unable to attend meetings due to conflicts in their schedule, they receive papers in the normal manner and have the opportunity to relay their comments in advance of the meeting, as well as follow up with the chairman if necessary. The same process applies in respect of the various board committees.

The directors receive detailed and comprehensive papers in advance of each board meeting. The agenda is set by the chairman in consultation with the chief executive, the finance director and the company secretary. In addition, each director is given the opportunity to review the agenda and propose items for discussion with the chairman's agreement.

The number of board meetings held during the year and the attendance by the directors is set out in the table below:

Number of board meetings 2008/2009

	Scheduled 10	Ad-hoc 5
Executive director:		
Stephen Hodges	10	5
Jonathan Howell	9	5
Colin Keogh[1]	6	3
Preben Prebensen[2]	4	1
Non-executive director:		
Bruce Carnegie-Brown	9	5
Jamie Cayzer-Colvin	9	3
Ray Greenshields[3]	9	3
Strone Macpherson	10	5
Douglas Paterson	10	4

[1] To date of resignation 1 April 2009.
[2] From date of appointment 1 April 2009.
[3] From date of appointment 13 November 2008.

Board evaluation
The board conducts a formal and rigorous performance evaluation each year to assess its own performance and that of its committees and individual directors. The process is led by the chairman, who is supported by the company secretary.

During the year, the board agreed that it would benefit from its first external board effectiveness review. Boardroom Review was appointed to carry out the independent evaluation following a selection process. Boardroom Review provides no other services to the board and/or the group.

The comprehensive nature of the review fulfilled the Combined Code requirements for the evaluation of the board, its committees and the individual directors and took the form of one-to-one meetings between the external assessor and each director plus the completion of a confidential questionnaire. Results from the evaluation were collated by the assessor and considered by the chairman and chief executive. Feedback was subsequently presented to the full board in July 2009 and discussed by the board as a whole.

Overall, the conclusions from the evaluation were positive and identified a number of board strengths. However, in order to ensure continuous improvement a number of action points were identified for implementation which included:

- The introduction of a strategic away day to the board calendar;
- Increased informal board time and communication between scheduled meetings; and
- The introduction of a structured approach to board development including the development of a rolling schedule of board training.

These initiatives will be developed during the course of this financial year and a board strategy away day is already being planned for autumn 2009.

In addition to the independent board evaluation process, the senior independent director led a separate performance review in respect of the chairman which involved a review with the non-executive directors (excluding the chairman) and separate consultation with the chief executive. The senior independent director subsequently provided feedback to the chairman on his appraisal.

Induction, information and ongoing development
On appointment to the board, each director receives a comprehensive induction tailored to the experience and needs of the individual. Meetings are arranged with other directors, key senior personnel and external advisers. New directors are also available to meet major shareholders on request.

The directors are kept informed of relevant regulatory and corporate governance developments as they arise by senior managers or through the company's external advisers. During the year ended 31 July 2009, the directors received briefings on the Financial Services Authority ("FSA") code of practice on remuneration, the Turner and Walker Reviews.

In addition, all directors have direct access to the services and advice of the company secretary who is responsible for ensuring that the board procedures and applicable rules and regulations are observed. Directors are able to take independent outside professional advice to assist with the performance of their duties, at the company's expense.

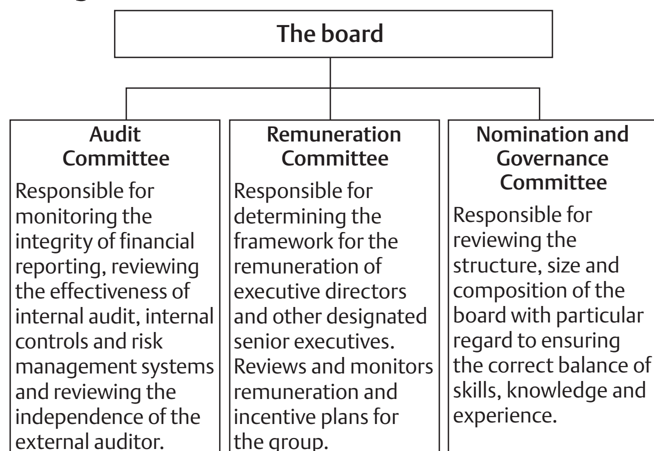
Board Committees
The board has established an Audit Committee, a Remuneration Committee and a Nomination and Governance Committee. Each committee is responsible for the review and oversight of activities within its defined terms of reference and copies of each committee's terms of reference are available on the company's website.

Membership of the committees is made up of non-executive directors only.

At the scheduled board meetings, the chairman of each committee provides the board with a summary of key issues considered at the committee meetings.

Governance
Corporate Governance continued

Board governance structure



Audit Committee

The membership of the Audit Committee during the year ended 31 July 2009, together with a record of attendance at meetings which members were eligible to attend, is set out below:

Number of meetings and attendance 2008/2009 – 5

Douglas Paterson (chairman)	5
Bruce Carnegie-Brown	4
Ray Greenshields*	4

*From date of appointment on 13 November 2008.

The Committee met on five occasions during the year, four of these meetings were scheduled to coincide with the financial reporting and audit cycles of the group plus one ad hoc meeting. The Committee has throughout the year monitored the integrity of the financial statements through a review of the Interim and Annual Reports.

Douglas Paterson, Bruce Carnegie-Brown and Ray Greenshields are all independent non-executive directors. The Committee is chaired by Douglas Paterson who as a senior partner in the banking and capital markets division of PricewaterhouseCoopers until 2001 and as a non-executive director of Goldman Sachs International Bank has, in the view of the board, the appropriate level of recent and relevant financial experience as required by the Combined Code.

The company secretary, or his nominee, acts as secretary to the Committee. The chief executive, finance director and heads of group finance, risk, compliance and internal audit attend by invitation. The chairman of the board and Jamie Cayzer-Colvin also attend Committee meetings regularly. The external auditors attend the meetings at least twice a year and the head of internal audit attends all meetings. The Committee meets privately with the external and internal auditors at least once a year. The Committee also meets regularly without members of management present.

The role of the Committee includes:

- Monitoring the integrity of the financial statements of the company and the form and content of published announcements;
- Reviewing accounting policies, accounting treatments, judgements and disclosures in financial reports;
- Reviewing the adequacy of the group's system of risk management, regulatory compliance and internal control;
- Reviewing the group's whistleblowing procedures;
- Monitoring and reviewing the effectiveness of the group internal audit function;
- Making recommendations to the board as to the appointment or re-appointment and remuneration of the external auditors, including assessing independence and objectivity, approving their terms of engagement and reviewing their findings and performance and overseeing the relationship with them; and
- Developing and implementing policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.

The Committee reports to the board on all these issues, identifying any matters in respect of which it considers that action or improvement is needed, and makes recommendations as to the steps to be taken.

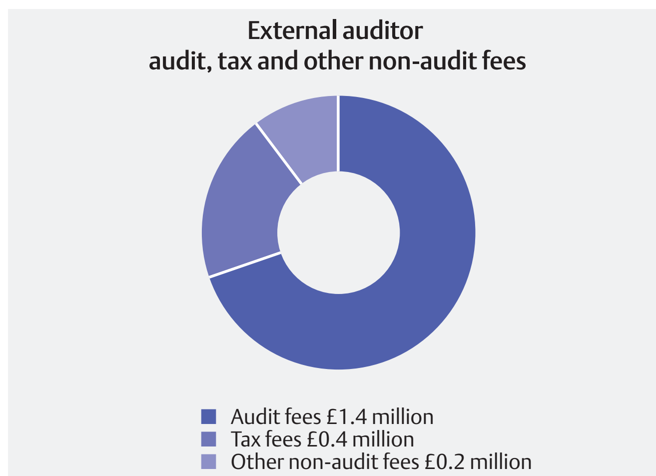
Particular areas of focus for the Committee during the year included a review of significant issues contained in the reports from both the internal and external audits, consideration of the audit fee and the balance between audit and non-audit fees, consideration of the group's foreign exchange exposure and proposed hedging policy and consideration of an update report on treasury share purchases and distributable reserves.

The Committee also reviewed the structure of the group internal audit function which resulted in the appointment of PricewaterhouseCoopers as co-source partner in order to have increased specialist resource and best practice knowledge because of the diverse nature of the group's business model. In accordance with the 2008 Guidance on Audit Committees, the Committee also considered the risks associated with the withdrawal of the group's external auditor from the market. This involved the identification of a potential alternative audit firm and satisfying itself that there are no current barriers to that firm acting as external auditors.

As in previous years, the Committee conducted a review of the service provided by the group's external auditors. The results of this review were shared with the external auditors to provide a basis for its recommendation as to their re-appointment.

Non-audit services policy

The Committee has agreed a clear policy on the engagement of the external auditors for non-audit services. Where work is closely related to the audit, for example accounting advice or stock exchange reporting, work may be awarded to the external auditors. If the work is of a nature such that a detailed understanding of the group is necessary, or where significant benefit can be gained from work previously conducted, for example tax advice or due diligence on transactions, the work may be awarded to the external auditors, except that if it exceeds £100,000 in value, it must first be approved by the Committee. The Committee believe that this policy provides a more relevant measure of auditor independence than the monetary ratios and guidelines followed by some investors. A breakdown of the fees paid to the external auditors in respect of audit and non-audit work is included in note 6 on page 66.



Auditors' independence

The auditors of the group are Deloitte LLP. Several firms are considered for other work, including the auditors in some instances. In such cases due consideration is given to the impact of the assignment on the independence of the auditors and to their qualifications to carry out the role, including competitive tenders for larger assignments.

Having given consideration to the extra work undertaken by the auditors, and after review with the partner in the firm and the executive directors, the Audit Committee is satisfied as to the independence of the statutory auditors.

The Committee reviewed the appointment of the external auditors of the group in April 2008. All "big four" audit firms were considered for the position of sole auditors of the group although only two were subsequently asked to tender. Following this process, Deloitte LLP were appointed on a fixed fee for a period of two years, subject only to significant changes in the scale and composition of the group.

Remuneration Committee

The membership of the Remuneration Committee during the year ended 31 July 2009, together with a record of attendance at meetings which members were eligible to attend, is set out as follows:

Number of meetings and attendance 2008/2009 – 5	
Bruce Carnegie-Brown (chairman)	5
Ray Greenshields*	4
Douglas Paterson	5

*From date of appointment 13 November 2008.

Bruce Carnegie-Brown, Ray Greenshields and Douglas Paterson are all independent non-executive directors. The Remuneration Committee is chaired by Bruce Carnegie-Brown.

The Committee's principal functions are making recommendations to the board on the framework or broad policy for the remuneration of executive directors and other designated senior executives and deciding on behalf of the board the specific compensation package for each of the executive directors. The chairman of the board and Jamie Cayzer-Colvin attend all Committee meetings. Further details of the role and work of the Committee are set out in the Report of the Board on Directors' Remuneration on pages 37 to 50.

Nomination and Governance Committee

The membership of the Nomination and Governance Committee during the year ended 31 July 2009, together with a record of attendance at meetings which members were eligible to attend, is set out below:

Number of meetings and attendance 2008/2009 – 3	
Strone Macpherson (chairman)	3
Bruce Carnegie-Brown	3
Ray Greenshields*	3
Douglas Paterson	3

*From date of appointment 13 November 2008.

There were a number of additional informal meetings between members of the Committee during the year.

Other directors may attend the Committee meetings by invitation.

The role of the Committee includes:

- Considering the appointment or retirement of directors;
- Reviewing proposed nominations and governance procedures and to make recommendations thereon to the board. Before an appointment is made the skills, knowledge and experience required for a particular appointment are evaluated and external advisers may be used to facilitate the search for suitable candidates;
- Regular reviews of the structure, size and composition of the board;
- Considering the leadership needs of the group and succession planning; and
- Assessing the contribution of non-executive directors.

Governance
Corporate Governance continued

During the year the Committee met to consider the recruitment and appointment of a new chief executive and the external board assessor selection process.

Conflicts of Interest

Shareholders approved amendments to the company's Articles of Association at the AGM held on 13 November 2008, which included provisions giving the directors authority to approve conflicts of interest and potential conflicts of interest as permitted under the Companies Act 2006.

A procedure has been established whereby actual and potential conflicts of interest are regularly reviewed, and appropriate authorisation sought, prior to the appointment of any new director or if a new conflict arises. The decision to authorise a conflict of interest can only be made by non-conflicted directors and in making such a decision the directors must act in a way they consider, in good faith, will be most likely to promote the success of the company. The board believes this procedure operated effectively throughout the year.

Internal Control and Risk Management

The board has overall responsibility for the group's systems of risk management, regulatory compliance and internal control and for reviewing their effectiveness. The systems are designed to ensure that the key risks taken by the company and its subsidiaries in the conduct of their business are identified and evaluated so that appropriate controls are put in place to manage those risks. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

Risk management is the process of identifying the principal business risks, including regulatory compliance risks, to the group achieving its strategic objectives, establishing appropriate controls to manage those risks and ensuring that appropriate monitoring and reporting systems are in place. The group's risk management process balances cost against risk within the constraints of the group's risk appetite and is consistent with the prudent management required of a large financial organisation.

The risk management framework is based on the concept of "three lines of defence":

- Risk management: Primary responsibility for strategy, performance and risk management lies with the board, the chief executive and the heads of each division and operating business.
- Risk oversight: Risk management oversight is provided by the Group Risk and Compliance Committee ("GRCC") and the head of group risk working with counterparts in the divisions and operating businesses and with group compliance.
- Independent assurance: Independent assurance on the effectiveness of the risk management systems is provided by group internal audit reporting to the Audit Committee.

There are clear reporting lines and defined areas of responsibility at board, divisional and business level. This structure is designed to ensure, amongst other things, that key issues and developments are escalated on a timely basis. The group's risk management framework requires that all of the group's divisions and operating businesses establish a process for identifying, evaluating and managing the key risks that they face.

The composition and duties of the Audit Committee are described on page 30. The GRCC is a committee established by the chief executive to assist him in the discharge of his responsibility for the group wide management of risk comprising executives of the group board supported by the head of group risk, the head of group compliance and the head of group internal audit. It meets monthly and is responsible for:

- Recommending for board approval the group's risk appetite;
- The group's risk management strategy, approach and policy;
- The approval of group wide policies in respect of risk management and regulatory compliance; and
- Receiving regular reports on significant risk management, regulatory compliance and internal control issues and for monitoring their analysis and resolution.

The system of internal control is supported by a well established organisational structure within the group, with clear levels of responsibility and delegation of authority and a strong control culture embedded in the day to day management of each operating company. Each operating company in the group regularly undertakes a review of, and reports to its board on, these controls and procedures, having due regard to its key risks. Where necessary, steps are taken to improve internal control and risk management further, following these reviews. The principal risks and uncertainties shown on pages 22 to 24 of the Business Review details these key risks and explains how they are controlled.

Group internal audit regularly reviews the effectiveness of controls and procedures established by the company and its operating businesses to manage key risks. The head of group internal audit reports functionally to the Audit Committee through the chairman of that committee and to the finance director who provides day to day support and guidance to the function including the professional development of the head of audit. The head of group internal audit has unfettered access to the board.

An annual plan is presented to the Audit Committee each year, which focuses in particular on higher risk areas of the group's business. The Committee regularly reviews the scope and results of internal audit work across the group and the implementation of recommendations. It also assesses the scope of the work to cover all key activities of the group and concentrates on higher risk areas.

The company has complied with the Turnbull Committee's guidance for directors. Identifying, evaluating and managing the group's significant risks is an ongoing process which is regularly reviewed by the board, and which has been in place for the year ended 31 July 2009 and up to the date of the approval of these financial statements.

Investor Relations

The group has an extensive programme of communication with shareholders and financial analysts through financial reports, news releases, investor presentations, meetings and telephone discussions throughout the year. The investor relations programme ensures investors have access to relevant information to understand the performance and prospects of the group, and have appropriate access to the group's management. The chief executive and finance director meet with shareholders on a regular basis, and the chairman and senior independent director are also available to meet with major shareholders from time to time. The investor relations team regularly provides the board with feedback from investor meetings, relevant analyst research and updates on share price performance.

Shareholders also have the opportunity to ask questions to the board at the AGM, either in person or by submitting written questions in advance. The chairman of each of the board committees are available to attend the AGM, and all directors are expected to attend the meeting.

The latest financial reports, news releases, presentation materials and web casts of financial presentations are available on the investor relations section of the Close Brothers Group web site www.closebrothers.co.uk.

Substantial Shareholdings

The company has been notified as at 9 September 2009 under the provisions of the Disclosure and Transparency Rules of the following significant interests in the voting rights of the company.

	Ordinary shares millions	Voting rights %
Caledonia Investments	19.6	13.6
Prudential	13.0	9.0
Aberdeen Asset Management	9.6	6.6
Lloyds Banking Group	8.0	5.6
Artemis	6.6	4.6
Legal & General	6.3	4.4
Aviva	5.8	4.0

Substantial shareholders do not have different voting rights from those of other shareholders.

Going Concern

The group's business activities, together with the factors likely to affect its future development and performance and its summarised financial position are set out in the Chairman's and Chief Executive's Statement and Business Review on pages 4 to 7 and 11 to 21. The principal risks and uncertainties the group currently faces are described on pages 22 to 24 of the Business Review along with the ways the group seeks to manage those risks.

The group has a strong, proven and conservative business model and a range of diversified financial services businesses, and its performance has been resilient in the difficult trading conditions currently being experienced and in previous downturns. The directors further believe the group has a sound funding and liquidity position and adequate capital resources.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report.

Statement of Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements. The directors are required to prepare accounts for the group in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and Article 4 of the IAS Regulation, and have chosen to prepare company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP").

In the case of IFRS accounts, IAS 1 requires that financial statements present fairly for each financial year the group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and financial performance; and
- prepare the accounts on a going concern basis unless, having assessed the ability of the group to continue as a going concern, management either intends to liquidate the group or to cease trading, or have no realistic alternative but to do so.

In the case of UK GAAP accounts, the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to: select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; state whether all applicable accounting standards have been followed, subject to any

Governance

Corporate Governance continued

material departures disclosed and explained in the financial statements; and prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and the company and to enable them to ensure that the group financial statements comply with the Companies Act 2006 and Article 4 of the International Accounting Standards Regulation and that the company financial statements and the Report of the Board on Directors' Remuneration comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with IFRS and UK GAAP, give a true and fair view of the assets, liabilities, financial position and profit of the company and the undertakings included in the consolidation as a whole.
- The management reports, which are incorporated by reference into the Report of the Directors, include a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties they face.

By order of the board

R. D. Sellers
Company Secretary

29 September 2009

Governance
Corporate Responsibility

Introduction
Close Brothers aims to integrate Corporate Responsibility ("CR") across the group's businesses and has continued to do so throughout the year despite difficult and challenging financial markets.

The board believes that its main CR focus should be on:

- Ensuring recognition of CR initiatives throughout the group;
- The group's employees;
- Acting responsibly to its customers that it conducts business with;
- The environmental impact of its activities generally; and
- The group's contribution to local communities.

The board encourages the adoption of key CR principles across all group companies. Given the diversified nature of the group, Close Brothers' businesses are responsible for implementing the group's CR principles.

It is the responsibility of each employee to read and understand the group's CR principles and to implement the company's requirement regarding CR. It is the managers' and directors responsibility to effectively manage, monitor and evaluate the continued progress of CR efforts as part of the company's strategy and the board's commitment.

Employees
Close Brothers is committed to recruiting, training, developing and retaining high calibre people in order to maximise their potential and derive business benefits. Close Brothers is an equal opportunities employer and does not judge applications for employment by race, gender, age, disability, sexual orientation, nationality or political bias.

Close Brothers' businesses are responsible for implementing their own health and safety policy to establish procedures appropriate to their particular activities. All businesses have a health and safety policy which is communicated to employees as part of a joining induction pack, staff handbook or via the intranet. The group's commitment to monitor, maintain and improve health and safety in the workplace is evidenced through the appointment of an accountable health and safety officer in all businesses who is responsible for regularly reviewing their policy and minimising the risk of stress or injury at the workplace.

Close Brothers is committed to ongoing training and development of its staff and provides compulsory and voluntary programmes as appropriate for each business, supporting training for qualifications. In 2009, over two thirds of employees attended internal or external training courses. All divisions offer development and performance reviews for their staff which, in most cases, forms part of an annual appraisal process and addresses training and development plans.

The group offers a Save As You Earn scheme to all eligible employees allowing them to participate directly in the success of the group. In 2009, approximately one quarter of all staff across the group participated in the scheme. The board has recently agreed to reduce the eligibility criteria for employees from two years' service to six months' in order to encourage increased participation in the scheme.

Responsible Finance
Our success and strong reputation depends on treating all customers fairly. Close Brothers Group has a successful track record of building long-term relationships with its customers.

During the last twelve months, the group has conducted reviews to ensure its businesses have "embedded" Treating Customers Fairly ("TCF"). The group has implemented TCF both onshore and offshore, fully supporting the FSA's initiative. Group control functions are responsible for monitoring the application of TCF across our businesses, ensuring all staff are briefed on TCF policies. TCF is an ongoing process and the group will continue to develop its policies and procedures taking into account regulatory views and industry best practice.

The group recognises its responsibility to minimise the opportunity for fraud across its businesses. All group companies have anti-money laundering and, where appropriate, fraud prevention policies.

Each of our regulated businesses has a dedicated anti-money laundering and compliance officer who reports to the head of group compliance. Regular training is given to all staff to ensure continuing awareness of anti-money laundering and fraud prevention issues.

Throughout these recent difficult markets, Close Brothers' robust funding model and prudent underwriting criteria have enabled it to continue to lend to small and medium sized enterprises.

Environment
The group recognises the importance of minimising the environmental impact of its activities.

