Close Brothers Group plc
Annual Report 2012

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Close Brothers

Close Brothers Group plc
Annual Report 2012

Close Brothers

Close Brothers is a specialist financial services group which makes loans, trades securities and provides advice and investment management solutions to a wide range of clients.

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Front cover: Close Brothers office, 10 Crown Place, London.
Inside front cover: View from Winterflood Securities office, 25 Dowgate Hill, London.

Corporate Overview
Financial Highlights
for the year ended 31 July 2012

£134.2m
(2011: £131.2m)
Adjusted[1] operating profit from continuing operations

67.3p
(2011: 64.8p)
Adjusted[2] basic earnings per share from continuing operations

£134.9m
(2011: £78.5m)
Operating profit before tax from continuing operations

68.6p
(2011: 29.6p)
Basic earnings per share from continuing operations

£99.7m
(2011: £14.6m)
Profit attributable to shareholders from continuing and discontinued operations

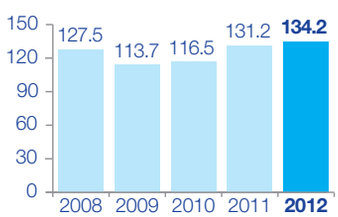
68.6p
(2011: 10.1p)
Basic earnings per share from continuing and discontinued operations

41.5p
(2011: 40.0p)
Ordinary dividend per share[3]

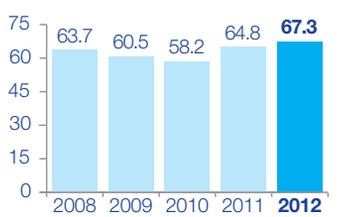
12.8%
(2011: 13.1%)
Core tier 1 capital ratio

1 Stated before exceptional items, goodwill impairment and amortisation of intangible assets on acquisition.
2 Stated before exceptional items, goodwill impairment and amortisation of intangible assets on acquisition and the tax effect of such adjustments.
3 Represents the final dividend proposed for the respective years together with the interim dividend declared and paid in those years.

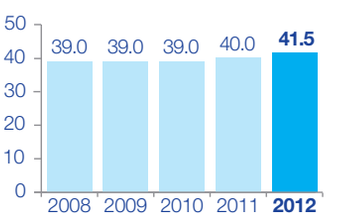
Adjusted operating profit from continuing operations
£ million



Adjusted basic earnings per share from continuing operations
pence



Ordinary dividend per share
pence



Corporate Overview
Our Business

Close Brothers is a specialist financial services group which makes loans, trades securities and provides advice and investment management solutions to a wide range of clients. Close Brothers was established in 1878 and today employs over 2,500 people, principally in the UK. It is listed on the London Stock Exchange and is a member of the FTSE 250.

Banking

The Banking division provides specialist lending to small and medium-sized businesses and individuals across a diverse range of asset classes, and also offers deposit taking services.

The Banking division provides specialist finance solutions through our three lending business units: Retail, which provides point of sale finance for cars, motorcycles and light commercial vehicles through motor dealers and specialist financing of insurance premiums through brokers; Commercial, which provides asset finance across a broad range of asset classes including commercial vehicles, plant, machinery and construction equipment as well as invoice factoring and discounting; and Property, which provides short-term financing principally for residential property development and bridging loans.

The Treasury function provides funding for the group's lending activities through corporate deposits and retail savings products, as well as wholesale funding.

Securities

The Securities division provides trading services to retail brokers and institutions principally through Winterflood, a leading market-maker in the UK.

Winterflood is a leading market-maker to the UK private client broker community, serving over 300 private client brokers. We deal in over 15,000 UK and international securities and have access to all major exchanges and Multilateral Trading Facilities as well as our own internal liquidity pool, and offer