In 2009, Close Brothers Group participated in the Carbon Disclosure Project for the fourth consecutive year, demonstrating its commitment to reducing carbon emissions. This disclosure currently measures annual carbon risk information for the group's 10 Crown Place office in London.

In September 2008, an energy audit was carried out at this office, the results of which identified a number of measures which have the potential to reduce annual emissions.

The group continues its commitment to limit greenhouse gas emissions and water usage and to recycle waste materials at its 10 Crown Place office. At this office, green tariff energy is procured and there is a recycling programme in place for toners, paper and general waste.

Community
Close Brothers continues to encourage employee participation in local community projects and offers to match funding. Many businesses encourage charitable donations by offering a Give As You Earn scheme for staff and in 2009 Winterflood

Governance
Corporate Responsibility continued

won a gold quality mark from Charities Aid Foundation awarded as recognition for having around 40% of employees giving through the scheme and actively promoting participation throughout the year.

Charitable donations made during the year amounted to £154,000 (2008: £168,000) despite the challenging economic environment. Matched funding for employees participating in fundraising activity accounted for 17% with the remainder from direct company contributions to charities across the UK and Europe. The company's largest contributions were to Charities Aid Foundation, Prince's Trust and Macmillan Cancer Support with smaller donations to a range of charities in the UK and Germany supporting medical research, community-based projects in Malawi and many other worthy causes.

Close Brothers has had a relationship with Business in the Community for the past eight years and continues to be a full member as a reflection of the group's commitment to improve its impact on society.

Governance

Report of the Board on Directors' Remuneration

This report has been prepared in accordance with the relevant provisions of Schedule 8 to the Accounting Regulations under the Companies Act 2006 and has been approved by the board. The report also meets the relevant requirements of the Listing Rules of the FSA and describes how the board has applied the principles relating to directors remuneration in the Combined Code. It will be presented to shareholders for approval at the AGM on 18 November 2009.

Certain parts of this report are audited by the company's auditors Deloitte LLP and are marked as "audited" for clarity.

Introduction

Despite the difficult external conditions and problems experienced by some in our sector, the group has overall achieved a solid set of results. This was achieved as a result of strong executive leadership, the group's prudent business strategy and risk management policies. Our people have been rewarded fairly and this report explains how and what was paid to the directors of Close Brothers Group plc and why they were paid in this way.

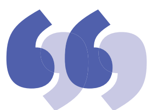
During the year, the Remuneration Committee also felt it appropriate to review its future remuneration policy and incentive structure for senior executives in light of the following important factors:

- The shift in the group's strategic priorities to achieve greater focus on core business areas and to improve the group's capability and scalability;
- The recognition that good risk management must form an integral part of any remuneration policy and structure;
- The importance of structuring remuneration to avoid excessive emphasis on cash bonuses linked solely to short-term financial performance without appropriate consideration of the alignment of risk and reward and sustainable long-term shareholder value; and
- The difficult business conditions in the financial sector and the wider economy.

Against this background, the Committee is proposing to make a number of changes to the remuneration of executive directors for the forthcoming year which are summarised on the following page. In carrying out this review and formulating this policy, the Committee has been mindful of the external environment and believes these changes draw on recent external and regulatory developments while ensuring that the package motivates management to achieve strategic priorities and is aligned with shareholders' interests.

Over the course of the next reporting year, the Committee will continue to work on developing practices and procedures that align reward with performance, structured appropriately, and will also monitor regulatory developments and best practice in the financial sector while also ensuring that policies are suited to business needs.

The Committee chairman will be available to answer questions at the forthcoming AGM on 18 November 2009.



The Committee has been mindful of the external environment and believes the changes to remuneration policy draw on recent external and regulatory developments.

A solid set of results have been achieved as a result of strong executive leadership, the group's prudent business strategy and risk management policies.

Governance

Report of the Board on Directors' Remuneration continued

Proposed Changes to the Remuneration of Executive Directors

Key changes	Rationale for change
Base salary • 2010 base salaries for executive directors will be frozen at 2009 year end levels.	• Prudent cost control in current environment across the group. • Reflects market practice trends, low inflation, and shareholder expectations.
Annual bonus • Annual bonus to be capped at 300% of salary. • Annual bonus paid in cash to be capped at 100% of salary. • Any annual bonus earned over 100% of salary will be deferred into shares for two years.	• In previous years, annual bonuses have been uncapped in line with market practice in the banking sector. Capping annual bonuses will help protect against excessive cash rewards being paid for short-term performance. • In previous years, between 50% and 65% of any annual bonus earned over 100% of salary was paid in cash in the year earned and only 35% to 50% of any annual bonus earned over 100% of salary was deferred into shares for two years. The new proposal will better link short-term bonuses and performance to sustainable longer-term shareholder value by delivering a higher proportion of annual bonuses in deferred shares.
New Share Matching Plan • Voluntary investment of up to 100% of salary from total bonus into Close Brothers Group shares for three years. Deferred Shares, earned as part of the annual bonus, can be used towards voluntary investment but any investment must be held for three years and not two years. • Each invested share will be matched with up to two free Matching Shares subject to achieving performance conditions over three years.	• This new plan is subject to shareholder approval at the AGM in November 2009. • This plan will provide management with an additional incentive linked to performance but only if they also put their own money at risk in company shares over a longer period.
New Long Term Incentive Plan ("LTIP") • An annual award of company shares with a face value of up to 200% of salary. • The first award will vest after three years subject to achieving absolute Total Shareholder Return ("TSR") growth, adjusted earnings per share ("EPS") growth and strategic performance targets.	• This new plan is subject to shareholder approval at the AGM in November 2009. • An LTIP has been used in previous years based on a similar award quantum. However, last year's award was subject to EPS growth and TSR growth relative to comparator companies. The Committee believes that the current performance targets are too heavily weighted towards a narrow set of financial incentives. In addition, relative TSR provides a poor line of sight for management and may result in significant payouts even if shareholder value has been destroyed. • The Committee is introducing a balanced scorecard of measures that reflect absolute improvements in shareholder value, underlying financial performance and the achievement of our strategic priorities. This will provide management with a clearer line of sight to value drivers that are within their control and influence. The Committee also believes that a balanced scorecard is the most effective way of assessing the overall health, success and risks of the business.
New shareholding guideline • Executive directors will be required to build and maintain a shareholding of two times salary (one times salary for other executive committee members) over a reasonable time-frame.	• This is a new guideline that aims to create greater alignment between management and shareholders' interests. • The guideline reflects current market practice trends and best practice.

The Remuneration Committee

The Committee consists of three independent non-executive directors, namely Bruce Carnegie-Brown (chairman), Ray Greenshields and Douglas Paterson. All served throughout the year with the exception of Ray Greenshields who was appointed on 13 November 2008.

Meetings and Areas of Focus during the Year

Details of the number of meetings and each member's attendance are set out in the table on page 31. The Committee's terms of reference comply with the Combined Code and are available on the company's website.

The Committee met five times during the year under review and covered the following items (set out in order of occurrence):

- Approval of the 2007/2008 remuneration report;
- The measurement of performance conditions and determination of vesting levels of the 2005 awards made under the 2004 Long Term Incentive Plan ("2004 LTIP") ;
- Approval of the grant of the 2008 awards under the 2004 LTIP and determination of the performance conditions;
- Approval of Preben Prebensen's remuneration package on his appointment as chief executive;
- Consideration and approval of Colin Keogh's termination payments;
- Consideration of the draft FSA code of practice on remuneration policies and the Walker review proposals relating to remuneration;
- Executive directors 2009/2010 annual salary review;
- Consideration and determination of 2008/2009 bonuses; and
- Review of the executive remuneration policy and incentive structure in light of business needs.

Advice

During the year under review and up to the date of this report, the Committee consulted and took advice from the following external advisers and executives in respect of the matters set out below:

Hewitt New Bridge Street

- Performance conditions for the 2004 Long Term Incentive Plan.
- Special awards to secure the services of the new chief executive.
- Consideration of the potential performance conditions for the new chief executive's special matching awards.
- Periodic monitoring of the 2004 Long Term Incentive Plan TSR targets.

PricewaterhouseCoopers

- New executive remuneration policy and long-term incentive plan structure.

Chief executive

- 2008/2009 bonus recommendations for executive directors and other senior executives.
- Recommendations regarding 2009/2010 salary reviews for the executive directors and other senior executives.

Finance director

- Accounting and tax considerations in relation to the new long-term incentive plan.
- Funding and hedging approach in relation to the equity based elements of the new incentive plan and subsisting plans.

Where appropriate the Committee receives input and information from the chairman of the board, chief executive, finance director and the company secretary although this never relates to their own remuneration.

Governance

Report of the Board on Directors' Remuneration continued

Remuneration Policy

To take into account the development of the company, its strategic plans and recent regulatory developments in respect of banking remuneration practices, the Committee undertook a comprehensive review of senior executive remuneration. The review has indicated that a number of remuneration changes are appropriate to improve the alignment of management incentives with shareholder objectives. These are discussed in further detail below. In addition, the Committee believes that the proposed policy and incentive structure will enable the company to recruit the people it needs and to retain and motivate the senior management team. As with the policy operated in 2007/2008, the Committee believes that the remuneration structure ensures an appropriate balance is maintained between fixed and performance related remuneration and between elements linked to short-term financial performance and those linked to longer-term shareholder value criteria. Key elements of the remuneration policy are summarised in the table on page 38.

Base Salary

The Committee determines the level of base salary for each executive director annually taking into account salaries in relevant comparator companies and specific factors relating to individual performance. Pay for the broader employee population is also taken into account when setting executive pay. In determining base pay for the 2010 financial year, the Committee has also been particularly mindful of the current external environment. As a result, base salaries for the 2010 financial year will be frozen at the 2009 year end level. Other than a few exceptional circumstances or where there has been a significant change in responsibilities, base salaries for employees across the group have also been frozen. The Committee considers this to be a prudent cost saving measure in the current climate. The next date for base salary reviews will be 1 August 2010. In the case of Preben Prebensen who joined the company on 1 April 2009, his first salary review will be on the usual review date following the second anniversary of his appointment.

	Annual base salary		
Executive director	1 August 2008 to 31 July 2009	From 1 August 2009	Increase %
Preben Prebensen	£475,000*	£475,000	Nil
Stephen Hodges	£367,500	£367,500	Nil
Jonathan Howell	£360,000	£360,000	Nil

* Base pay from date of appointment 1 April 2009.

Annual Bonus

Executive directors and other senior executives are eligible to receive annual bonus awards under which discretionary payments may be made based on the achievement of specific pre-determined objectives. The annual bonus for 2010 for executive directors will be capped at 300% of base salary. This is a significant change to the previous policy under which annual bonus payments were uncapped. 50% of the bonus will be subject to adjusted profit before tax performance and the other 50% will be subject to individual performance. Any bonus paid up to 100% of salary will be paid in cash. Any bonus earned over 100% of salary will be deferred into company shares for a period of two years. Under the current arrangements only 35% to 50% of any bonus earned is required to be deferred into shares. The Committee believes that deferring a higher proportion of annual bonus into shares will better align potentially volatile annual performance with sustainable long-term shareholder value.

The Committee has reviewed the issue of clawback, but is persuaded that clawback is not necessary since the maximum cash bonus payable in any year is not excessive (at 100% of salary) and the average maturity of the risks in the group is shorter than the current three year deferral/performance period being proposed. For example, Winterflood is substantially a cash equities trading business whose principal settlement risks are T+3 days. Very little inventory is held longer than a few weeks and this is tracked though a stale inventory schedule. In the case of the Banking division, the average life of the loan book is twelve months with typical loan maturities, for example, in premium finance of ten months and in motor finance of less than three years. While there are no long dated balance sheet risks in Asset Management, there may be risks longer than three years inherent in, for instance, mis-selling products to investors. However, the diverse nature of activities within Asset Management means that the concentration of these risks in relation to the size of the group is small. If the average life of the group's assets were to increase beyond three years then the Committee will reconsider the issue of clawback.

Deferred Annual Bonus and Share Matching Plan

The Deferred Annual Bonus and Share Matching Plan will operate for the first time in respect of annual bonuses awarded for the 2010 financial year subject to approval by shareholders at the AGM in November 2009. In addition to any bonus over 100% being deferred into shares ("Deferred Shares"), executives can voluntarily choose to invest up to 100% of salary from their total annual bonus into Close Brothers Group shares ("Invested Shares") for three years. Performance conditions will not apply to the Deferred or Invested Shares which will be released in full at the end of their respective holding periods. Invested Shares will be matched with free Matching Shares for every Invested Share subject to performance conditions over the three year deferral period. The Committee will determine the matching ratio for each award and may vary the ratio in future years and for different eligible populations. However, the maximum ratio will be two Matching Shares for each Invested Share. The performance conditions for the first Matching Share awards will be similar to the performance conditions in respect of the first award under the new LTIP but the targets will be set in the context of the business strategy and prevailing conditions at the time.

For the first award in 2010, the Committee is envisaging setting the matching ratio at two free shares for each Invested Share for executive directors. The Committee believes that a two for one match is justifiable when factoring in the new cap to the annual bonus, the significantly increased deferral into shares, the limitation of investment into the Share Matching Plan to one time's salary and the overall total compensation. The Committee considers the three year deferral period under the Share Matching Plan to be appropriately motivational for participants and sufficiently long enough to deal with risk adjusted performance of the group.

Long Term Incentive Plan

The LTIP will be delivered through an annual award of conditional shares (or nil cost options or restricted shares) with a face value of up to 200% of salary. The Committee will determine the size of actual awards to participants on an annual basis. If the Plan is approved at the AGM in November 2009, the first awards under the new LTIP will be made shortly thereafter.

The shares will vest after three years subject to the following performance targets:

- 33.3% of the award will be subject to absolute TSR growth.
- 33.3% of the award will be subject to Adjusted Earnings Per Share growth.
- 33.3% of the award will be subject to a balanced scorecard of strategic goals.

The Committee believes that these measures provide a balanced approach to assessing shareholder value, underlying financial performance and the key priorities and risks of the business over the next three years.

The targets for the 2009 LTIP award are:

Absolute TSR

The Committee chose an absolute TSR measure because it believes management should be rewarded for positive absolute returns in excess of shareholder expected level of return (i.e. cost of capital). The Committee is conscious that absolute TSR could result from general market movements. However only one third of the award is subject to this measure and is used in balance with other measures of long-term success. The Committee considered using relative TSR, however, it was deemed not to be an appropriate incentive measure as good relative TSR could still result in negative shareholder returns and employees have less control or influence over a relative TSR.

Absolute TSR growth over three years	Vesting % of TSR element	Vested award for executive directors (% salary)
20% p.a. or greater	100%	66.67% (200% award* x 100% vesting x 1/3 weighting)
Between 20% p.a. and 10% p.a.	Straight-line between these points	Straight-line between these points
10% p.a.	25%	16.67% (200% award* x 25% vesting x 1/3 weighting)
Less than 10% p.a.	0%	0%

*200% of salary is the maximum award possible under the rules of the Long Term Incentive Plan.

EPS

EPS is defined as the Adjusted Earnings Per Share of the company before exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition on a continuing and discontinued basis as disclosed in the company's Annual Report. EPS is considered to be a long-term value driver of the business and is within management's control and influence.

Absolute EPS growth over three years	Vesting % of EPS element	Vested award for executive directors (% salary)
RPI + 10% p.a. or greater	100%	66.67% (200% award* x 100% vesting x 1/3 weighting)
Between RPI +10% p.a. and RPI +3% p.a.	Straight-line between these points	Straight-line between these points
RPI + 3% p.a.	25%	16.67% (200% award* x 25% vesting x 1/3 weighting)
Less than RPI + 3% p.a.	0%	0%

*200% of salary is the maximum award possible under the rules of the Long Term Incentive Plan.

Governance
Report of the Board on Directors' Remuneration continued

Strategic goals
The board has agreed a number of long-term business improvement goals and the Committee will assess management's progress towards achieving these goals against agreed milestones and performance criteria over the performance period. The goals will focus management's efforts on integrating the operations of the company, improving efficiencies and processes, and improving the scalability of the company. For the first awards under the new LTIP, the balanced scorecard below sets out a high level structure which the Committee will use to assess and judge strategic performance using quantitative and qualitative measures.

Goals	Component
Strategic clarity	• By group: Direction and focus • By division: Growth priorities and positioning • Brand development
People	• Bench strength: – Management depth – Developing talent – Graduate programme • Evaluation and appraisals • Culture and ethics • Effectiveness of compensation structure
Capital and balance sheet management	• Liquidity and deposits • Maturity profile • Capital management • Market funding access
Risk/compliance	• Regulatory standing • Strength of Group/Business functions • Uniformity of compliance standards across the group
Financial KPIs	• Operational efficiency KPIs by division

The goals listed above will each be rated based upon a three year performance period using the rating scores below. The Committee will consider making a discretionary adjustment to the aggregate rating taking account of the factors shown in the box below to produce an overall vesting percentage for the achievement of strategic goals.

Rating			%
5	=	Exceptional performance	100
4	=	Strong performance	75
3	=	Good performance	50
2	=	Satisfactory performance	25
1	=	Unsatisfactory performance	0

Remuneration discretion taking account of:	**Discretionary adjustment**
• Market conditions	
• Overall health of the group	
• Expectation of shareholders	
• Modification/change of priority	
Final matrix score	**Rating +/(-) discretionary adjustment**
Vesting percentage	**%**

The Deferred Annual Bonus, Share Matching Plan and LTIP will form part of a new Omnibus Share Incentive Plan ("the New Share Plan"). Shareholder approval will be sought for the introduction of the new plan at the AGM in November which is explained in detail in the shareholder circular which accompanies the Annual Report.

Dilution limits
The New Share Plan will comply with the current dilution guidelines set by the Association of British Insurers being 5% in ten years for all discretionary plans and 10% in ten years for all share plans.

Directors' Remuneration in 2008/2009

The key elements of the remuneration structure for the year ended 31 July 2009 are set out in this section of the Remuneration Report. In addition, it sets out what and how directors were paid during the year and the rationale for those payments.

Link between reward and performance
The group achieved a solid overall performance for the year and has strengthened its funding position against a backdrop of reduced market liquidity. The resilience of the group's funding model has also been further increased by raising longer term retail deposits for the first time and therefore reducing its reliance on the wholesale markets in a difficult credit environment.

Management have reviewed the group's strategy during the year and concluded that the group will continue to focus on its three core divisions; Banking, Asset Management and Securities and will actively evaluate the scope for organic and acquisition growth opportunities in each of these divisions. This will include changing the operating model where necessary in order to improve scaleability and establish a better framework to identify and realise growth opportunities.

These factors were taken into consideration in determining bonus payments for directors for the financial year.

Base Salary and Benefits

Details of base salaries paid to the executive directors during the year are set out on page 47. In addition, the company also provided benefits which consisted of healthcare cover, prolonged disability and life assurance cover, a company car or payment of an allowance in lieu thereof and a pension contribution or payment of an allowance thereof.

Annual Bonus

The annual bonus policy which applied during the year is broadly the same as that which will apply for the 2010 financial year end described on page 40, except that in 2008/2009 there was no upper limit on the maximum bonus potential and deferral was limited to between 35% to 50% of any bonus earned over 100% of salary. Bonus payments made in respect of the 2009 year were determined by equal reference to adjusted profit before tax performance and individual performance. Preben Prebensen, who was appointed on 1 April 2009, was not awarded a bonus in respect of 2008/2009. 50% of Jonathan Howell's 2009 bonus was calculated by reference to group adjusted profit before tax. 50% of Stephen Hodges' bonus was determined by a mix of group and Banking division performance.

Adjusted profit before tax for 2008/2009 was £113.7 million, an 11% reduction on the prior year. Bonus payments for the executive directors on a full year annualised basis have correspondingly been reduced to reflect the downturn in performance. There has also been a significant increase in the proportion of the annual bonus to be time deferred and paid in shares. 40% of the 2009 total bonus entitlement in respect of Stephen Hodges and Jonathan Howell will be deferred as compared to 24% and 23% deferred respectively in the prior year.

Bonus payments are not pensionable.

Annual Bonus and Deferral

	2008/2009 bonus			2007/2008 bonus			Increase/ decrease in bonus from prior year
Executive director	Total bonus	Cash	Deferred	Total bonus	Cash	Deferred	%
Stephen Hodges	£920,000	£552,000	£368,000	£1,150,000	£876,000	£274,000	(20)
Jonathan Howell	£900,000	£540,000	£360,000	£1,100,000*	£890,000*	£210,000*	(18)

* On an annualised basis.

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Report of the Board on Directors' Remuneration continued

Deferred Awards
Awards made to executive directors during the year were in line with the Committee's general principles at the time that bonus awards up to 100% of salary will be paid in cash without deferral and bonus in excess of 100% of salary will usually be paid between 50% and 65% in cash without deferral and between 35% and 50% in shares which vest after two years ("the Deferred Awards"). The Deferred Awards will be forfeited if the executive director leaves employment in certain circumstances or is dismissed for cause before the relevant vesting date. The number of shares comprised in the Deferred Awards will be determined by reference to the market value of a share shortly following the announcement of the company's results for the relevant financial year. Following vesting, these shares may be called for at any time up to the seventh anniversary of grant. When the shares are called for, the executive director is entitled to the gross value of dividends in respect of the shares under the Deferred Awards accumulated over the period of deferral.

During the year under review, Deferred Awards were made to the executive directors and other members of the senior management team. These awards were satisfied using market purchase shares held in an employee benefit trust and the number of shares awarded to the executive was determined by reference to the closing mid market share price of the company's shares on 29 September 2008 which was 535p per share.

2009 bonus entitlements subject to deferral will be made under these arrangements. The new policy as described on page 38 will operate in respect of bonus awards for the year ending 31 July 2010.

Long-term Incentives
The group has for many years operated a number of long-term performance related incentive arrangements. These include:

- The 2004 Long Term Incentive Plan (the "2004 LTIP");
- The 1995 Executive Share Option Scheme ("the 1995 Scheme"); and
- The Inland Revenue approved Savings Related Share Option Scheme ("the SAYE Scheme").

2004 LTIP
The 2004 LTIP is based on a conditional award of free shares the vesting of which is subject to demanding performance conditions. Grants are restricted to a maximum of twice an individual's salary in any one year. Awards made to Stephen Hodges and Jonathan Howell during the year were based on this multiple. Performance conditions for each award are determined by the Committee at the time of each grant. Performance is measured over a single period of three years with no re-testing. No further awards will be made under this plan subject to the New Share Plan being approved at the AGM in November 2009.

The performance conditions under the 2004 LTIP are a range of EPS growth targets for two thirds of an award and relative TSR targets for the remaining one third. The Committee considers that this mix of targets provides an appropriate balance between rewarding improvements in the company's financial performance, while also recognising relative stock market performance. Performance criteria will be calculated by the Committee and independently verified by external advisers.

2004 LTIP EPS Element Vesting Criteria

Earnings per share growth per annum	Proportion of maximum award released
Less than RPI +5%	0%
RPI +5%	25%
Between RPI +5% and RPI +10%	Straight line scale between 25% and 100%
RPI +10% or more	100%

2004 LTIP TSR Element Vesting Criteria
For the TSR element, performance is measured against a group of companies drawn from the FTSE-350 General Financial Index and the FTSE-350 Banks Index. For the LTIP grants in 2006 and 2007, the comparator group consisted of the following companies:

Aberdeen Asset Management	Invesco
Alliance & Leicester	Investec
Barclays	Lloyds Banking Group
Bradford & Bingley	London Stock Exchange
Cattles	Man Group
Collins Stewart[1]	Northern Rock
F&C Asset Management	Paragon Group of Companies
Hargreaves Lansdown[2]	Provident Financial
HBOS	Rathbone Brothers
Henderson Group	Royal Bank of Scotland
ICAP	Schroders
Intermediate Capital Group	Tullett Prebon[1]

[1]Collins Stewart and Tullett Prebon (having demerged from Collins Stewart Tullett) were added to the 2007 Comparator Group in place of the pre-demerged entity which was included in the 2006 Comparator Group.
[2]Hargreaves Lansdown was added to the 2007 Comparator Group.

For the LTIP grant in 2008, the Committee included all companies in the FTSE-350 General Financial Index and the FTSE-350 Banks Index in the comparator group at the date of grant which was 7 October 2008.

TSR performance within comparator group	Proportion of maximum award release
Below median	0%
Median	25%
Between median and top 20%	Straight line scale between 25% and 100%
Top 20% and above	100%

Details of awards made during the year to the executive directors are set out in the table on page 48.

1995 Scheme
Under the 1995 Scheme 50% of each grant of options has been subject to a performance condition requiring average EPS growth of RPI +4% per annum over any three year period during the ten year life of the option. The remaining 50% has been subject to the achievement of a performance condition requiring the company's EPS growth over any five year period during the life of the option to be in the top 25% of FTSE-100 companies. No awards have been granted under this scheme since 2004.

SAYE Scheme
Executive directors are eligible to participate in the SAYE Scheme on the same terms as other employees under which options are granted for a fixed contract period of three or five years, usually at a discount of 20% to the mid-market price. The company intends to operate this plan during the next financial year.

Pensions
Preben Prebensen and Jonathan Howell participated in defined contribution pension schemes or received an allowance equivalent to the company's pension contribution rate in lieu thereof.

Stephen Hodges participates in the group's defined benefits pension scheme which provides that the normal pensionable age is 65, the pension at normal pensionable age is two-thirds of final pensionable salary subject to completion of 30 years' service and there is a 50% widow's pension on death. Pensionable salary for executive directors who participated in the group's defined benefits pension scheme was set at their salary at 1 August 2001 plus increases to reflect RPI to a maximum of 2% per annum from 1 August 2002. The scheme was closed to new entrants in August 1996.

The company contribution rate for the group's defined benefits pension scheme was determined by the scheme actuary and was 29.5% per annum of pensionable salary.

The table on page 47 summarises pension benefits from the group's defined benefits pension scheme for those executive directors who participated in the scheme. The accrued pension is that which would be paid annually on retirement based on service to the end of the year. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 and represents potential liabilities of the group's defined benefits pension scheme in respect of the relevant executive director and does not necessarily represent a sum paid or payable to the executive director.

External Appointments
Any external appointments require board approval. Any fees from such appointments will be taken into account when determining the remuneration of an executive director. None of the executive directors held any external directorships during the year.

Executive Directors' Service Contracts
In the event of termination of a contract it is current policy to seek appropriate mitigation of loss by the director concerned and to ensure that any payment made is commensurate with the company's legal obligations. Contracts do not contain liquidated damages clauses on termination. The notice period stated in the service contract of each current executive director, and the date that contract was entered into, are as follows:

	Date of agreement	Notice period
Preben Prebensen	9 February 2009	12 months notice from the company 12 months notice from director
Stephen Hodges	22 January 2001	12 months notice from the company 12 months notice from director
Jonathan Howell	8 October 2007	12 months notice from the company 12 months notice from director

All of the current executive directors are entitled to 100% of annual salary and the value of other benefits as compensation on termination by the company without notice or cause.

The interests of the directors in the ordinary shares of the company are set out below.

Directors' Interests

	Ordinary shares	
Shares	**31 July 2009**	1 August 2008*
Bruce Carnegie-Brown	**10,000**	10,000
Jamie Cayzer-Colvin	**–**	–
Ray Greenshields	**–**	–
Stephen Hodges	**693,469**	693,469
Jonathan Howell	**15,664**	–
Strone Macpherson	**–**	–
Douglas Paterson	**12,000**	12,000
Preben Prebensen	**75,135**	–

* Or date of appointment if later.

There were no changes in the beneficial interests of the directors in shares of the Company between the year end and 29 September 2009.

Preben Prebensen
Preben Prebensen joined the company as chief executive on 1 April 2009. His remuneration package, as agreed prior to commencement of his employment, is summarised below.

- Basic annual salary: £475,000 per annum at date of appointment (frozen for the first two years of employment).

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- Annual bonus: With effect from the 2009/2010 financial year, Preben Prebensen will be eligible to receive a discretionary annual performance bonus. Under the terms of his employment, he was not eligible for a bonus for 2008/2009.
- Matching share award: A share award to the value of £1,695,000, which was effected by an award over 263,608 shares made on 29 May 2009. The vesting of this award is subject to a personal investment in shares by Preben Prebensen of £500,000, satisfaction of performance conditions the Committee intend to be the same as the performance conditions of the new 2009 LTIP and continued employment until the vesting date. The award comprises four equal tranches, each vesting following the preliminary announcement of the company's results for the financial years 2011 to 2014. Preben Prebensen acquired 75,135 shares in May 2009.
- Restricted share awards: In compensation for share awards in place at his previous employer which were forfeited on leaving, a restricted share award of 111,696 shares granted on 28 May 2009. This comprises three tranches, each vesting following announcement of the Company's interim results for the financial years 2010 (25%), 2011 (50%) and 2012 (25%) subject to continued employment until the vesting date.
- Long term incentive arrangements: With effect from the 2009/2010 financial year, participation in the company's new long term incentive arrangements.
- Pension and other benefits: A cash payment equal to 22.5% of basic annual salary in lieu of pension provision. Other benefits are in line with those offered to other UK-based executives.

Colin Keogh
The group announced on 30 September 2008 that Colin Keogh would step down as chief executive once a successor had been found. He stepped down as a director on 1 April 2009 having served the group under a service contract dated 22 January 2001. It was critical that he was retained and incentivised during the period for the following reasons:

- The uncertain timeframe for completing the recruitment process and the new Group Chief Executive taking up office. Colin Keogh committed to be flexible on this timetable to ensure an orderly handover.
- This was a period of extraordinary volatility and uncertainty for banks between August 2008 and March 2009 with a real risk of a loss of confidence by depositors in a range of institutions.

The Committee approved the following remuneration package for Colin Keogh's service in the 2008/2009 financial year. The Committee was satisfied that these arrangements were appropriate for the purpose of ensuring that he remained fully committed to the group and fully incentivised in relation to this transitional period:

- Salary frozen at its 2007/08 level.
- Eligible for an annual performance related bonus for 2008/2009, pro rated for his actual service in that financial year. A significant proportion of the bonus was linked to the profitability of the group which was agreed to be payable entirely in cash and is set out in the Directors' Remuneration table on page 47.
- The Committee did not feel it was appropriate to make him an award under any of the group's long term incentive plans for 2008/2009. Instead the Committee implemented a tailored incentive arrangement for the period prior to his departure ("Special Incentive"). As this was a special arrangement to facilitate his retention and incentivisation until his successor was found, shareholder approval was not required under the Listing Rules. The Special Incentive was a conditional cash award of up to £750,000, the vesting of which was subject to the satisfaction of certain performance targets. These targets related to: the overall financial performance of the group; the overall strategic health of the business at the time of handover; and the personal performance of the role of chief executive during this transitional period. The Committee concluded, following his retirement, that these performance targets were met in full. This is evidenced by the fact that under Colin Keogh's leadership the group has delivered a solid performance in very difficult market conditions including:
- Successful migration of funding from wholesale to retail deposits.
- Successfully extending the average maturity of retail deposits.
- Continuing to grow the loan book.
- Recording volume and market share gains in the Winterfloods business.
- Initiating discussions on the disposal of the Corporate Finance business.
- Avoiding any requirement for government support or recourse to shareholders for additional equity during this period.

As a result, under the terms of the Special Incentive, £375,000 has been paid to Colin Keogh, and a further £375,000 will be paid on 1 April 2010.

On stepping down, Colin Keogh also became entitled to a compensation payment of £395,173. The compensation payment was determined in accordance with his service contract, and reflects his entitlement to salary and benefits in respect of his unserved notice period (approximately ten months). He was also credited with additional final salary pension accrual in respect of this period. In addition, the group agreed to pay up to £52,000 by way of outplacement fees and legal fees on termination.

Chairman and Non-executive Directors
The chairman and the non-executive directors are engaged under a letter of appointment for terms not exceeding three years, which are renewable by mutual agreement and terminable without notice. In respect of the services of

Jamie Cazyer-Colvin as non-executive director for the year ended 31 July 2009, Caledonia Investments plc was paid £47,500, as disclosed in the remuneration table below.

The letters of appointment of the chairman and non-executive directors are available for inspection.

The chairman and non-executive directors are not eligible to participate in the share option schemes and their service is not pensionable.

The table opposite shows non-executive fees for the year to 31 July 2009 and the following year which are reviewed annually.

	Non-executive fees	
	2010	**2009**
Chairman	£180,000	**£180,000**
Non-executive director	£47,500	**£47,500**
Supplements:		
Senior independent director	£10,000	**£10,000**
Chairman of Audit Committee	£15,000	**£15,000**
Chairman of Remuneration Committee	£10,000	**£10,000**
Chairman of Nomination and Governance Committee	–	**–**

Directors' Remuneration – Audited

The following table shows the remuneration of each director for the year to 31 July 2009

	Salaries and fees £'000	Allowances[1] £'000	Other benefits[2] £'000	Annual Bonus Cash £'000	Annual Bonus Deferred £'000	Severance Payments £'000	Total **2009 £'000**	Total 2008 £'000	Company pension contributions[3] **2009 £'000**	Company pension contributions[3] 2008 £'000
Executive director										
Stephen Hodges	368	28	6	552	368		**1,322**	1,554	**92**	90
Jonathan Howell[4]	360		20	540	360		**1,280**	737	**81**	40
Preben Prebensen[5]	158	40					**198**			
Non-executive director										
Bruce Carnegie-Brown	68						**68**	57		
Jamie Cayzer-Colvin	48						**48**	28		
Ray Greenshields[6]	34						**34**			
Strone Macpherson	180						**180**	78		
Douglas Paterson	63						**63**	63		
Former director										
Colin Keogh[7]	280	32	24	638		770	**1,744**	1,757	**61**	90
	1,559	100	50	1,730	728	770	**4,937**	4,274	**234**	220

[1]Allowances received by the directors include an allowance in lieu of a company car. Preben Prebensen receives an allowance equivalent to the company's pension contribution rate in lieu of pension contributions.
[2]Other benefits include healthcare cover, a company car and fuel.
[3]Payment equivalent to the company's pension contribution rate is made into Jonathan Howell's defined contribution pension plan.
[4]Jonathan Howell was appointed a director on 4 February 2008.
[5]Preben Prebensen was appointed a director on 1 April 2009.
[6]Ray Greenshields was appointed a director on 13 November 2008.
[7]Colin Keogh resigned as a director on 1 April 2009.

Defined Pension Benefits – Audited

The following table shows the defined pension benefits of Stephen Hodges.

	Transfer value of accrued pension: At 31 July 2008 £'000	Director's contributions £'000	Actual increase excluding director's contribution £'000	**At 31 July 2009 £'000**	Accrued pension: Increase during the year £'000	**At 31 July 2009 £'000**
Stephen Hodges	1,659	17	497	**2,173**	10	**150**

Note: The accrued pension at 31 July 2009 represents the deferred pension to which the director would have been entitled had he left the group on 31 July 2009.

The real increase of the accrued pension transfer value excluding director's contribution was £497,000.

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Report of the Board on Directors' Remuneration continued

Directors' Deferred Share Awards and LTIP Awards

The deferred share award forms part of the annual performance related award and consists of the right for an executive to call for shares in the company from the employee benefit trust, at nil cost, together with a cash amount representing accrued notional dividends thereon. If the executive leaves employment in certain circumstances prior to 1 August immediately preceding the vesting date those entitlements will lapse. Following vesting, these shares may be called for at any time up to the seventh anniversary of grant. The value of the share award at the grant date is charged to the group's income statement in the year to which the award relates.

The deferred share awards held by each director at 31 July 2009 or, in the case of Colin Keogh, his date of resignation as a director and the LTIP awards which are held by directors under the 2004 LTIP and are subject to the performance criteria described in this report under "2004 LTIP" on pages 44 and 45, were:

Directors' Deferred Share ("DSA") and Long Term Incentive Awards – Audited

	Held at 1 August 2008	Awarded	Called	Lapsed	**Held at 31 July 2009**	Value at 31 July 2009 £	Market price on award p	Market price on calling p	Dividends paid on vested shares £	Earliest vesting date
Stephen Hodges										
2003 DSA	40,000		40,000		–		625.0	658	97,560	September 2004
2004 DSA	46,841		46,841		–		704.5	658	100,708	September 2006
2005 DSA	46,239		46,239		–		811.0	658	85,265	September 2007
2006 DSA	50,160		50,160		–		937.0	658	76,042	September 2008
2007 DSA	43,591				**43,591**	301,432	807.5			September 2009
2008 DSA		51,214			**51,214**	354,145	535.0			September 2010
	226,831	**51,214**	**183,240**		**94,805**	655,577			359,575	
2005 LTIP	63,760		5,313	58,447	–		841.0	658	9,797	3 October 2008
2006 LTIP	52,673				**52,673**	364,234	1008.5			2 October 2009
2007 LTIP	86,069				**86,069**	595,167	823.0			2 October 2010
2008 LTIP		131,414			**131,414**	908,728	559.3			7 October 2011
	202,502	**131,414**	**5,313**	**58,447**	**270,156**	1,868,129			9,797	
Jonathan Howell										
2008 DSA		19,626			**19,626**	135,714	535.0			September 2010
2007 LTIP	113,207				**113,207**	782,826	612.0			4 March 2011
2008 LTIP		128,732			**128,732**	890,182	559.3			7 October 2011
	113,207	**128,732**			**241,939**	1,673,008				
Former director										
Colin Keogh										
2003 DSA	52,000		50,000		**2,000**	13,830	625.0	657	121,950	September 2004
2004 DSA	62,100				**62,100**	429,422				September 2006
2005 DSA	60,110				**60,110**	415,661				September 2007
2006 DSA	65,101				**65,101**	450,173				September 2008
2007 DSA	56,470				**56,470**	390,490				September 2009
	295,781		**50,000**		**245,781**	1,699,576			121,950	
2005 LTIP	85,013			77,929	**7,084**	48,986	841.0			3 October 2008
2006 LTIP	70,231				**70,231**	485,647	1008.5			2 October 2009
2007 LTIP	98,364				**98,364**	680,187	823.0			2 October 2010
	253,608			**77,929**	**175,679**	1,214,820				

The 2005 LTIP award was tested in October 2008 against the performance conditions set by the Remuneration Committee at the time the award was made. As a result of this performance testing, the minimum 5% real EPS growth target (covering two thirds of the award) was not met whilst the TSR performance was at the median of the comparator group, warranting the vesting of 25% of the shares subject to this part of the award. Accordingly approximately 92% of the original 2005 award shares lapsed during the year.

Directors' Share Option Entitlements – Audited

Share option entitlements, other than SAYE options, are subject to the performance criteria described in this report under "1995 Scheme" on page 45. Unexercised options over ordinary shares held by directors under the 1995 Scheme and SAYE Scheme were:

	Held at 1 August 2008	Exercised	Lapsed	**Held at 31 July 2009**	Exercise price p	Market price on exercise p	From	To
Stephen Hodges								
1999	38,676			**38,676**	755.8		3 November 2002	2 November 2009
1999	38,676			**38,676**	755.8		3 November 2004	2 November 2009
2000	1,333			**1,333**	1125.0		23 October 2003	22 October 2010
2000	26,126			**26,126**	1090.8		23 October 2003	22 October 2010
2000	1,333			**1,333**	1125.0		23 October 2005	22 October 2010
2000	26,126			**26,126**	1090.8		23 October 2005	22 October 2010
2001	36,097			**36,097**	542.9		26 September 2004	25 September 2011
2001	36,097			**36,097**	542.9		26 September 2006	25 September 2011
2002	46,411			**46,411**	436.3		8 October 2005	7 October 2012
2002	46,411			**46,411**	436.3		8 October 2007	7 October 2012
2003	56,724			**56,724**	710.2		7 October 2006	6 October 2013
2003	56,724			**56,724**	710.2		7 October 2008	6 October 2013
2005 SAYE	1,414		1,414	**–**	661.0		1 December 2008	31 May 2009
	412,148		**1,414**	**410,734**				

Former director

	Held at 1 August 2008	Exercised	Lapsed	**Held at 31 July 2009**	Exercise price p	Market price on exercise p	From	To
Colin Keogh								
1999	38,676			**38,676**	755.8		3 November 2002	2 November 2009
1999	38,676			**38,676**	755.8		3 November 2004	2 November 2009
2000	1,333			**1,333**	1125.0		23 October 2003	22 October 2010
2000	26,126			**26,126**	1090.8		23 October 2003	22 October 2010
2000	1,333			**1,333**	1125.0		23 October 2005	22 October 2010
2000	26,126			**26,126**	1090.8		23 October 2005	22 October 2010
2001	36,097			**36,097**	542.9		26 September 2004	25 September 2011
2001	36,097			**36,097**	542.9		26 September 2006	25 September 2011
2002	58,014			**58,014**	436.3		8 October 2005	7 October 2012
2002	58,014			**58,014**	436.3		8 October 2007	7 October 2012
2003	61,881			**61,881**	710.2		7 October 2006	6 October 2013
2003	61,881			**61,881**	710.2		7 October 2008	6 October 2013
2003 SAYE	540	540		**–**	586.0	665.5	1 December 2008	31 May 2009
2007 SAYE	1,238			**1,238**	620.0		1 December 2010	31 May 2011
	446,032	**540**		**445,492**				

The figures shown reflect the adjustment to share option entitlements arising from the special dividend payment made on 6 November 2007.

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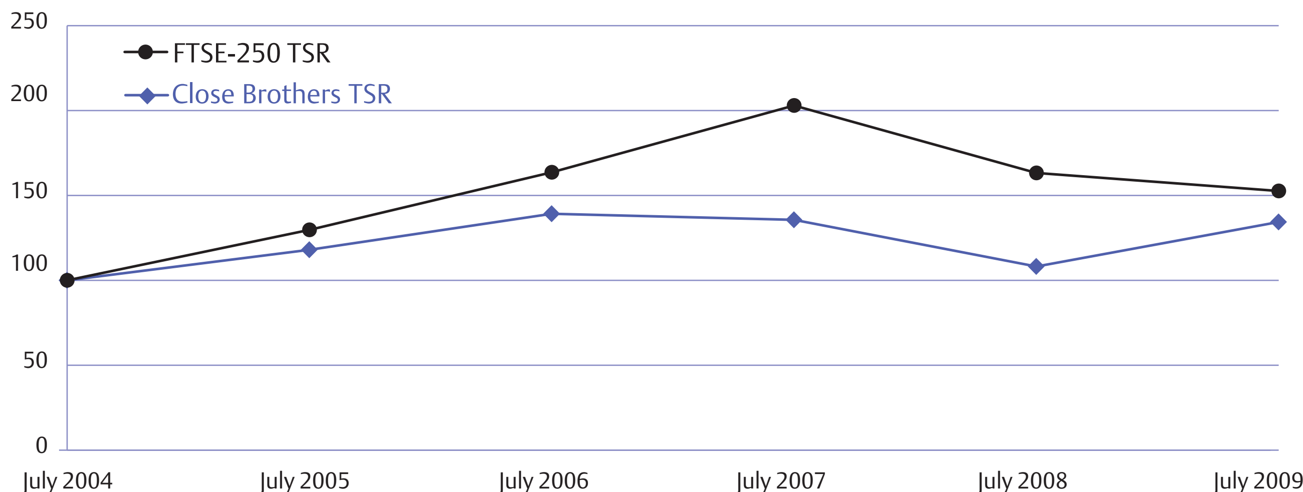
Total Shareholder Return

The graph below shows a comparison of TSR for the company's shares for the five years ended 31 July 2009 against the TSR for the companies comprising the FTSE-250 Index. TSR has been calculated assuming that all dividends are reinvested on their ex-dividend date. The index has been selected because the company has been a constituent of the index throughout the period.



Source: Thomson Reuters Datastream

Note: This graph shows the value, by 31 July 2009, of £100 invested in Close Brothers Group plc on 31 July 2004 compared with the value of £100 invested in the FTSE 250 Index. The other points plotted are the values at intervening financial year ends.

The closing mid-market price of the company's shares on 31 July 2009 was 691.5p and the range during the year was 387p to 700p.

Approval

This report was approved by the board of directors on 29 September 2009 and signed on its behalf by

B. N. Carnegie-Brown
Chairman of the Remuneration Committee

Governance

Report of the Auditors

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

We have audited the financial statements of Close Brothers Group plc for the year ended 31 July 2009 which comprise the group Income Statement, the group and parent company Balance Sheets, the group Cash Flow Statement, the group Statement of Recognised Income and Expense and the related notes 1 to 33. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections 495, 496 and 497 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 July 2009 and of the group's profit for the year then ended;
- The group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The part of the Report of the Board on Directors' Remuneration to be audited has been properly prepared in accordance with the Companies Act 2006; and
- The information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements and the part of the Report of the Board on Directors' Remuneration to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- The directors' statement contained within the Corporate Governance Statement in relation to going concern; and
- The part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Kari Hale (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom

29 September 2009

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Financial Statements
Consolidated Income Statement
for the year ended 31 July 2009

	Note	2009 £ million	2008* £ million
Continuing operations			
Interest income	4	**352.8**	381.3
Interest expense		**(171.0)**	(213.5)
Net interest income		**181.8**	167.8
Fee and commission income		**171.4**	201.6
Fee and commission expense		**(19.7)**	(28.4)
Gains less losses arising from dealing in securities		**140.2**	89.8
Share of profit of associates		**16.1**	7.4
Other income		**12.3**	14.5
Non-interest income		**320.3**	284.9
Operating income		**502.1**	452.7
Administrative expenses	4	**334.5**	306.8
Impairment losses on loans and advances	12	**59.9**	27.5
Impairment losses on goodwill	16	**19.0**	–
Amortisation of intangible fixed assets on acquisition		**0.4**	–
Total operating expenses before exceptional items, goodwill impairment and amortisation of intangible fixed assets on acquisition		**388.4**	325.2
Exceptional items	5	**6.0**	9.1
Impairment losses on goodwill	16	**19.0**	–
Amortisation of intangible fixed assets on acquisition		**0.4**	–
Total operating expenses		**413.8**	334.3
Operating profit before exceptional items, goodwill impairment and amortisation of intangible fixed assets on acquisition and tax		**113.7**	127.5
Exceptional items	5	**(6.0)**	(9.1)
Impairment losses on goodwill	16	**(19.0)**	–
Amortisation of intangible fixed assets on acquisition		**(0.4)**	–
Operating profit before tax		**88.3**	118.4
Tax	7	**26.1**	32.1
Profit after tax from continuing operations		**62.2**	86.3
Profit for the period from discontinued operations	8	**10.4**	6.3
Profit attributable to minority interests from continuing operations		**0.3**	1.0
Profit attributable to minority interests from discontinued operations		**0.6**	1.6
Profit attributable to the shareholders of the company		**71.7**	90.0
From continuing operations			
Basic earnings per share	9	**43.6p**	58.3p
Diluted earnings per share	9	**43.2p**	57.5p
From continuing and discontinued operations			
Basic earnings per share	9	**50.5p**	61.5p
Diluted earnings per share	9	**50.0p**	60.7p
Ordinary dividend per share	10	**39.0p**	39.0p

*Re-presented (see note 1b).

Consolidated Balance Sheet
at 31 July 2009

	Note	2009 £ million	2008* £ million
Assets			
Cash and balances at central banks		**1.7**	1.5
Settlement balances		**508.7**	450.0
Loans and advances to banks	11	**196.5**	307.8
Loans and advances to customers	12	**2,364.9**	2,232.2
Debt securities	13	**2,299.2**	2,160.3
Equity shares	14	**62.0**	87.8
Loans to money brokers against stock advanced		**158.3**	106.8
Derivative financial instruments	15	**32.5**	10.9
Interests in associates	27	**71.9**	73.2
Intangible assets	16	**107.6**	134.4
Property, plant and equipment	17	**41.6**	32.6
Deferred tax assets	18	**32.6**	29.0
Prepayments, accrued income and other assets	19	**141.8**	126.2
Total assets		**6,019.3**	5,752.7
Liabilities			
Settlement balances and short positions	20	**590.7**	489.9
Deposits by banks	21	**48.0**	298.2
Deposits by customers	21	**2,919.6**	2,641.7
Loans and overdrafts from banks	21	**1,340.5**	981.8
Debt securities in issue	21	**21.4**	19.7
Loans from money brokers against stock advanced		**–**	67.0
Derivative financial instruments	15	**21.9**	1.9
Accruals, deferred income and other liabilities	19	**304.5**	292.1
Non-recourse borrowings		**–**	165.0
Subordinated loan capital	22	**75.0**	75.0
Total liabilities		**5,321.6**	5,032.3
Equity			
Called up share capital	23	**37.4**	37.3
Share premium account	24	**274.5**	274.1
Profit and loss account	24	**445.7**	432.0
Other reserves and minority interests	24	**(59.9)**	(23.0)
Total equity		**697.7**	720.4
Total liabilities and equity		**6,019.3**	5,752.7

*Re-presented (see note 1b).

Approved and authorised for issue by the Board of Directors on 29 September 2009 and signed on its behalf by:

P.S.S. Macpherson
Chairman

P. Prebensen
Chief Executive

Financial Statements

Consolidated Statement of Recognised Income and Expense

for the year ended 31 July 2009

	2009 £ million	2008 £ million
Profit after tax	**72.6**	92.6
Currency translation gains	**18.8**	2.1
Losses on cash flow hedges	**(11.1)**	(0.1)
Other losses	**(2.8)**	(1.1)
Gains/(losses) on financial instruments classified as available for sale:		
Gilts and government guaranteed debt	**0.6**	–
Floating rate notes	**(15.2)**	(15.7)
Equity shares	**(8.8)**	(8.7)
	(18.5)	(23.5)
	54.1	69.1
Of which, attributable to:		
Minority interests	**0.9**	2.6
Shareholders	**53.2**	66.5
	54.1	69.1

Consolidated Cash Flow Statement

for the year ended 31 July 2009

	Note	2009 £ million	2008 £ million
Net cash (outflow)/inflow from operating activities	32(a)	**(168.8)**	480.9
Net cash outflow from investing activities:			
Dividends received from associates		**19.6**	1.1
Purchase of:			
Assets let under operating leases		**(12.4)**	(3.8)
Property, plant and equipment		**(8.8)**	(8.5)
Intangible assets		**(1.8)**	(2.6)
Equity shares held for investment		**(3.4)**	(22.2)
Own shares for employee share award schemes		**(22.1)**	(19.2)
Minority interests		**(0.6)**	(9.6)
Purchase of loan book		**(9.1)**	–
Subsidiaries and associates	32(b)	**(19.7)**	(111.2)
Sale of:			
Property, plant and equipment		**1.9**	6.4
Equity shares held for investment		**1.0**	8.3
Subsidiaries	32(c)	**51.1**	–
		(4.3)	(161.3)
Net cash (outflow)/inflow before financing		**(173.1)**	319.6
Financing activities:			
Issue of ordinary share capital	32(d)	**0.5**	10.0
Equity dividends paid		**(55.2)**	(92.7)
Dividends paid to minority interests		**(1.6)**	(1.4)
Interest paid on subordinated loan capital		**(5.6)**	(5.6)
Reclassification of floating rate notes classified as available for sale		**(751.3)**	–
Net (decrease)/increase in cash		**(986.3)**	229.9
Cash and cash equivalents at 1 August 2008		**2,384.6**	2,154.7
Cash and cash equivalents at 31 July 2009	32 (e)	**1,398.3**	2,384.6

Company Balance Sheet
at 31 July 2009

	Note	2009 £ million	2008 £ million
Fixed assets			
Property, plant and equipment	17	**2.2**	1.9
Investments in subsidiaries	26	**287.0**	287.0
Interest free loan to subsidiary		**392.0**	413.0
		681.2	701.9
Current assets:			
Cash at bank		**0.7**	0.6
Amounts owed by subsidiaries		**133.7**	276.0
Other investments		**16.6**	16.0
Corporation tax receivable		**0.6**	1.7
Deferred tax asset	18	**4.8**	5.4
Other debtors		**0.8**	3.2
		157.2	302.9
Creditors: Amounts falling due within one year:			
Amounts owed to subsidiaries		**7.1**	8.6
Accruals and deferred income		**5.9**	7.4
Provisions	19	**8.7**	6.6
Bank loans and overdrafts		**–**	130.8
Other creditors		**6.4**	16.0
		28.1	169.4
Net current assets		**129.1**	133.5
Total assets less current liabilities		**810.3**	835.4
Creditors: Amounts falling due after more than one year:			
Interest free loan from subsidiary with no fixed repayment date		**17.9**	17.9
Net assets		**792.4**	817.5
Capital and reserves			
Share capital	23	**37.4**	37.3
Share premium account		**274.5**	274.1
Profit and loss account	24	**517.9**	525.5
Other reserves	24	**(37.4)**	(19.4)
Total equity shareholders' funds		**792.4**	817.5

Approved and authorised for issue by the Board of Directors on 29 September 2009 and signed on its behalf by:

P.S.S. Macpherson
Chairman

P. Prebensen
Chief Executive

Financial Statements
The Notes

1. Accounting policies

(a) Compliance with financial reporting standards

The consolidated financial statements ("the consolidated accounts") have been prepared and approved by the directors in accordance with all relevant International Financial Reporting Standards ("IFRS") adopted by the European Union.

At the balance sheet date the group had adopted all standards and interpretations which had become effective during the year, with no material impact on the financial statements of the group. The following standards, amendments and interpretations have been issued by the IASB and IFRIC with an effective date, subject to EU endorsement in some cases, that does not impact on these financial statements.

- IFRS 8 "Operating segments" applies to accounting periods beginning on or after 1 January 2009. It is anticipated that the adoption of IFRS 8 in future periods will have no material impact on the financial statements of the group except for the addition of further segmental disclosures.

- Amendments to IFRS 3 'Business combinations' and IAS 27 'Consolidated and separate financial statements'. The revised IFRS 3 applies prospectively to business combinations first accounted for in accounting periods beginning on or after 1 July 2009 and the amendments to IAS 27 apply retrospectively to periods beginning on or after 1 July 2009. The main changes to existing practice affect acquisitions achieved in stages and those where less than 100% of equity is acquired. In addition, acquisition related costs must be accounted for as expenses unless directly connected with the issue of debt or equity securities. The main impact to the group will arise when future acquisitions take place.

- Amendment to IAS 1 'Presentation of financial statements' applies to accounting periods beginning on or after 1 January 2009. Adoption of the revised standard will have no effect on the results reported in the group's financial statements but will change the presentation of the results and financial position of the group in certain respects.

- Amendment to IFRS 2 'Share-based payment' applies to accounting periods beginning on or after 1 January 2009. The effect to the group is under review although no material impact is expected.

- Amendment to IAS 23 'Borrowing costs' applies to accounting periods beginning on or after 1 January 2009. The effect to the group is under review although no material impact is expected.

- Amendment to IFRS 7 'Financial instruments: disclosures' applies to accounting periods beginning on or after 1 January 2009 and will result in additional disclosures about fair value measurement and liquidity risk.

- Amendments to IAS 32 'Financial instruments: presentation' and IAS 1 'Financial statements presentation' regarding puttable financial instruments and obligations arising on liquidation applies to accounting periods beginning on or after 1 January 2009. The effect to the group is under review although no material impact is expected.

- Amendment to IAS 39 'Financial instruments: recognition and measurement' on eligible hedged items applies to accounting periods beginning on or after 1 July 2009. The effect to the group is under review although no material impact is expected.

- 'Improvements to IFRS' issued in May 2008 contain amendments to a number of IFRSs. The effect to the group is under review although no material impact is expected.

The following IFRIC interpretations which first apply to accounting periods beginning on or after 1 January 2009 are not expected to result in any changes to the group's accounting policies:

- IFRIC 15 'Agreements for the construction of real estate'

- IFRIC 16 'Hedges of a net investment in a foreign operation'

- IFRIC 17 'Distribution of non-cash assets to owners'

The company financial statements ("the company accounts") have been prepared and approved by the directors in accordance with Section 395 of the Companies Act 2006, the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 and with all relevant UK accounting standards. The company has taken advantage of the exemption in s408 of the Companies Act 2006 not to present its company income statement and related notes.

(b) Re-presentation of income statement and balance sheet

During the period the group has undertaken a review of the presentation in its primary financial statements seeking to enhance the ease of comprehension for users of the accounts, to better align disclosed statutory information both with the way management information is presented internally and with externally disclosed KFRs, and to respond to evolving market practice. The revised presentation of the consolidated income statement and balance sheet provides a clearer base from which to analyse the results and position of the group and is more closely aligned to market practice and the way the group is managed.

In prior years, the group has presented debt and equity financial instruments on the basis of their IAS 39 "Financial Instruments: Recognition and Measurement" categorisation on the face of the consolidated balance sheet. These instruments are now presented as "Debt securities" and "Equity shares". Where line items have been combined relevant breakdowns and analyses by IAS 39 category have been provided in the notes. The prior period comparatives have therefore been re-presented for consistency.

To enable proper comparisons and in line with the treatment adopted for the 2009 income statement, the 2008 comparative information has also been re-presented for certain fee income and expense items and for interest income and expense. This has resulted in interest income and expense increasing by £16.7 million and £1.2 million respectively, with a decrease in fee and commission income of £29.2 million and a decrease in fee and commission expense of £13.7 million. The impact on 2009 has been to increase interest income and expense by £15.1 million and £2.6 million respectively and to decrease fee and commission income and expense by £27.5 million and £15.0 million respectively. There has been no impact on operating income or profit attributable to the shareholders of the company or the KFRs disclosed in the Business Review section of this Annual Report.

(c) Accounting convention

The consolidated accounts have been prepared under the historical cost convention, except for the revaluation of financial assets and liabilities held at fair value through profit or loss, available for sale financial assets and all derivative financial instruments ("derivatives").

The company accounts have been prepared under the historical cost convention.

The financial statements are presented in pounds sterling, which is the currency of the group's and company's primary operating environment and is their functional currency.

The financial statements have been prepared on a going concern basis as disclosed in the Report of the Directors.

(d) Basis of consolidation

Subsidiaries

The consolidated accounts incorporate the financial statements of the company and the entities it controls ("subsidiaries") using the acquisition method of accounting. Control exists where the company has the power to govern an entity's financial and operating policies. The results of subsidiaries are included in the consolidated income statement from the date control transfers to the company to the date control transfers from the company.

Under the acquisition method of accounting, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition with the interest of minority shareholders stated at the minority's proportion of these amounts. Any excess of the cost of acquisition over these net assets is capitalised as goodwill. All intra-group balances, transactions, income and expenses are eliminated. As allowed by IFRS 1 "First-Time Adoption of International Financial Reporting Standards"), the company has not restated to IFRS fair values those acquisitions that took place before 1 August 2004.

Associates

The consolidated accounts also incorporate the financial statements of entities that are neither subsidiaries nor joint ventures but over which the company has significant influence ("associates"), using the equity method of accounting. This applies where the company and its subsidiaries ("the group") hold 20% or more of an entity's voting power, unless it can be clearly demonstrated that no significant influence exists. The group's share of an associate's results is included in the consolidated income statement from the date it becomes an associate to the date it stops being so.

Under the equity method of accounting, the investment in an associate is initially recognised at cost. This carrying amount subsequently decreases for the group's share of any losses or distributions received and increases for the group's share of any profit. The carrying amount is also reviewed annually for impairment.

(e) Net interest income

Interest on loans and advances made by the group, and fee income and expense and other direct costs relating to loan origination, restructuring or commitments are recognised in the income statement using the effective interest rate ("EIR") method.

The EIR method applies a rate that discounts estimated future cash payments or receipts relating to a financial instrument to its net carrying amount. The cash flows take into account all contractual terms of the financial instrument including transaction costs and all other premiums or discounts but not future credit losses.

(f) Net fee and commission income

Where fees that have not been included within the EIR method are earned on the execution of a significant act, such as fees arising from negotiating or arranging a transaction for a third party, they are recognised as revenue when that act has been completed. Fees and corresponding expenses in respect of other services are recognised in the income statement as the right to consideration or payment accrues through performance of services. In particular, upfront commissions paid in respect of managing, as opposed to originating, fund products are initially included within "prepayments and accrued income" and then recognised as revenue as the services are provided. To the extent that fees and commissions are recognised in advance of billing they are included as accrued income or expense.

Financial Statements
The Notes

1. Accounting policies continued

(g) Gains less losses arising from dealing in securities

This includes the net gains arising from both buying and selling securities and from positions held in securities, including related interest income and dividends.

(h) Share-based awards

The group operates four share-based award schemes, an annual discretionary performance arrangement and three long term equity based incentive schemes (“Incentive Schemes”); the 2004 Long Term Incentive Plan (“LTIP”), the 1995 Executive Share Option Scheme and the Inland Revenue approved Savings Related Share Option Scheme. As allowed by IFRS 1, the company has not applied IFRS 2 “Share-based Payment” to grants under these Incentive Schemes before 8 November 2002.

The costs of the annual discretionary performance related awards are based on the salary of the individual at the time the award is made. The value of the share award at the grant date is charged to the group’s income statement in the year to which the award relates.

The cost of the Incentive Schemes is based on the fair value of awards on the date of grant. Fair values are determined using a stochastic (Monte Carlo simulation) pricing model for the LTIP and the Black-Scholes pricing model for the others. Both models take into account the exercise price of the option, the current share price, the risk free interest rate, the expected volatility of the company’s share price over the life of the option award and other relevant factors. The stochastic pricing model is also used to calculate the fair value of the market related element of the LTIP awards by comparing the company’s TSR performance against a comparator group of companies. Vesting conditions are not taken into account when measuring fair value, but are reflected by adjusting the number of shares in each award such that the amount recognised reflects the number that are expected to, and then actually do, vest. The fair value is expensed in the income statement on a straight line basis over the vesting period, with a corresponding credit to the share-based awards reserve. At the end of the vesting period, or upon exercise, lapse or forfeit if earlier, this credit is transferred to retained reserves. Further information on the groups schemes are provided in note 31, and in the Report of the Board on Directors’ Remuneration.

(i) Depreciation and amortisation

Property, plant and equipment, including freehold investment properties held for long-term investment, and computer software classified as “intangible assets – other”, are stated at cost less accumulated depreciation or amortisation, less provisions for any impairment. The provision for depreciation or amortisation on these assets is calculated to write off their cost over their estimated useful lives by equal annual instalments as follows:

Fixtures, fittings and equipment	10% to 33%
Motor vehicles	25%
Freehold and long leasehold property	2.5%
Short leasehold property	over the length of the lease
Computer software	20% to 33%

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

(j) Impairment losses on goodwill

Goodwill arising on the acquisition of business assets before 1 August 1998 has been written off to reserves. From that date such goodwill arising was capitalised as an intangible asset and amortised, in equal annual instalments, unless there has been impairment, over its estimated useful life of up to 20 years. From 1 August 2004, amortisation of goodwill has ceased, negative goodwill is credited to the income statement and the net book value of goodwill is subject to impairment review at least annually.

(k) Exceptional items

Items of income and expense that are material by size and/or nature and are non-recurring are classified as exceptional items on the face of the income statement. The separate reporting of these items helps give an indication of the group’s underlying performance.

(l) Current tax

Current tax is the expected tax payable on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and items that are never taxable or deductible. The group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

(m) Deferred tax

To enable the tax charge to be based on the profit for the year, deferred tax is provided in full on temporary timing differences, at the rates of tax expected to apply when these differences crystallise. Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which temporary differences can be set. All deferred tax liabilities are offset against deferred tax assets in accordance with the provisions of IAS 12.

(n) Settlement accounts
Settlement balance debtors and creditors are the amounts due to and from counterparties in respect of the group's market-making activities. The balances are short term in nature, do not earn interest and are recorded at the amount receivable or payable.

(o) Loans and advances to customers
Loans and advances are recognised when cash is advanced to borrowers at cost including any transaction costs and are classified as loans and receivables under IAS 39. They are then amortised using the EIR method and recorded net of provisions for impairment losses. The carrying value of loans and advances approximates to their fair value.

Impairment provisions are made if there is objective evidence of impairment as a result of one or more subsequent events regarding a significant loan or a portfolio of loans ("a loan") and its impact can be reliably estimated.

The amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the original EIR. As the loan amortises over its life, the impairment loss may amortise. All impairment losses are reviewed at least at each reporting date. If subsequently the amount of the loss decreases as a result of a new event, the relevant element of the outstanding impairment loss is reversed. Interest on impaired financial assets is recognised at the original EIR applied to the carrying amount as reduced by an allowance for impairment.

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

(p) Finance leases, operating leases and hire purchase contracts
A finance lease is a lease or hire purchase contract that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Finance leases are recognised as loans at an amount equal to the gross investment in the lease discounted at its implicit interest rate. Finance charges on finance leases are taken to income in proportion to the net funds invested.

Rental costs under other leases and hire purchase contracts are charged to the income statement in equal annual amounts over the period of the leases.

(q) Debt securities and equity shares
Fair values of all financial instruments are obtained from independent open market sources, independent professional valuers, discounted cash flow models based on prevailing market rates or option pricing models.

- Financial instruments held for trading
  The long and short positions respectively represent the aggregate net bought and net sold positions, held by Winterflood Securities Limited and Close Brothers Seydler AG. They are valued at the dealers' bid and offer prices respectively and are the only financial instruments held for trading. As such they are fair valued through profit or loss and the net gains arising are the only items shown within "gains and losses arising from dealing in securities" in the income statement.

- Other investments designated at inception under the fair value option
  These are equity shares and related loans classified thus because they are managed, and their performance evaluated, on a fair value basis in accordance with a documented investment strategy, with results being reported to the company's board. Resulting gains and losses are included in the income statement within "other operating income".

  Listed investments are valued at bid price. Unlisted investments comprise those made in various private equity limited liability partnerships. These partnerships themselves typically invest in unquoted entities via equity and loans and value each investment semi-annually in compliance with the International Private Equity and Venture Capital Valuation Guidelines endorsed by The British Private Equity and Venture Capital Association, their valuations being externally audited annually. Each investment is generally valued at cost for the first year; thereafter valuations are typically based on an appropriate multiple of earnings before interest and tax ("EBIT"). If necessary, the partnerships adjust EBIT, in the latest statutory or management accounts as appropriate, to what are considered sustainable levels based on forecast indicators. With respect to the multiple, a comparable quoted company, group of companies, sector or recent transaction is used and discounted for differences in size, operation, product mix, timing and marketability. The group's valuation of the overall portfolio of partnership interests reflects the illiquid nature of the portfolio and the effect of cash distributions and material changes in the business outlook or performance of the individual investments since their last semi-annual valuation.

- Floating rate notes held to maturity
  These are investments with fixed or determinable payments that are held with the intention and ability to hold to maturity. They are initially recognised at fair value including direct and incremental transaction costs and subsequently valued at amortised cost. Amortised cost is the initial amount adjusted for subsequent payments, less cumulative amortisation calculated using the EIR method. The resulting balance is reduced for amounts which are considered to be impaired or uncollectible.

Financial Statements
The Notes

1. Accounting policies continued

- Financial instruments classified as available for sale
  These are recognised at fair value plus any directly attributable purchase costs, with changes being accounted for through equity. If such an asset is sold or there is objective evidence that it is impaired, the cumulative gains and losses recognised in equity are recycled to the income statement. In subsequent periods if the fair value of an available for sale debt security increases due to an event which occurred after the impairment loss was recognised, the impairment loss is reversed through the income statement. Impairment losses on available for sale equity instruments are not reversed through the income statement but are recognised directly in equity.

- Certificates of deposit classified as loans and receivables under IAS 39
  These are purchased for liquidity purposes and normally held to maturity. They are unlisted and due to mature within one year and are valued at amortised cost.

- Equity shares held by the employee benefit trust
  These are held at cost and shown within equity as part of "Share-based reserves". Realised surpluses and deficits are not taken to the income statement.

(r) Loans to and from money brokers against stock advanced

Loans to money brokers against stock advanced are the cash collateral provided to these institutions for stock borrowing by the group's market-making activities. Interest is paid on the stock borrowed and earned on the cash deposits held. The stock borrowing to which the cash deposits relate is short term in nature and is recorded at the amount receivable. Loans from money brokers against stock collateral provided are recorded at the amount payable. Interest is paid on the loans payable.

(s) Derivatives and hedge accounting

Derivatives are used to minimise the impact of interest and currency rate changes to the group's financial instruments and meet the IAS 39 criteria for hedge accounting. They are carried on the balance sheet at fair value which is obtained from quoted market prices in active markets, including recent market transactions, and discounted cash flow models.

On acquisition, a derivative is designated as a hedge and the group formally documents the relationship between the derivative and the hedged item. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivative is highly effective in offsetting changes in fair values or cash flows of hedged items. If a hedge was deemed partially ineffective but continues to qualify for hedge accounting, the amount of the ineffectiveness, taking into account the timing of the expected cash flows where relevant, would be recorded in the income statement. If the hedge is not, or has ceased to be, highly effective the group discontinues hedge accounting.

For fair value hedges, changes in the fair value are recognised in the income statement, together with changes in the fair value of the hedged item.

For cash flow hedges, the fair value gain or loss associated with the effective proportion of the cash flow hedge is recognised initially directly in equity and recycled to the income statement in the period when the hedged item affects income.

(t) Other financial liabilities

Financial liabilities, other than derivative financial instruments and those held for trading, are recognised initially at fair value plus transaction costs directly attributable to the acquisition or issue of those financial liabilities. After initial recognition they are measured at amortised cost using the EIR method.

(u) Foreign currencies

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

The balance sheets of subsidiaries denominated in foreign currencies are translated into sterling at the closing rates. The income statements for these subsidiaries are translated at the average rates and exchange differences arising are taken to the exchange movements reserve. Such exchange differences are recognised as income or as expenses in the period in which the subsidiary is disposed of.

As allowed by IFRS 1, cumulative foreign exchange differences up to 31 July 2004 have not been recognised in the exchange movements reserve.

(v) Dividends

Dividends payable are recognised in retained earnings once they are appropriately authorised and no longer at the discretion of the company. Dividends receivable are recognised once the right to receive payment is established.

(w) Pensions

The group operates defined contribution pension schemes and a defined benefits pension scheme for eligible employees.

A defined contribution scheme is a pension arrangement where the group pays fixed contributions into a fund separate from the group's assets. Contributions are charged in the income statement when they become payable.

A defined benefit scheme is an arrangement where an employee's retirement receipts are defined by factors such as salary, length of service and age. The liabilities of the group's one defined benefit scheme, which was closed to new entrants in 1996, are measured using the projected unit credit method and discounted at a rate that reflects the current rate of return on high quality corporate bonds with a term that matches that of the liabilities. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the income statement over the members' expected average remaining working lives. The net deficit or surplus on the plan, comprising the present value of the defined benefit obligation less the fair value of plan assets and any unrecognised actuarial gains and losses, is carried on the balance sheet.

(x) Investments in subsidiaries

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

2. Critical accounting estimates and judgements

The preparation of financial statements under IFRS requires the use of certain critical accounting estimates and the exercise of judgement in the process of applying the group's accounting policies. Estimates and judgements are kept under continuous evaluation and are based mainly on historical experience and expectations of future events but incorporate other factors. The critical estimates and judgements made in the preparation of the financial statements are set out below.

Impairment of loans and advances

Allowances for loan impairment represent management's estimate of the losses incurred in the loan portfolios as at the balance sheet date. Changes to the allowances for loan impairment are reported in the consolidated income statement as impairment losses on loans and advances. Impairment provisions are made if there is objective evidence of impairment as a result of one or more subsequent events regarding a significant loan or a portfolio of loans ("a loan") and its impact can be reliably estimated.

The amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the original effective interest rate. All impairment losses are reviewed at least at each reporting date. If subsequently the amount of the loss decreases as a result of a new event, the relevant element of the outstanding impairment loss is reversed. Interest on impaired financial assets is recognised at the original effective interest rate applied to the carrying amount as reduced by an allowance for impairment. For loans that are not considered individually significant, the group adopts a formulaic approach which allocates a loss rate dependent on the overdue period. Loss rates are based on the discounted expected future cash flows and are regularly benchmarked against actual outcomes to ensure they remain appropriate.

Fair value of financial instruments

Some of the group's financial instruments are carried at fair value through profit or loss such as those held for trading, designated by management under the fair value option and non-cash flow hedging derivatives. Other non-derivative financial assets may be designated as available for sale. Available for sale financial assets are carried at fair value with gains and losses arising from changes in fair value included as a separate component of equity. In addition, the group has cash flow hedging derivatives which are carried at fair value. The fair value gain or loss associated with the effective proportion of the cash flow hedge is recognised initially directly in equity.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair values of all financial instruments are obtained from independent open market sources, independent professional valuers, discounted cash flow models based on prevailing market rates or option pricing models. Where a valuation model is used to determine fair value, it makes maximum use of market inputs.

Effective interest rate

The EIR method applies a rate that discounts estimated future cash payments or receipts relating to a financial instrument to its net carrying amount. The estimated future cash flows take into account all contractual terms of the financial instrument including transaction costs and all other premiums or discounts but not future credit losses. At least annually, models are reviewed to assess expected lives of groups of assets based upon actual repayment profiles.

Goodwill impairment

The directors review goodwill for impairment at least annually or when events or changes in economic circumstances indicate that impairment may have taken place. The recoverable amounts of relevant cash generating units are based on value in use calculations using management's best estimate of future cash flows and performance, discounted at an appropriate rate which the directors estimate to be the return appropriate to the business.

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2. Critical accounting estimates and judgements continued

Hedge accounting

In designating a financial instrument as part of a qualifying hedge relationship, the directors have determined that the hedge is expected to be highly effective over the life of the hedging instrument. In accounting for a derivative as a cash flow hedge, the directors have determined that the future cash flows of the hedged exposure are highly probable. The group is required to assess on an ongoing basis whether the derivative is highly effective in offsetting changes in fair values or cash flows of hedged items. If a hedge was deemed partially ineffective but continues to qualify for hedge accounting, the amount of the ineffectiveness, taking into account the timing of the expected cash flows where relevant, would be recorded in the income statement. If the hedge is not, or has ceased to be, highly effective the group discontinues hedge accounting.

Share-based awards

The cost of the group's long-term equity based incentive schemes are determined using commonly accepted valuation techniques. The models used take into account the exercise price of the option, the current share price, the risk free interest rate, the expected volatility of the company's share price over the life of the option award and other relevant factors. The fair value of the market related element of awards is calculated by comparing the company's TSR performance against a comparator group of companies. Vesting conditions are not taken into account when measuring fair value, but are reflected by adjusting the number of shares in each award such that the amount recognised reflects the number that are expected to, and then actually do, vest. Details of the above variables can be found in note 31.

3. Segmental analysis

The directors manage the group primarily by class of business and present the segmental analysis on that basis. The group's activities are organised in three primary divisions namely Banking, Asset Management and Securities. A description of the activities of these divisions is given in the Business Review. The group previously had another primary division, Corporate Finance. This division was disposed of in July 2009 and has been classified as a discontinued operation in these financial statements.

Divisions charge market prices for services rendered to other parts of the group. Funding charges between segments are determined by the Banking division's treasury operation having regard to commercial demands. Substantially all of the group's activities and revenue are located within the British Isles.

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Continuing operations £ million	Discontinued operations £ million	**Total £ million**
Summary Income Statement for the year ended 31 July 2009							
Operating income before exceptional items	**235.5**	**95.0**	**167.8**	**3.8**	**502.1**	**36.3**	**538.4**
Administrative expenses	**(121.6)**	**(83.0)**	**(102.9)**	**(21.0)**	**(328.5)**	**(38.7)**	**(367.2)**
Impairment losses on loans and advances	**(59.9)**	**–**	**–**	**–**	**(59.9)**	**–**	**(59.9)**
Total operating expenses before exceptionals	**(181.5)**	**(83.0)**	**(102.9)**	**(21.0)**	**(388.4)**	**(38.7)**	**(427.1)**
Adjusted operating profit*	**54.0**	**12.0**	**64.9**	**(17.2)**	**113.7**	**(2.4)**	**111.3**
Exceptional items: Restructuring costs	**–**	**(4.4)**	**(0.9)**	**(0.7)**	**(6.0)**	**–**	**(6.0)**
Impairment losses on goodwill	**–**	**(19.0)**	**–**	**–**	**(19.0)**	**–**	**(19.0)**
Amortisation of intangible fixed assets on acquisition	**(0.4)**	**–**	**–**	**–**	**(0.4)**	**–**	**(0.4)**
Gain on disposal of discontinued operations	**–**	**–**	**–**	**–**	**–**	**12.4**	**12.4**
Operating profit before tax	**53.6**	**(11.4)**	**64.0**	**(17.9)**	**88.3**	**10.0**	**98.3**
Tax	**(16.3)**	**(1.4)**	**(13.8)**	**5.4**	**(26.1)**	**0.4**	**(25.7)**
Minority interests	**(0.2)**	**(0.1)**	**–**	**–**	**(0.3)**	**(0.6)**	**(0.9)**
Profit after tax and minority interests	**37.1**	**(12.9)**	**50.2**	**(12.5)**	**61.9**	**9.8**	**71.7**

* Adjusted operating profit is stated before exceptional items, goodwill impairment, amortisation of intangible fixed assets on acquisition, gain on disposal of discontinued operations and tax.

For the year ended 31 July 2009, the operating income before exceptional items and the operating profit before tax of the Securities division included £16.1 million relating to its share of profit of associates.

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Summary Balance Sheet at 31 July 2009					
Assets					
Cash and loans and advances to banks	27.9	145.3	24.3	0.7	198.2
Settlement balances, long trading positions and loans to money brokers*	–	–	728.9	–	728.9
Loans and advances to customers	2,352.6	12.3	–	–	2,364.9
Non trading debt securities	1,999.5	257.4	4.4	–	2,261.3
Intangible assets	24.4	53.9	29.3	–	107.6
Other assets	189.1	56.5	17.2	95.6	358.4
Intercompany balances	(332.6)	379.7	(27.6)	(19.5)	–
Total assets	4,260.9	905.1	776.5	76.8	6,019.3
Liabilities					
Settlement balances, short trading positions and loans from money brokers	–	–	590.7	–	590.7
Deposits by banks	33.0	15.0	–	–	48.0
Deposits by customers	2,241.9	676.6	1.1	–	2,919.6
Borrowings	1,417.6	1.1	18.2	–	1,436.9
Other liabilities	186.1	50.0	69.7	20.6	326.4
Intercompany balances	91.6	21.5	0.3	(113.4)	–
Total liabilities	3,970.2	764.2	680.0	(92.8)	5,321.6
Equity	290.7	140.9	96.5	169.6	697.7
Total liabilities and equity	4,260.9	905.1	776.5	76.8	6,019.3
Other segmental information for the year ended 31 July 2009					
Property, plant, equipment and intangible asset expenditure	17.2	1.8	2.2	1.1	22.3
Employees (average number)	1,316	805	259	68	2,448

* £37.9 million of long trading positions in debt securities have been included with other trading balances in "Settlement balances, long trading positions and loans to money brokers" for the purpose of this summary balance sheet. These balances are included within "Debt securities" on the Consolidated Balance Sheet.

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3. Segmental analysis continued

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Continuing operations £ million	Discontinued operations £ million	Total £ million
Summary Income Statement for the year ended 31 July 2008							
Operating income before exceptional items	207.1	133.5	110.0	2.1	452.7	56.5	509.2
Administrative expenses	(105.1)	(100.9)	(71.3)	(20.4)	(297.7)	(46.5)	(344.2)
Impairment losses on loans and advances	(27.5)	–	–	–	(27.5)	–	(27.5)
Total operating expenses before exceptionals	(132.6)	(100.9)	(71.3)	(20.4)	(325.2)	(46.5)	(371.7)
Adjusted operating profit*	74.5	32.6	38.7	(18.3)	127.5	10.0	137.5
Exceptional items: Advisers' fees and restructuring costs	(0.3)	(2.1)	(1.3)	(5.4)	(9.1)	(0.9)	(10.0)
Operating profit before tax	74.2	30.5	37.4	(23.7)	118.4	9.1	127.5
Tax	(21.6)	(5.9)	(8.5)	3.9	(32.1)	(2.8)	(34.9)
Minority interests	(0.1)	(0.6)	–	(0.3)	(1.0)	(1.6)	(2.6)
Profit after tax and minority interests	52.5	24.0	28.9	(20.1)	85.3	4.7	90.0

*Adjusted operating profit is stated before exceptional items, goodwill impairment, amortisation of intangible fixed assets on acquisition, gain on disposal of discontinued operations and tax.

For the year ended 31 July 2008, the operating income before exceptional items and the operating profit before tax of the Securities division included £7.2 million relating to its share of profit of associates.

	Banking £ million	Asset Management £ million	Corporate Finance £ million	Securities £ million	Group £ million	Total £ million
Summary Balance Sheet at 31 July 2008						
Assets						
Cash and loans and advances to banks	42.0	226.8	16.3	23.6	0.6	309.3
Settlement balances, long trading positions and loans to money brokers*	–	–	–	656.8	–	656.8
Loans and advances to customers	2,220.0	12.2	–	–	–	2,232.2
Non trading debt securities	1,752.2	338.3	–	8.4	–	2,098.9
Intangible assets	29.9	62.7	11.5	30.3	–	134.4
Other assets	120.1	60.2	23.9	19.5	97.4	321.1
Intercompany balances	(283.9)	348.4	6.7	(26.7)	(44.5)	–
Total assets	3,880.3	1,048.6	58.4	711.9	53.5	5,752.7
Liabilities						
Settlement balances, short trading positions and loans from money brokers	–	–	–	556.9	–	556.9
Deposits by banks	288.2	10.0	–	–	–	298.2
Deposits by customers	1,855.0	786.7	–	–	–	2,641.7
Borrowings	1,108.2	–	–	2.5	130.8	1,241.5
Other liabilities	104.5	78.7	28.5	52.9	29.4	294.0
Intercompany balances	218.9	21.7	16.7	1.0	(258.3)	–
Total liabilities	3,574.8	897.1	45.2	613.3	(98.1)	5,032.3
Equity	305.5	151.5	13.2	98.6	151.6	720.4
Total liabilities and equity	3,880.3	1,048.6	58.4	711.9	53.5	5,752.7

*£61.4 million of long trading positions in debt securities have been included with other trading balances in "Settlement balances, long trading positions and loans to money brokers" for the purpose of this summary balance sheet. These balances are included within "Debt securities" on the Consolidated Balance Sheet.

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Continuing operations £ million	Discontinued operations £ million	Total £ million
Other segmental information for the year ended 31 July 2008							
Property, plant, equipment and intangible asset expenditure	6.6	2.0	2.2	1.0	11.8	3.1	14.9
Employees (average number)	1,230	874	266	68	2,438	186	2,624

4. Operating profit before tax

	2009 £ million	2008 £ million
Interest income comprises:		
Interest and similar income arising from debt and other fixed income securities	**80.1**	110.5
Other	**272.7**	270.8
	352.8	381.3

Fee income and expense (other than amounts calculated using the EIR method) on financial instruments that are not at fair value through profit and loss were £52.5 million (2008: £45.7 million) and £4.0 million (2008: £4.8 million). Fee income and expense arising from trust and other fiduciary activities amounted to £90.7 million (2008: £130.0 million) and £13.5 million (2008: £23.0 million).

	2009 £ million	2008 £ million
Administrative expenses comprise:		
Staff costs:		
Wages and salaries	**178.2**	163.7
Social security costs	**21.2**	17.8
Share-based awards	**(0.4)**	2.2
Pension costs	**8.9**	10.4
	207.9	194.1
Depreciation and amortisation	**14.7**	15.9
Other administrative expenses	**111.9**	96.8
	334.5	306.8

Operating lease rentals payable, of which £1.8 million (2008: £1.3 million) relate to plant and machinery, amounted to £9.1 million (2008: £10.5 million). Aggregate rentals received in respect of finance leases and hire purchase contracts and in respect of operating leases amounted to £596.7 million (2008: £563.2 million) and £10.3 million (2008: £5.2 million) respectively.

5. Exceptional items

	2009 £ million	2008 £ million
Exceptional expenses		
Advisers' fees in respect of potential offers for the group	**–**	(5.0)
Restructuring costs	**(6.0)**	(4.1)
	(6.0)	(9.1)

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6. Information regarding the auditors

	2009 £ million	2008 £ million
Fees payable in respect of:		
Audit of the company's annual accounts	**0.1**	0.2
Audit of the company's subsidiaries pursuant to legislation	**1.3**	1.3
Other services pursuant to legislation	**0.1**	–
Tax services	**0.4**	0.2
Other services	**0.1**	0.1
	2.0	1.8

The auditors of the group are Deloitte LLP.

7. Tax expense

	2009 £ million	2008 £ million
Tax recognised in the income statement:		
UK corporation tax	**26.2**	27.6
Foreign tax	**0.8**	3.2
Current year tax charge	**27.0**	30.8
Deferred tax (credit)/expense	**(0.8)**	1.0
Prior year tax provision	**(0.1)**	0.3
	26.1	32.1
Tax recognised in equity:		
Current tax relating to:		
Financial instruments classified as available for sale	**(5.1)**	(6.5)
Share-based transactions	**–**	(2.1)
Deferred tax relating to:		
Cash flow hedging	**(4.4)**	(0.1)
Financial instruments classified as available for sale	**0.6**	(3.5)
Share-based transactions	**0.5**	0.6
	(8.4)	(11.6)
Reconciliation to tax expense:		
UK corporation tax for the year at 28% (2008: 29.3%) on operating profit	**24.7**	34.7
Goodwill impairment losses disallowed	**5.3**	–
Effect of different tax rates on other jurisdictions	**(1.6)**	(2.4)
Share of associates consolidated at profit after tax	**(4.5)**	(2.1)
Utilisation of losses not previously recognised	**(0.4)**	–
Disallowable items and other permanent differences	**2.7**	1.6
Prior year tax provision	**(0.1)**	0.3
	26.1	32.1

The effective tax rate for the year is 29.6% (2008: 27.1%). The effective tax rate for the period is above the UK corporation tax rate of 28% due to goodwill impairment, other disallowable expenditure and a reduction in the deferred tax asset relating to employee benefits. These effects are offset by the inclusion of the share of profit of associates in the Consolidated Income Statement on an after tax basis in accordance with IAS 1 "Presentation of financial statements" and by the net lower tax rates applied to profits arising outside the UK.

UK corporation tax remained at 28% for the year ended 31 July 2009. The weighted average UK corporation tax rate for the year ended 31 July 2008 was 29.3%, being 30% for the eight months to 31 March 2008 and 28% for the four months to 31 July 2008.

8. Discontinued operations

On 18 May 2009 a binding sale agreement was entered into for the sale of the Corporate Finance division for total net cash consideration of £67 million (including the settlement of an intra-group loan). Gross consideration was £75 million after contribution of £8 million of working capital to Corporate Finance prior to completion. The transaction was completed on 1 July 2009 on which date control passed to the acquirer. The gain on disposal has been calculated based on the cash consideration received after settlement of an intra-group loan, less the group's share of net assets of the Corporate Finance division at date of disposal and directly attributable costs of sale. In addition, in accordance with IFRS, the cumulative exchange differences related to the division have been recycled to the income statement as part of the gain on disposal.

The results of the discontinued operations which have been included in the Consolidated Income Statement were as follows:

	2009 £ million	2008 £ million
Operating income	**36.3**	56.5
Operating expenses	**(38.7)**	(47.4)
Operating (loss)/profit before tax	**(2.4)**	9.1
Tax	**0.4**	(2.8)
(Loss)/profit after tax	**(2.0)**	6.3
Gain on disposal of discontinued operations	**12.4**	–
Tax	**–**	–
Gain after tax on disposal of discontinued operations	**12.4**	–
Profit for the period from discontinued operations	**10.4**	6.3

The net assets of the Corporate Finance division at the date of disposal were as follows:

Property, plant and equipment	2.9
Loans and advances to banks	24.2
Other receivables	9.7
Other assets	4.8
Intra-group loan	(42.5)
Other liabilities	(13.4)
Attributable goodwill	33.6
	19.3

During the year the Corporate Finance division contributed £9.2 million (2008: £18.5 million) to the group's net operating cash flows and paid £16.1 million (2008: £20.5 million) in respect of investing activities.

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9. Earnings per share

Earnings per share is presented on six bases. On a continuing operations basis the following are presented: basic; diluted; adjusted basic; and adjusted diluted. These measures exclude the effect of the Corporate Finance division which was disposed of in July 2009 and has been classified as a discontinued operation. On a continuing and discontinued operations basis the following are presented: basic and diluted.

Basic earnings per share is in respect of all activities and diluted earnings per share takes into account the dilution effects which would arise on the conversion or vesting of share options and share awards in issue during the period.

On a continuing operations basis, adjusted basic earnings per share excludes discontinued activities, exceptional items, impairment losses on goodwill and amortisation of intangible fixed assets on acquisition to enable comparison of the underlying earnings of the business with prior periods and adjusted diluted earnings per share takes into account the same dilution effects as for diluted earnings per share described above.

	2009	2008
Earnings per share		
Continuing operations		
Basic	**43.6p**	58.3p
Diluted	**43.2p**	57.5p
Adjusted basic	**60.5p**	63.7p
Adjusted diluted	**59.9p**	62.8p
Continuing and discontinued operations		
Basic	**50.5p**	61.5p
Diluted	**50.0p**	60.7p

	£ million	£ million
Profit attributable to shareholders	**71.7**	90.0
Gain for the period from discontinued operations	**(10.4)**	(6.3)
Element attributable to minority interests	**0.6**	1.6
Profit attributable to shareholders on continuing operations	**61.9**	85.3
Adjustments:		
Exceptional expense	**6.0**	9.1
Tax effect of exceptional items	**(1.5)**	(1.2)
Impairment losses on goodwill	**19.0**	–
Amortisation of intangible fixed assets on acquisition	**0.4**	–
Adjusted profit attributable to shareholders on continuing operations	**85.8**	93.2

	million	million
Average number of shares		
Basic weighted	**141.9**	146.4
Effect of dilutive share options and awards	**1.4**	1.9
Diluted weighted	**143.3**	148.3

The gain for the year from discontinued operations, net of any minority interest effect, is £9.8 million (2008: £4.7 million). The basic earnings per share from discontinued operations is 6.9p (2008: 3.2p) and the diluted earnings per share from discontinued operations is 6.8p (2008: 3.2p).

Adjusted basic earnings per share on a continuing and discontinued basis was 67.4p (2008: 67.3p), based on adjusted profit attributable to shareholders on continuing and discontinued operations of £95.7 million (2008: £98.5 million).

10. Dividends

	2009 £ million	2008 £ million
For each ordinary share:		
Final dividend for previous financial year paid in November 2008: 25.5p (2007: 25.0p)	**36.2**	36.4
Special dividend for 2007 financial year paid in November 2007: 25.0p	**–**	36.4
Interim dividend for current financial year paid in April 2009: 13.5p (2008: 13.5p)	**19.0**	19.9
	55.2	92.7

A final dividend relating to the year ended 31 July 2009 of 25.5p, amounting to an estimated £36.0 million, is proposed. This final dividend, which is due to be paid on 19 November 2009, is not reflected in these financial statements.

11. Loans and advances to banks

	2009 £ million	2008 £ million
Repayable:		
On demand	**183.2**	271.0
Within three months	**11.2**	36.7
Between three months and one year	**2.1**	0.1
	196.5	307.8

12. Loans and advances to customers

	2009 £ million	2008 £ million
Loans and advances are repayable:		
On demand or at short notice	**93.4**	151.6
Within three months	**652.2**	633.9
Between three months and one year	**827.6**	738.5
Between one and two years	**425.1**	360.0
Between two and five years	**426.3**	385.5
After more than five years	**11.5**	13.0
Impairment provisions	**(71.2)**	(50.3)
	2,364.9	2,232.2
Impairment provisions on loans and advances:		
Opening balance	**50.3**	44.4
Charge for the year	**59.9**	27.5
Amounts written off net of recoveries	**(39.0)**	(21.6)
	71.2	50.3
Loans and advances comprise:		
Hire purchase agreement receivables	**834.1**	792.0
Finance lease receivables	**242.9**	214.8
Other loans and advances	**1,287.9**	1,225.4
	2,364.9	2,232.2

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12. Loans and advances to customers continued

Reconciliation between gross investment in finance lease and hire purchase agreement receivables to present value of minimum lease and hire purchase payments:

	2009 £ million	2008 £ million
Gross investment in finance leases and hire purchase agreement receivables due:		
Within one year	**517.1**	486.0
Between one and five years	**765.7**	714.0
After more than five years	**12.3**	8.0
	1,295.1	1,208.0
Unearned finance income	**(197.0)**	(181.1)
Present value of minimum lease and hire purchase agreement payments	**1,098.1**	1,026.9
Of which due:		
Within one year	**430.7**	402.8
Between one and five years	**658.9**	617.0
After more than five years	**8.5**	7.1

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £1,698.4 million (2008: £1,660.8 million). The average effective interest rate on finance leases approximates to 11.7% (2008: 11.5%). The fair value of finance lease receivables and hire purchase agreements equates to the net book value. The present value of minimum lease and hire purchase agreement payments reflects the fair value of finance lease and hire purchase agreement receivables before deduction of impairment provisions.

13. Debt securities

2009	Held for trading £ million	Held to maturity assets £ million	Available for sale assets £ million	Loans and receivables £ million	**Total £ million**
Long trading positions in debt securities	**37.9**	**–**	**–**	**–**	**37.9**
Certificates of deposit	**–**	**–**	**–**	**1,202.2**	**1,202.2**
Floating rate notes	**–**	**19.4**	**754.7**	**–**	**774.1**
Gilts and government guaranteed debt	**–**	**–**	**285.0**	**–**	**285.0**
	37.9	**19.4**	**1,039.7**	**1,202.2**	**2,299.2**

2008	Held for trading £ million	Held to maturity assets £ million	Available for sale assets £ million	Loans and receivables £ million	Total £ million
Long trading positions in debt securities	61.4	–	–	–	61.4
Certificates of deposit	–	–	–	1,324.2	1,324.2
Floating rate notes	–	23.4	751.3	–	774.7
Gilts and government guaranteed debt	–	–	–	–	–
	61.4	23.4	751.3	1,324.2	2,160.3

The fair value of items carried at amortised cost together with their book value is as follows:

	2009		2008	
	Book value £ million	**Fair value £ million**	Book value £ million	Fair value £ million
Certificates of deposit classified as loans and receivables	**1,202.2**	**1,207.9**	1,324.2	1,324.0
Floating rate notes held to maturity	**19.4**	**18.8**	23.4	20.8
	1,221.6	**1,226.7**	1,347.6	1,344.8

Movements on the book value of gilts and government guaranteed debt and floating rate notes held during the year comprise:

	Gilts and government guaranteed debt	Floating rate notes		
	Available for sale £ million	Available for sale £ million	Held to maturity £ million	Total £ million
At 1 August 2008	–	751.3	23.4	774.7
Additions	286.0	–	–	286.0
Disposals	–	(20.0)	–	(20.0)
Redemptions at maturity	–	–	(2.0)	(2.0)
Currency translation differences	–	44.4	0.8	45.2
Impairment	–	–	(2.8)	(2.8)
Decrease in carrying value of financial instruments classified as available for sale	(1.0)	(21.0)	–	(22.0)
At 31 July 2009	**285.0**	**754.7**	**19.4**	**1,059.1**

In respect of floating rate notes, both classified as available for sale and held to maturity, £141.5 million (2008: £21.8 million) were due to mature within one year and £25.9 million (2008: £29.4 million) have been issued by corporates with the remainder issued by banks and building societies.

14. Equity shares

	2009 £ million	2008 £ million
Equity shares classified as held for trading	**24.0**	38.6
Other equity shares	**38.0**	49.2
	62.0	87.8

Movements on the book value of other equity shares held during the year comprise:

	Available for sale £ million	Valued at fair value £ million	Total £ million
At 1 August 2008	33.0	16.2	49.2
Additions	0.1	3.3	3.4
Disposals	–	(1.0)	(1.0)
Currency translation differences	(0.7)	–	(0.7)
Disposals of subsidiary undertakings	(0.6)	(0.4)	(1.0)
Increase/(decrease) in carrying value of:			
Equity shares classified as available for sale	(6.4)	–	(6.4)
Listed equity shares held at fair value	–	–	–
Unlisted equity shares held at fair value	–	(5.5)	(5.5)
At 31 July 2009	**25.4**	**12.6**	**38.0**

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15. Derivative financial instruments

	2009			2008		
	Notional value £ million	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	**707.7**	**21.5**	**8.0**	100.3	3.1	0.3
Interest rate contracts	**2,029.7**	**11.0**	**13.9**	1,221.5	7.8	1.6
	2,737.4	**32.5**	**21.9**	1,321.8	10.9	1.9

Notional amounts of interest rate contracts totalling £1,312.0 million (2008: £603.3 million) and exchange rate contracts totalling £372.3 million (2008: £19.7 million) have a residual maturity of more than one year. The group enters into derivative contracts with a number of financial institutions as a principal to minimise the impact of interest and currency rate changes to its financial instruments. Notional value of exchange rate contracts has increased £607.4 million due to an increase in euro and US dollar denominated wholesale funding in the year. Notional value of interest rate contracts has increased £808.2 million reflecting over £1.0 billion of additional funding raised from term retail deposits. Included in the derivatives above are the following IAS 39 cash flow hedges and IAS 39 fair value hedges:

	2009			2008		
Cash flow hedges	**Notional value £ million**	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	**128.3**	**6.6**	**2.1**	19.7	–	–
Interest rate contracts	**1,027.7**	**2.1**	**13.9**	1,208.7	6.4	1.6
	1,156.0	**8.7**	**16.0**	1,228.4	6.4	1.6

	2009			2008		
Fair value hedges	**Notional value £ million**	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	**464.1**	**11.6**	**2.7**	19.7	2.6	–
Interest rate contracts	**1,002.0**	**8.9**	**–**	32.5	1.4	–
	1,466.1	**20.5**	**2.7**	52.2	4.0	–

The group's fair value hedges hedge the interest rate and foreign exchange risks in recognised financial instruments; the net gain on the hedged items was £17.8 million (2008: gain of £4.2 million) which was perfectly offset by the hedging instrument. The cash flow hedges relate to exposure to future interest payments or receipts on recognised financial instruments and on forecast transactions for periods of up to five (2008: seven) years; there was immaterial ineffectiveness.

The cash flow hedge amounts that were removed from equity and included in the profit and loss for the years ended 31 July 2009 and 2008 were immaterial.

The amount recognised in equity for cash flow hedges was a debit of £11.1 million (2008: £0.1 million debit).

16. Intangible assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Total £ million
Group				
Cost				
At 31 July 2008	176.9	21.1	3.2	201.2
Additions	–	1.8	–	1.8
Acquisition of subsidiary	24.1	–	1.7	25.8
Foreign exchange	3.0	–	–	3.0
Disposals	(34.9)	(1.1)	–	(36.0)
At 31 July 2009	**169.1**	**21.8**	**4.9**	**195.8**
Amortisation and accumulated impairment				
At 31 July 2008	50.1	16.7	–	66.8
Amortisation charge for the year	–	2.7	0.4	3.1
Impairment charge	19.0	–	–	19.0
Disposals	–	(0.7)	–	(0.7)
At 31 July 2009	**69.1**	**18.7**	**0.4**	**88.2**
Net book value at 31 July 2009	**100.0**	**3.1**	**4.5**	**107.6**
Net book value at 31 July 2008	126.8	4.4	3.2	134.4

Impairment tests for goodwill
Goodwill has been allocated to 14 individual cash generating units ("CGUs"), which are all at a lower level than the three operating divisions. Eight of these CGUs are within the banking division; four are within the asset management division and the remaining two are within the securities division. Details of the CGUs in which the goodwill carrying amount is significant in comparison with total goodwill are disclosed separately in the table below where applicable:

	Net book value of goodwill					
	31 July 2008 £ million	Additions £ million	Foreign exchange £ million	Impairment £ million	Disposals £ million	31 July 2009 £ million
Winterflood Securities	23.3	–	–	–	–	23.3
Close Private Bank	17.4	–	–	–	–	17.4
Close Brothers Cayman	13.3	–	2.6	–	–	15.9
Close Asset Management	17.6	–	–	(10.4)	–	7.2
Corporate Finance	11.2	22.4	–	–	(33.6)	–
OLIM	10.5	–	–	(6.6)	–	3.9
Close Asset Finance	5.9	1.4	0.1	–	–	7.4
Other	27.6	0.3	0.3	(2.0)	(1.3)	24.9
	126.8	**24.1**	**3.0**	**(19.0)**	**(34.9)**	**100.0**

Goodwill impairment reviews are carried out at least annually using value in use calculations. This calculation uses discounted cash flows, based on the most recent budgets and three year plans, to determine the recoverable amount of each CGU. For cash flows beyond the group's three-year planning horizon, a terminal value is calculated using a perpetuity growth model with a conservative annual growth rate of 2.5% for each CGU, except where circumstances warrant a different rate.

The resulting cash flow projections were then discounted assuming a starting rate of 9.3%, which takes into account the weighted average cost of capital and the rates an investor would require to invest in the asset. This starting point is then increased as applicable to take into account the statutory corporate tax rate in effect in the country in which each CGU primarily operates. This is appropriate due to the use of pre-tax operating cash flows in the model.

The £19.0 million of impairments detailed in the table above were all written off against goodwill at 31 January 2009. It was determined at that time that a review for impairment was warranted due to the significant deterioration in the economic conditions which affected the markets these CGUs operate in, and the resultant reductions in expected revenues and profits. At the reporting date, management believes that any reasonably possible change in the key assumptions which have been used would not lead the carrying value of any CGU to exceed its recoverable amount.

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17. Property, plant and equipment

	Land and buildings £ million	Fixtures fittings and equipment £ million	Assets held under operating leases £ million	Motor vehicles £ million	Total £ million
Group					
Cost					
At 31 July 2008	10.3	52.5	22.9	2.5	88.2
Additions	1.2	7.3	12.4	0.3	21.2
Acquisition of subsidiary	–	0.4	6.4	0.1	6.9
Disposal of subsidiary	(1.7)	(6.0)	–	(0.2)	(7.9)
Other disposals	–	(3.6)	(4.3)	(0.8)	(8.7)
At 31 July 2009	**9.8**	**50.6**	**37.4**	**1.9**	**99.7**
Depreciation and amortisation					
At 31 July 2008	5.3	39.4	9.8	1.1	55.6
Charge for the year	1.2	5.4	5.9	0.5	13.0
Disposal of subsidiary	(0.3)	(4.3)	–	(0.1)	(4.7)
Disposals	–	(2.6)	(2.7)	(0.5)	(5.8)
At 31 July 2009	**6.2**	**37.9**	**13.0**	**1.0**	**58.1**
Net book value at 31 July 2009	**3.6**	**12.7**	**24.4**	**0.9**	**41.6**
Net book value at 31 July 2008	5.0	13.1	13.1	1.4	32.6

	2009 £ million	2008 £ million
Future minimum lease payments under non-cancellable operating leases due:		
Within one year	**8.5**	6.3
Between one and five years	**11.8**	8.7
After more than five years	**0.5**	–
	20.8	15.0

	Land and buildings £ million	Fixtures fittings and equipment £ million	Motor vehicles £ million	Total property, plant and equipment £ million
Company				
Cost				
At 31 July 2008	4.2	2.3	0.2	6.7
Additions	0.5	0.6	–	1.1
Disposals	–	(0.2)	(0.1)	(0.3)
At 31 July 2009	**4.7**	**2.7**	**0.1**	**7.5**
Depreciation				
At 31 July 2008	3.0	1.7	0.1	4.8
Charge for the year	0.5	0.3	–	0.8
Disposals	–	(0.2)	(0.1)	(0.3)
At 31 July 2009	**3.5**	**1.8**	**–**	**5.3**
Net book value at 31 July 2009	**1.2**	**0.9**	**0.1**	**2.2**
Net book value at 31 July 2008	1.2	0.6	0.1	1.9

The net book value of land and buildings comprises:

	Group		Company	
	2009 £ million	2008 £ million	**2009 £ million**	2008 £ million
Freehold	**–**	–	**–**	–
Long leasehold	**1.5**	1.7	**–**	–
Short leasehold	**2.1**	3.3	**1.2**	1.2
	3.6	5.0	**1.2**	1.2

18. Deferred tax assets

	Group		Company	
	2009 £ million	2008 £ million	**2009 £ million**	2008 £ million
Capital allowances	**14.6**	12.1	**0.2**	0.2
Employee benefits	**6.1**	12.2	**2.4**	4.0
Unrealised capital gains	**–**	0.4	**–**	–
Other	**11.9**	4.3	**2.2**	1.2
	32.6	29.0	**4.8**	5.4

Movement in the year:

	Group £ million	Company £ million
At 1 August 2008	29.0	5.4
Credit/(expense) to the income statement	0.8	(0.6)
Equity movements	3.3	–
Other	(0.5)	–
At 31 July 2009	**32.6**	**4.8**

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19. Other assets and other liabilities

	2009 £ million	2008 £ million
Prepayments, accrued income and other assets		
Prepayments and accrued income	**110.1**	89.9
Trade debtors	**14.2**	14.7
Other	**17.5**	21.6
	141.8	126.2

	2009 £ million	2008 £ million
Accruals, deferred income and other liabilities		
Accruals and deferred income	**141.3**	134.4
Creditors	**81.9**	108.4
Provisions	**26.1**	24.6
Other	**55.2**	24.7
	304.5	292.1

Provisions movement in the year:

	Claims £ million	Property £ million	Other £ million	Total £ million
Group				
At 1 August 2008	10.1	3.8	10.7	24.6
Utilisation	(0.1)	(0.2)	(2.7)	(3.0)
Charge/(release)	(1.8)	3.3	3.0	4.5
At 31 July 2009	**8.2**	**6.9**	**11.0**	**26.1**

	Property £ million	Other £ million	Total £ million
Company			
At 1 August 2008	0.7	5.9	6.6
Utilisation	(0.2)	(0.4)	(0.6)
Charge/(release)	3.2	(0.5)	2.7
At 31 July 2009	**3.7**	**5.0**	**8.7**

Property provisions are in respect of leaseholds where rents payable exceed the value to Close Brothers Group plc or in respect of potential dilapidations. Claims and other items for which provisions are made arise in the normal course of business. The timing and outcome of these claims and other items are uncertain.

The group claims provision of £8.2 million includes an amount which has been provided by Winterflood Securities Limited ("Winterflood") to fully cover, together with associated costs, a financial penalty of £4.0 million imposed by the Financial Services Authority ("FSA") in respect of dealings which occurred on the AIM market in 2004. Winterflood has sought permission to appeal against the decision by the Financial Services and Markets Tribunal to reject Winterflood's referral of the FSA decision.

20. Settlement balances and short positions

	2009 £ million	2008 £ million
Settlement balances	**505.2**	451.4
Short positions held for trading:		
Debt securities	**71.4**	24.1
Equity shares	**14.1**	14.4
	590.7	489.9

21. Financial liabilities

	On demand or at short notice £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	**Total £ million**
At 31 July 2009							
Deposits by banks	**17.2**	**19.6**	**10.6**	**0.6**	**–**	**–**	**48.0**
Deposits by customers	**768.7**	**916.6**	**345.5**	**814.9**	**73.9**	**–**	**2,919.6**
Loans and overdrafts from banks	**26.6**	**0.6**	**199.7**	**1,003.6**	**110.0**	**–**	**1,340.5**
Debt securities in issue	**–**	**–**	**–**	**–**	**–**	**21.4**	**21.4**
	812.5	**936.8**	**555.8**	**1,819.1**	**183.9**	**21.4**	**4,329.5**

Included in loans and overdrafts from banks is £405.1 million of committed sale and repurchase facilities with a residual maturity of between one and two years (2008: £104.9 million with a residual maturity of between three months and one year). The debt securities in issue mature on 20 April 2015.

	On demand or at short notice £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
At 31 July 2008							
Deposits by banks	37.7	210.1	48.4	2.0	–	–	298.2
Deposits by customers	842.1	1,492.8	270.2	15.1	21.5	–	2,641.7
Loans and overdrafts from banks	14.2	80.6	205.1	274.4	407.5	–	981.8
Debt securities in issue	–	–	–	–	–	19.7	19.7
	894.0	1,783.5	523.7	291.5	429.0	19.7	3,941.4

22. Subordinated loan capital

Final maturity date	Prepayment date	Initial interest rate	**2009 £ million**	2008 £ million
2020	2015	7.39%	**30.0**	30.0
2026	2021	7.42%	**15.0**	15.0
2026	2021	7.62%	**30.0**	30.0
			75.0	75.0

All the subordinated loan capital has been issued by Close Brothers Limited ("CBL") and is denominated in sterling. If CBL opts not to prepay at the prepayment date, the interest rate is reset to a margin over the yield on five year UK Treasury securities.

23. Share capital

	2009		2008	
Group and company	**million**	**£ million**	million	£ million
Authorised				
Ordinary shares of 25p each	**200.0**	**50.0**	200.0	50.0
Allotted, issued and fully paid				
At 1 August 2008	**149.4**	**37.3**	147.3	36.8
Exercise of options	**0.1**	**0.1**	2.1	0.5
At 31 July 2009	**149.5**	**37.4**	149.4	37.3

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24. Share premium and equity reserves
Share premium and profit and loss account

	Share premium account £ million	Group Profit and loss account £ million	Company Profit and loss account £ million
At 1 August 2008	274.1	432.0	525.5
Profit attributable to shareholders	–	71.7	49.9
Dividends paid	–	(55.2)	(55.2)
Exercise of options	0.4	–	–
Other movements	–	(2.8)	(2.3)
At 31 July 2009	**274.5**	**445.7**	**517.9**

Other reserves and minority interests

	Available for sale movements reserve £ million	Share-based reserves £ million	Exchange movements reserve £ million	Cash flow hedging reserve £ million	Minority interests £ million	Group £ million	Company £ million
At 1 August 2008	(12.3)	(19.4)	2.3	1.4	5.0	(23.0)	(19.4)
Charge to the income statement	–	(0.2)	–	–	0.9	0.7	(0.2)
Shares purchased	–	(22.1)	–	–	–	(22.1)	(22.1)
Shares released	–	4.3	–	–	–	4.3	4.3
Gains/(losses) on financial instruments classified as available for sale:							
Gilts and government guaranteed debt	0.6	–	–	–	–	0.6	–
Floating rate notes	(15.2)	–	–	–	–	(15.2)	–
Equity shares	(8.8)	–	–	–	–	(8.8)	–
Disposal of subsidiary undertakings	–	–	(2.5)	–	(0.2)	(2.7)	–
Other movements	–	–	18.8	(11.1)	(1.4)	6.3	–
At 31 July 2009	**(35.7)**	**(37.4)**	**18.6**	**(9.7)**	**4.3**	**(59.9)**	**(37.4)**

25. Capital management

Our policy has always been to be well capitalised and soundly financed whilst nonetheless maximising our return on capital. Our approach to capital management is driven by strategy and organisational requirements, while also taking into account the regulatory and commercial environments in which we operate. We believe our strong capital position is a core strength in the current market environment and leaves us well positioned to take advantage of organic and acquisition growth opportunities. We also seek to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity that are possible with greater leverage. In addition to maintaining our strong capital base to support the development of the business it is also important to ensure we meet regulatory capital requirements at all times, as well as maintaining an adequate level of capital in our rated subsidiary, Close Brothers Limited, as determined by rating targets. We would therefore expect to have capital adequacy ratios in excess of minimum regulatory requirements even before taking account of the need to fund our non regulated activities and small acquisitions.

The board considers both the overall group and each division's capital position and requirements on a regular basis and after taking into account each division's regulatory and operational requirements, excess capital is transferred to group every six months by way of dividend.

The Financial Services Authority ("FSA") supervises the group on a consolidated basis and receives information on the capital adequacy of, and sets capital requirements for, the group as a whole. In addition a number of subsidiaries are directly regulated by the FSA.

We completed our transition to Basel II during the financial year ended 31 July 2008 and as reported there was no major impact on our regulatory capital requirement from the transition. The aim of Basel II is to promote safety and soundness in the financial system. It is structured around three "pillars": Pillar 1 on minimum capital requirements; Pillar 2 on the supervisory review process; and Pillar 3 on market discipline. Our Pillar 1 information is presented in the table on the next page. Under Pillar 2, we have completed a self assessment of risks not captured by Pillar 1 in a process known as the "Internal Capital Adequacy Assessment Process". This has been reviewed by the FSA and the process culminated in the FSA providing "Individual Capital Guidance" on the level of capital we are required to hold. Pillar 3 aims to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment process. Pillar 3 disclosures can be found on our website.

Total regulatory capital under Basel II increased by £38.0 million during the year to £651.6 million. This increase arose due to profits for the year of £71.7 million, an increase in exchange movements reserve of £16.3 million and reduction of the intangible assets deduction relating to goodwill of £26.8 million, including goodwill on sale of the Corporate Finance division. This increase was offset by payment of dividends of £55.2 million and £17.8 million investment in our own shares to hedge share-based award schemes. Notional risk weighted assets increased by £132.8 million to £3,936.8 million, principally as a result of growth in the loan book, partly offset by a reduction in operational risk as a result of the sale of the Corporate Finance division.

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25. Capital management continued

The group's individual entities and the group as a whole complied with all of the externally imposed capital requirements to which they are subject for the years ended 31 July 2009 and 2008. The table below summarises the composition of regulatory capital and Pillar 1 risk weighted assets as at those financial year ends.

	2009 Basel II £ million	2008 Basel II £ million
Core tier 1 capital		
Called up share capital	**37.4**	37.3
Share premium account	**274.5**	274.1
Retained earnings and other reserves	**477.8**	448.0
Minority interests	**4.3**	5.0
Deductions from core tier 1 capital		
Intangible assets	**(107.6)**	(134.4)
Goodwill in associates	**(49.0)**	(49.7)
Investment in own shares	**(50.9)**	(33.1)
Unrealised losses on available for sale equity shares	**(4.6)**	–
Core tier 1 capital after deductions	**581.9**	547.2
Tier 2 capital		
Subordinated debt	**75.0**	75.0
Unrealised gains on available for sale equity shares	**–**	4.2
Collective impairment allowances	**–**	2.2
Tier 2 capital	**75.0**	81.4
Deductions from total of tier 1 and tier 2 capital		
Participation in a non-financial undertaking	**(4.8)**	(6.5)
Other regulatory adjustments	**(0.5)**	(8.5)
Total regulatory capital	**651.6**	613.6
Risk weighted assets (notional)		
Credit and counterparty risk	**2,840.2**	2,542.8
Operational risk*	**993.8**	1,099.9
Market risk*	**102.8**	161.3
	3,936.8	3,804.0
	%	%
Core tier 1 capital ratio	**14.8**	14.4
Total capital ratio	**16.6**	16.1

*Operational and market risk include a notional adjustment at 8% in order to determine notional risk weighted assets.

26. Investments in subsidiaries

The group's principal subsidiaries at 31 July 2009 were:

Name of subsidiary	Principal activity	Equity held by group %	Country of registration and operation
Close Asset Finance Limited	Commercial asset financing	100	England
Close Asset Management Holdings Limited	Asset management holding company	100	England
Close Brothers Holdings Limited*	Group holding company	100	England
Close Brothers Limited	Treasury, property and insurance premium financing, and bank holding company	100	England
Close International Bank Holdings Limited	Private banking holding company	100	England
Close Portfolio Management Limited	Investment company	100	Guernsey
Winterflood Securities Limited	Market-making	100	England

* Direct subsidiary of the company.

During the year the group acquired the following companies:

Name of company acquired	Principal activity	Equity acquired %	Acquisition date
Kaupthing Singer & Friedlander Premium Finance Limited	Insurance premium financing	100	5 August 2009
Commercial Vehicle Solutions Limited	Commercial vehicle leasing	75.1	6 August 2009

On 1 September 2008 the group increased its holding in one associate, Atlas Capital S.L., by 55% which then became a subsidiary. This subsidiary was subsequently disposed as part of the sale of the Corporate Finance division. The book value, which equated to the fair value, of the net assets of these three acquisitions is shown below:

	£ million
Cash and cash equivalents	0.3
Loans and advances to customers	84.7
Intangible assets	1.7
Property, plant and equipment	6.9
Deferred tax assets	0.2
Prepayments and accrued income	0.2
Other assets	11.5
	105.5
Bank loans and overdrafts	(89.1)
Other liabilities	(10.0)
Current tax liabilities	(1.6)
Net assets acquired	4.8
Cash consideration for purchase of shares from shareholders:	
Upon acquisition	17.9
Deferred	–
Associate carrying value	11.0
	28.9
Goodwill arising	24.1

These acquisitions have not materially contributed to the profit before tax of the group for the period between acquisition date and balance sheet date.

There was no movement in the company's investments in subsidiaries during the year.

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27. Investments in associates

Share of net assets/(liabilities)	Associates 2009 £ million	Associates 2008 £ million
Share of profit before tax	**22.8**	11.3
Share of tax	**(6.2)**	(3.2)
Share of profit after tax*	**16.6**	8.1
Dividends paid	**(19.1)**	(1.1)
Additional investments	**–**	9.8
Acquisitions (2008: including goodwill of £49.7 million)	**–**	55.2
Foreign exchange revaluation	**12.2**	–
Classification to subsidiary on increase in stake	**(11.0)**	–
Other liabilities	**–**	(0.3)
	(1.3)	71.7
At 1 August 2008	**73.2**	1.5
At 31 July 2009	**71.9**	73.2

* Share of profit after tax includes £0.5 million relating to discontinued operations.

The group has eight (2008: nine) associates. The associates owe £nil (2008: £nil) to the group. The group's share of the aggregated revenue of its associates in the year to 31 July 2009 amounted to £73.6 million (2008: £53.6 million). The group's share of the aggregated assets and liabilities of its associates at 31 July 2009 amounted to £44.1 million (2008: £63.2 million) and £19.4 million (2008: £40.0 million) respectively.

28. Contingent liabilities and commitments

Contingent liabilities

Financial Services Compensation Scheme

A principal subsidiary of the group, Close Brothers Limited, by virtue of being a Financial Services Authority regulated deposit taker, contributes to the Financial Services Compensation Scheme ("FSCS") which provides compensation to customers of financial institutions in the event that an institution is unable, or is likely to be unable, to pay claims against it. In order to meet its obligations to the depositors of a number of institutions which failed in 2008 and 2009 the FSCS has borrowed amounts from HM Treasury on an interest only basis to September 2011. It is anticipated that these borrowings will be repaid wholly or substantially from the realisation of the assets of the failed institutions. However, if the assets of these institutions are insufficient, the FSCS will recoup any shortfalls in the form of additional levies based on the level of market participation of individual institutions. At the date of this Annual Report it is not possible to estimate with any certainty the amount or timing of any such additional levies.

The FSCS raises annual levies from the banking industry to meets its management expenses and compensation costs and individual institutions make payments based on their level of market participation. The group has accrued £1.3 million for its share of levies that will be raised by the FSCS including the interest on the loan from HM Treasury in respect of the levy years to 31 March 2010.

Other

The group has contingent liabilities in respect of guarantees arising in the normal course of business amounting to £10.0 million (2008: £11.5 million).

The company has given guarantees in respect of subsidiaries' bank facilities of £204.7 million (2008: £167.7 million) and subsidiaries' property leases of £9.8 million (2008: £11.2 million). In addition, the company has given guarantees in respect of the subordinated loan capital set out in note 22 on page 77.

	2009 £ million	2008 £ million
Commitments:		
Memorandum items		
Undrawn facilities, credit lines and other commitments to lend:		
Within one year	**328.3**	330.5
After more than one year	**1.0**	1.6
	329.3	332.1

Other commitments
The group is committed to purchase minority interests in certain subsidiaries at agreed fair valuations. While not material, these minority interests were recognised, where appropriate, in the fair values attributed to the acquisition of the subsidiaries.

Subsidiaries had contracted capital commitments relating to capital expenditure of £2.5 million (2008: £0.2 million) and contracted commitments to invest in private equity funds managed by the group of £4.3 million (2008: £8.3 million).

Future minimum lease payments under non-cancellable operating leases due:

	2009		2008	
	Premises £ million	**Other £ million**	Premises £ million	Other £ million
Within one year	**10.9**	**0.8**	11.3	1.0
Between one and five years	**36.6**	**1.3**	41.4	1.2
After more than five years	**23.7**	**0.1**	33.1	0.2
	71.2	**2.2**	85.8	2.4

29. Related party transactions

Transactions with key management
For the purposes of Related Party Disclosures (IAS 24) key management comprise the executive directors. The directors believe that they exclusively comprise the key management personnel of the company, with the authority and responsibility for planning, directing and controlling, directly or indirectly, its activities.

The remuneration of individual directors is shown in the Report of the Board on Directors' Remuneration on pages 37 to 50.

	2009 £ million	2008 £ million
Directors' emoluments:		
Salaries and fees	**1.6**	2.0
Benefits and allowances	**0.2**	0.4
Performance related awards in respect of the current year:		
Cash	**1.7**	4.2
Deferred	**0.7**	0.6
	4.2	7.2
Severance payments	**0.8**	1.7
Share-based awards	**(0.2)**	0.6
Gains upon exercise of options	**2.1**	2.4
Company pension contributions	**0.2**	0.3
	7.1	12.2

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29. Related party transactions continued

Key management have banking relationships with group entities which are entered into in the normal course of business. Amounts included in deposits by customers at 31 July 2009 attributable, in aggregate, to key management were £0.4 million (2008: £0.8 million).

Transactions with associates
One of our associates has a banking relationship with a group entity which has been entered into in the normal course of business. Amounts included in deposits by customers relating to this relationship at 31 July 2009 were £3.0 million (2008: £6.6 million).

30. Pensions

The group operates defined contribution pension schemes and a defined benefits pension scheme for eligible employees. Assets of all schemes are held separately from those of the group. The charge to the income statement for the group pension schemes was £8.9 million (2008: £10.4 million).

Defined benefits pension scheme
The group's only defined benefits pension scheme ("the scheme") was closed to new entrants in August 1996. At 31 July 2009 this scheme had 16 (2008: 23) active members, 76 (2008: 73) deferred members and 14 (2008: twelve) pensioners. The remainder of this note relates exclusively to the scheme.

Contributions to the scheme have been determined by an independent qualified actuary based on triennial valuations using the attained age method. The most recent such valuation was at 31 July 2006, when the agreed company contribution rate was 29.5% per annum of pensionable salaries. The group estimates a contribution of £3 million to the scheme during the year to 31 July 2010. The Group is currently carrying out its triennial actuarial valuation as at 31 July 2009, which is likely to result in an adjustment to future contribution levels from those agreed following the 31 July 2006 actuarial valuation.

The valuation was based upon the following main actuarial assumptions:

	2009 %	2008 %
Inflation rate	**3.6**	3.8
Rate of increase in salaries	**2.0**	2.0
Rate of increase in pensions in payment	**3.6**	3.8
Discount rate for scheme liabilities	**6.0**	6.4
Expected return on the scheme's assets:		
Equities	**8.6**	8.7
Bonds	**4.6**	5.1
Cash	**4.4**	5.1
Mortality assumptions*		
– Existing pensioners from age 65, life expectancy (years):		
– Men	**23.2**	19.5
– Women	**24.8**	22.7
– Non-retired members currently aged 50, life expectancy from age 65 (years):		
– Men	**25.2**	19.5
– Women	**26.9**	22.7

* Based on standard tables SAPS S1 Light produced by the CMI Bureau of the Institute and Faculty of Actuaries, together with projected future improvements in line with the Medium Cohort subject to a 1.5% per annum underpin.

Expected return on equities are determined by reference to Watson Wyatt's Global Investment Committee's ten year outlook as at 30 June 2009 as adjusted for the inflation assumption disclosed above. Expected return on government bonds of 4.5% are based on the 20-year FTSE fixed interest gilts yield as at 31 July 2009. The expected return on corporate bonds of 5.5% is based on the iBoxx over 15-year AA corporate bond yield of 6% reduced by 0.5% for default risk. Expected return on cash is determined by reference to Watson Wyatt's Global Investment Committee's ten year outlook as at 30 June 2009 as adjusted for the inflation assumption disclosed above.

The surplus/(deficit) of the scheme disclosed below has been accounted for as an asset/(liability) of the group:

	2009 £ million	2008 £ million	2007 £ million	2006 £ million	2005 £ million
Fair value of scheme assets:					
– Equities	**15.9**	15.2	19.3	16.9	12.5
– Bonds	**5.0**	4.4	3.5	3.4	2.9
– Cash	**2.7**	3.3	1.1	1.3	3.6
Total fair value of scheme assets	**23.6**	22.9	23.9	21.6	19.0
Present value of scheme liabilities	**(26.8)**	(24.4)	(23.3)	(21.4)	(19.6)
Surplus/(deficit)	**(3.2)**	(1.5)	0.6	0.2	(0.6)

Actuarial losses in the year not recognised by the group amount to £1.8 million (2008: gain of £1.0 million).

Movement in the present value of scheme liabilities during the year:

	2009 £ million	2008 £ million
At 1 August 2008	**(24.4)**	(23.3)
Current service cost	**(0.3)**	(0.6)
Interest expense	**(1.5)**	(1.3)
Contributions by members	**(0.1)**	(0.1)
Benefits paid	**1.3**	0.4
Past service cost	**–**	(0.5)
Actuarial (loss)/gain	**(1.8)**	1.0
At 31 July 2009	**(26.8)**	(24.4)

Movement in the fair value of scheme assets during the year:

	2009 £ million	2008 £ million
At 1 August 2008	**22.9**	23.9
Expected return on scheme assets	**1.7**	1.8
Contributions by members	**0.1**	0.1
Contributions by employer	**2.7**	1.1
Benefits paid	**(1.3)**	(0.4)
Actuarial (loss)/gain	**(2.5)**	(3.6)
At 31 July 2009	**23.6**	22.9

The actual return on scheme assets was a decrease of £0.8 million (2008: decrease of £1.8 million).

History experience of actuarial gains and losses

	2009 £ million	2008 £ million	2007 £ million	2006 £ million	2005 £ million
Experience gains/(losses) on scheme assets	**(2.5)**	(3.6)	0.5	0.5	1.7
Experience gains/(losses) on scheme liabilities	**1.5**	(0.6)	(1.5)	0.2	–
Impact of changes in assumptions on scheme liabilities	**(3.3)**	1.6	0.8	(0.3)	(0.7)
Total actuarial gains/(losses) on scheme liabilities	**(1.8)**	1.0	(0.7)	(0.1)	(0.7)

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31. Share-based awards

The following share-based awards have been granted under the 1995 Executive Share Option Scheme, Save As You Earn ("SAYE") Scheme, 2004 Long Term Incentive Plan ("LTIP") and the discretionary annual performance arrangement satisfied by deferred shares. The general terms and conditions for these share-based awards are described on pages 44 and 45.

Movements in the number of share-based awards outstanding and their weighted average share prices are as follows:

	Executive share options		SAYE		2004 LTIP		Deferred share awards	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
At 1 August 2007	6,321,694	670.7p	1,010,610	579.0p	1,501,844	–	981,012	–
Adjustment*	173,096	30.5p	–	–	–	–	–	–
Granted	–	–	511,681	620.0p	1,017,232	–	443,982	–
Exercised	(1,688,890)	497.9p	(445,697)	446.0p	(336,676)	–	(13,576)	–
Forfeited	(199,374)	925.1p	(196,845)	725.8p	(40,984)	–	–	–
Lapsed	(31,504)	683.0p	(20,171)	583.2p	(188,822)	–	–	–
At 31 July 2008	4,575,022	699.0p	859,578	638.7p	1,952,594	–	1,411,418	–
Granted	–	–	1,143,352	428.0p	1,089,083	–	262,029	–
Exercised	(464,915)	455.5p	(14,021)	578.4p	(34,574)	–	(259,854)	–
Forfeited	(222,027)	917.7p	(704,428)	624.2p	–	–	–	–
Lapsed	(774,732)	793.5p	(11,451)	454.0p	(716,632)	–	(82,877)	–
At 31 July 2009	**3,113,348**	**696.3p**	**1,273,030**	**459.8p**	**2,290,471**	**–**	**1,330,716**	**–**
Exercisable at:								
31 July 2009	**2,795,175**	**700.7p**	**–**	**–**	**7,824**	**–**	**429,048**	**–**
31 July 2008	3,598,106	700.8p	–	–	–	–	471,589	–

* The adjustment to share option entitlements results from the payment of a special dividend on 6 November 2007. Options under the company's 1995 Executive Share Option Scheme (other than options under HM Revenue & Customs approved section of that Scheme) have been adjusted by the Remuneration Committee to take account of the depreciatory effect of the special dividend.

The table below shows the weighted average market price at the date of exercise:

	2009	2008
Executive Share Options	**609.9p**	771.8p
SAYE	**652.4p**	889.2p
2004 LTIP	**557.8p**	613.7p
Deferred Share Awards	**659.9p**	636.0p

The range of exercise prices and weighted average remaining contractual life of awards and options outstanding are as follows:

Exercise price range	Options outstanding 2009 Number outstanding	Options outstanding 2009 Weighted average remaining contractual life Years	Options outstanding 2008 Number outstanding	Options outstanding 2008 Weighted average remaining contractual life Years
Executive share options				
Between £4 and £5	**485,538**	**3.2**	868,807	3.2
Between £5 and £6	**365,020**	**2.2**	526,462	3.1
Between £6 and £7	**604,786**	**5.2**	647,291	6.2
Between £7 and £8	**1,240,490**	**2.7**	1,796,848	3.7
Above £10	**417,514**	**1.2**	735,614	1.2
SAYE				
Between £4 and £5	**1,070,939**	**3.7**	–	–
Between £5 and £6	**65,075**	**0.8**	110,756	1.7
Between £6 and £7	**103,498**	**2.3**	662,544	3.0
Between £8 and £9	**33,518**	**1.4**	86,278	2.5
2004 LTIP				
Nil	**2,290,471**	**2.5**	1,952,594	2.5
Deferred Share Awards				
Nil	**1,330,716**	**4.3**	1,411,418	4.5
Total	**8,007,565**	**3.1**	8,798,612	3.4

The company has purchased Treasury shares to satisfy a number of the above awards. At the year end 5.5 million (2008: 2.0 million) of these shares were held.

For the share-based awards granted during the year, the weighted average fair value of those options at 31 July 2009 was 289p (2008: 458p). The main assumptions for the valuation of these share-based awards comprised:

Exercise period	Share price at issue	Exercise price	Expected volatility	Expected option life in years	Dividend yield	Risk free interest rate
SAYE						
1 December 2011 to 31 May 2012	535.0p	428.0p	40.0%	3	7.1%	4.3%
1 December 2013 to 31 May 2014	535.0p	428.0p	34.0%	5	7.1%	4.5%
LTIP						
7 October 2011 to 6 October 2012	547.5p	–	38.0%	3	7.1%	–
Deferred Share Awards						
1 September 2010 to 30 September 2015	535.0p	–	–	–	–	–

Expected volatility was determined mainly by reviewing share price volatility for the expected life of each option up to the date of grant.

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32. Consolidated cash flow statement reconciliation

	2009 £ million	2008 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit on ordinary activities before tax	**98.3**	127.5
Tax paid	**(21.0)**	(59.0)
(Increase)/decrease in:		
Interest receivable and prepaid expenses	**(20.8)**	(5.2)
Net settlement balances and trading positions	**80.2**	130.0
Net money broker loans against stock advanced	**(118.5)**	(110.5)
Increase/(decrease) in:		
Interest payable and accrued expenses	**8.3**	(13.2)
Depreciation, amortisation and impairment losses on goodwill	**35.1**	16.6
Net cash inflow from trading activities	**61.6**	86.2
(Increase)/decrease in:		
Loans and advances to banks not repayable on demand	**(1.9)**	4.8
Loans and advances to customers	**(38.9)**	(120.2)
Floating rate notes held to maturity	**4.0**	(5.6)
Floating rate notes classified as available for sale	**(3.4)**	–
Debt securities held for liquidity	**(285.0)**	–
Other assets less other liabilities	**5.0**	(94.5)
Increase/(decrease) in:		
Deposits by banks	**(250.2)**	137.6
Deposits by customers	**277.9**	339.0
Loans and overdrafts from banks	**227.1**	468.6
Non-recourse borrowings	**(165.0)**	15.0
Debt securities in issue	**–**	(350.0)
Net cash (outflow)/inflow from operating activities	**(168.8)**	480.9
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and associates		
Cash consideration in respect of current year purchases	**(17.9)**	(100.1)
Loan stock redemptions and deferred consideration paid in respect of prior year purchases	**(2.1)**	(12.4)
Net movement in cash balances	**0.3**	1.3
	(19.7)	(111.2)
(c) Analysis of net cash inflow in respect of the sale of subsidiaries		
Cash consideration received	**75.3**	–
Cash and cash equivalents disposed of	**(24.2)**	–
	51.1	–
(d) Analysis of changes in financing		
Share capital (including premium) and subordinated loan capital:		
Opening balance	**386.4**	376.4
Shares issued for cash	**0.5**	10.0
Closing balance	**386.9**	386.4
(e) Analysis of cash and cash equivalents		
Cash and balances at central banks	**1.7**	1.5
Loans and advances to banks repayable on demand	**194.4**	307.6
Floating rate notes classified as available for sale	**–**	751.3
Certificates of deposit	**1,202.2**	1,324.2
	1,398.3	2,384.6

Cash and cash equivalents comprise balances which have an original maturity of three months or less, together with highly liquid investments. The portfolio of floating rate notes classified as available for sale has been reclassified during the period for cash flow presentation purposes since the majority of the portfolio has been hedged as collateral for sale and repurchase agreements and the market for these instruments is no longer regarded as highly liquid due to the prevailing economic environment.

33. Financial risk management

As a diversified group of financial services businesses, financial instruments are central to the group's activities. The risks associated with financial instruments represent a significant component of the risks faced by the group and are analysed in more detail below.

The group's financial risk management objectives are summarised within Internal control and risk management in the Corporate Governance section on page 32. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

(a) Classification

The tables below analyse the group's financial assets and financial liabilities in accordance with the categories of financial instruments in IAS 39.

	Held for trading £ million	Fair value through profit or loss £ million	Held to maturity assets £ million	Available for sale assets £ million	Loans and receivables £ million	Other financial assets/liabilities £ million	**Total £ million**
At 31 July 2009							
Assets							
Cash and balances at central banks	–	–	–	–	1.7	–	**1.7**
Settlement balances	–	–	–	–	508.7	–	**508.7**
Loans and advances to banks	–	–	–	–	196.5	–	**196.5**
Loans and advances to customers	–	–	–	–	2,364.9	–	**2,364.9**
Debt securities	37.9	–	19.4	1,039.7	1,202.2	–	**2,299.2**
Equity shares	24.0	12.6	–	25.4	–	–	**62.0**
Loans to money brokers against stock advanced	–	–	–	–	158.3	–	**158.3**
Derivative financial instruments	–	–	–	–	–	32.5	**32.5**
	61.9	12.6	19.4	1,065.1	4,432.3	32.5	**5,623.8**
Liabilities							
Settlement balances and short positions	85.5	–	–	–	–	505.2	**590.7**
Deposits by banks	–	–	–	–	–	48.0	**48.0**
Deposits by customers	–	–	–	–	–	2,919.6	**2,919.6**
Loans and overdrafts from banks	–	–	–	–	–	1,340.5	**1,340.5**
Debt securities in issue	–	–	–	–	–	21.4	**21.4**
Loans from money brokers against stock advanced	–	–	–	–	–	–	**–**
Non-recourse borrowings	–	–	–	–	–	–	**–**
Subordinated loan capital	–	–	–	–	–	75.0	**75.0**
Derivative financial instruments	–	–	–	–	–	21.9	**21.9**
	85.5	–	–	–	–	4,931.6	**5,017.1**

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33. Financial risk management continued

	Held for trading £ million	Fair value through profit or loss £ million	Held to maturity assets £ million	Available for sale assets £ million	Loans and receivables £ million	Other financial assets/liabilities £ million	Total £ million
At 31 July 2008							
Assets							
Cash and balances at central banks	–	–	–	–	1.5	–	1.5
Settlement balances	–	–	–	–	450.0	–	450.0
Loans and advances to banks	–	–	–	–	307.8	–	307.8
Loans and advances to customers	–	–	–	–	2,232.2	–	2,232.2
Debt securities	61.4	–	23.4	751.3	1,324.2	–	2,160.3
Equity shares	38.6	16.2	–	33.0	–	–	87.8
Loans to money brokers against stock advanced	–	–	–	–	106.8	–	106.8
Derivative financial instruments	–	–	–	–	–	10.9	10.9
	100.0	16.2	23.4	784.3	4,422.5	10.9	5,357.3
Liabilities							
Settlement balances and short positions	38.5	–	–	–	–	451.4	489.9
Deposits by banks	–	–	–	–	–	298.2	298.2
Deposits by customers	–	–	–	–	–	2,641.7	2,641.7
Loans and overdrafts from banks	–	–	–	–	–	981.8	981.8
Debt securities in issue	–	–	–	–	–	19.7	19.7
Loans from money brokers against stock advanced	–	–	–	–	–	67.0	67.0
Non-recourse borrowings	–	–	–	–	–	165.0	165.0
Subordinated loan capital	–	–	–	–	–	75.0	75.0
Derivative financial instruments	–	–	–	–	–	1.9	1.9
	38.5	–	–	–	–	4,701.7	4,740.2

(b) Credit risk
Credit risk is the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion and arises mainly from the lending and treasury activities of the Banking division.

Credit risk in the Securities division is limited as the businesses in that division trade in the cash markets with regulated counterparties on a delivery versus payment basis such that any credit exposure is limited to price movements in the underlying securities. Counterparty exposure and settlement failure monitoring controls are in place.

Maximum exposure to credit risk
The maximum exposure to credit risk at 31 July, before taking account of any collateral, was:

	2009 £ million	2008 £ million
Cash and balances at central banks	**1.7**	1.5
Settlement balances	**508.7**	450.0
Loans and advances to banks	**196.5**	307.8
Loans and advances to customers	**2,364.9**	2,232.2
Debt securities	**2,299.2**	2,160.3
Equity shares	**62.0**	87.8
Loans to money brokers against stock advanced	**158.3**	106.8
Derivative financial instruments	**32.5**	10.9
Undrawn commitments	**329.3**	332.1
Guarantees	**10.9**	22.7
Total maximum exposure to credit risk	**5,964.0**	5,712.1

Collateral held in respect of financial assets
Loans and advances to customers are diversified across five different segments, are generally short term in nature and with low average loan size. The large number of customer loans spreads the credit risk with the rate of default impacted by economic conditions in the UK. The vast majority of loans and advances to customers are secured against specific assets. The security will correspond to the type of lending as detailed in the segmental loan book analysis on page 16 of the Business Review. Consistent and prudent lending criteria are applied across the whole loan book with emphasis on the quality of the security provided. Furthermore, conservative loan to value ratios are applied to mitigate credit risk. This approach has limited impairment losses to 2.6% during the economic downturn in 2009 and to no more than 1.5% in any of the preceding five years.

At 31 July 2008 the group had securitised £172 million of its loans and advances to customers with Cruise Limited ("Cruise") in return for non-refundable finance of £165 million. This securitisation facility expired during the year and has not been renewed.

The group has entered into a repurchase agreement whereby floating rate notes to the value of £551.6 million have been lent in exchange for cash of £397.7 million. The agreement matures in November 2010. These floating rate notes remain on the group's balance sheet and the group retains the risk and rewards of ownership.

Loans to money brokers against stock advanced are the cash collateral provided to these institutions for stock borrowing by the group's market making activities. The stock borrowing to which the cash deposits relate is short term in nature and is recorded at the amount payable.

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33. Financial risk management continued
Financial assets past due but not impaired

	2009			2008		
	Loans and advances to customers £ million	**Settlement balances £ million**	**Total £ million**	Loans and advances to customers £ million	Settlement balances £ million	Total £ million
Within one month	**76.9**	**41.7**	**118.6**	68.3	91.7	160.0
Between one and three months	**23.8**	**4.5**	**28.3**	34.4	–	34.4
Between three months and one year	**24.0**	**3.5**	**27.5**	10.3	–	10.3
Over one year	**1.2**	**1.0**	**2.2**	1.2	–	1.2
	125.9	**50.7**	**176.6**	114.2	91.7	205.9

Impaired financial assets
Included in loans and advances to customers are loans and advances individually determined to be impaired whose gross amount before impairment allowances is £144.8 million (2008: £103.4 million).

The factors considered in determining whether assets are impaired are outlined in the accounting policies in note 1(o) on page 59.

The amount of interest income accrued on impaired loans and advances was £13.9 million (2008: £6.1 million).

Whilst collateral is reviewed on a regular basis in accordance with credit policy, this varies according to the type of lending and collateral involved. It is therefore impracticable to estimate and aggregate current fair values for collateral.

Concentration and quality of financial assets
The group does not have any significant credit risk exposure to any single counterparty or any group of counterparties that are connected entities.

The loan book is well spread, short term, secured and with a low average loan size in order to avoid concentration risk. The credit quality of the counterparties with whom the group places deposits or whose debt securities the group holds is monitored by the Treasury Committee which establishes specific limits.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

(c) Market risk

Market risk is the risk that arises from adverse movements in equity, bond, interest rate, foreign exchange or other traded markets and arises primarily in our Securities division.

Interest rate risk

The group's exposure to interest rate fluctuations relates primarily to the returns from its capital and reserves which, as a matter of policy, are not hedged. The group's policy is to match fixed and variable interest rate liabilities and assets utilising interest rate swaps where necessary to secure the margin on its loans and advances to customers. These interest rate swaps are disclosed in note 15 on page 72.

The sensitivities below are based upon reasonably possible changes in interest rate scenarios, including parallel shifts in the yield curve. At 31 July 2009 a 2.0% increase or a 0.5% decrease (2008: a 1.25% increase or a 1.25% decrease) in interest rates compared to actual rates would increase/(decrease) the group's annual net interest income by the following amounts, prior to mitigation:

	2009 £ million	2008 £ million
2.0% increase (2008: 1.25% increase)	**5.1**	1.7
0.5% decrease (2008: 1.25% decrease)	**(1.3)**	(1.7)

At 31 July 2009 a 2.0% increase or a 0.5% decrease (2008: a 1.25% increase or a 1.25% decrease) in interest rates compared to actual rates would increase/(decrease) the group's equity by the following amounts, prior to mitigation:

	2009 £ million	2008 £ million
2.0% increase (2008: 1.25% increase)	**3.6**	1.2
0.5% decrease (2008: 1.25% decrease)	**(0.9)**	(1.2)

Foreign currency risk

The group has a number of currency investments in subsidiaries and associates and has chosen not to hedge those exposures. These investments are predominantly in US dollars and euros. In the event of a 20% strengthening in the value of sterling against the US dollar the group's equity would decrease by £18 million (2008: a 10% strengthening would have resulted in a decrease of £7 million). In the event of a 20% strengthening in the value of sterling against the euro the group's equity would decrease by £8 million (2008: a 10% strengthening would have resulted in a decrease of £6 million). The group would experience an equal and opposite increase in equity should sterling weaken against the US dollar and euro.

The group has additional material currency assets and liabilities primarily as a result of activities in the Banking division. These assets and liabilities are matched by currency, with exchange rate derivative contracts used where necessary. Details of these contracts are disclosed in note 15 on page 72. Other potential group exposures arise from share trading settled in foreign currency in the Securities division, and small foreign currency equity investments. The group has policies and processes in place to manage foreign currency risk, and as such the impact of any reasonably expected exchange rate fluctuations would not be material.

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33. Financial risk management continued

Other price risks

Trading financial instruments: debt securities and equity shares

The group's trading activities relate to Winterflood Securities Limited and Close Brothers Seydler AG. The following table shows the group's trading book exposure to market price risk:

For the year ended 31 July 2009	Highest exposure £ million	Lowest exposure £ million	Average exposure £ million	**Exposure at 31 July £ million**
Equities:				
Long	51.2	21.2	34.0	**24.0**
Short	29.9	6.8	13.0	**14.1**
			21.0	**9.9**
Debt securities				
Long	124.0	16.6	43.5	**37.9**
Short	118.7	14.5	44.0	**71.4**
			(0.5)	**(33.5)**

For the year ended 31 July 2008	Highest exposure £ million	Lowest exposure £ million	Average exposure £ million	Exposure at 31 July £ million
Equities:				
Long	74.8	38.4	52.6	38.6
Short	34.8	12.2	19.9	14.4
			32.7	24.2
Debt securities				
Long	81.8	23.6	47.7	61.4
Short	75.9	21.5	42.0	24.1
			5.7	37.3

With respect to the long and short positions on debt securities respectively, £11.9 million and £11.0 million (2008: £0.2 million and £0.3 million) were due to mature within one year.

The average exposure has been calculated on a daily basis. The highest and lowest exposures occurred on different dates and therefore a net position of these exposures does not reflect a spread of the trading book. The basis on which the trading book is valued each day is given in the accounting policies in note 1(q) on page 59.

Based upon the trading book exposure given above, a hypothetical fall of 10% in market prices would result in a £1.0 million (2008: £2.4 million) decrease in the group's income and net assets on the equity trading book and a £3.4 million increase (2008: £3.7 million decrease) on the debt securities trading book. However, the group's trading activity is mainly a jobbing business where positions are managed throughout the day on a continuous basis. Accordingly the result shown above is purely hypothetical.

Non-trading financial instruments

Net gains and losses on non trading financial instruments are disclosed in note 13 on page 70.

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(d) Liquidity risk
Liquidity risk is the risk of not being able to meet liabilities as they fall due and arises mainly in our Banking division.

The group's policy has been to finance customer loans and advances by capital and reserves, longer term deposits and committed facilities with only limited financing from short-term deposits. This policy is kept under review and compliance is monitored on a daily basis. This policy, the average duration of the group's borrowings (24 months versus 12 months for the loan book) and the group's success in raising term retail funds since 31 July 2008 all lead the group to believe it is in a strong position with respect to liquidity risk.

The group measures liquidity risk with a variety of measures including regular stress testing and regular cash flow monitoring, and reporting to both the group and divisional boards.

The following table details the contractual maturities of the group's financial liabilities on an undiscounted cash flow basis:

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	**Total £ million**
At 31 July 2009							
Settlement balances	–	505.2	–	–	–	–	**505.2**
Deposits by banks	17.2	19.6	2.5	8.3	0.6	–	**48.2**
Deposits by customers	769.1	924.8	310.1	53.5	935.5	–	**2,993.0**
Loans and overdrafts from banks	26.7	3.6	24.1	204.4	1,118.2	–	**1,377.0**
Debt securities in issue	–	–	0.1	0.3	0.8	21.7	**22.9**
Loans from money brokers against stock advanced	–	–	–	–	–	–	**–**
Non-recourse borrowings	–	–	–	–	–	–	**–**
Subordinated loan capital	2.3	0.6	–	2.8	22.5	129.1	**157.3**
Derivative financial instruments	–	106.0	6.0	8.9	6.0	–	**126.9**
Off balance sheet commitments	–	0.9	0.6	2.0	9.2	2.3	**15.0**
Total	815.3	1,560.7	343.4	280.2	2,092.8	153.1	**5,245.5**

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	Total £ million
At 31 July 2008							
Settlement balances	–	451.4	–	–	–	–	451.4
Deposits by banks	37.7	210.9	1.5	49.0	2.0	–	301.1
Deposits by customers	843.7	1,503.9	123.6	164.8	42.1	–	2,678.1
Loans and overdrafts from banks	16.1	223.4	62.0	169.5	589.4	–	1,060.4
Debt securities in issue	–	0.3	0.3	0.5	4.1	21.5	26.7
Loans from money brokers against stock advanced	67.0	–	–	–	–	–	67.0
Non-recourse borrowings	–	93.8	74.8	–	–	–	168.6
Subordinated loan capital	2.3	0.6	–	2.8	22.5	134.7	162.9
Derivative financial instruments	0.5	76.1	7.2	2.1	1.8	–	87.7
Off balance sheet commitments	–	1.1	1.2	2.2	18.2	6.8	29.5
Total	967.3	2,561.5	270.6	390.9	680.1	163.0	5,033.4

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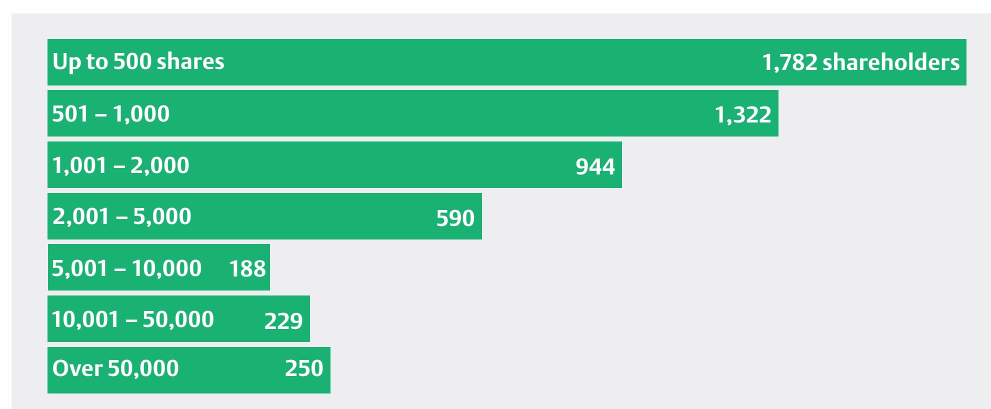
Financial calendar (provisional)

Annual General Meeting	18 November 2009
First quarter Interim Management Statement	November 2009
Final dividend payment	19 November 2009
Half year end	31 January 2010
Interim Results	March 2010
Interim dividend payment	April 2010
Third quarter Interim Management Statement	May 2010
Pre close trading statement	July 2010
Financial year end	31 July 2010
Preliminary Results	September 2010

The financial calendar is updated on a regular basis throughout the year. Please refer to our website www.closebrothers.co.uk for up to date details.

Shareholder analysis
The number of shareholders analysed by the quantity of shares they held at 31 July 2009 was:



Cautionary Statement

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Auditors
Deloitte LLP

Solicitors
Freshfields Bruckhaus Deringer
Slaughter and May

Corporate brokers
J.P. Morgan Cazenove
UBS Investment Banking

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Telephone: 0871 664 0300
Calls cost 10p per minute plus network charges,
lines are open 8.30am to 5.30pm Monday to Friday
Fax: 020 8639 2342
Website: www.capitaregistrars.com

Registered office
Close Brothers Group plc
10 Crown Place
London EC2A 4FT
Telephone: 020 7655 3100
Fax: 020 7655 8967
E-mail: enquiries@cbgplc.com
Company No. 520241
Website: www.closebrothers.co.uk

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Close Brothers Group plc

10 Crown Place
London EC2A 4FT
Tel: 020 7655 3100
Fax: 020 7655 8967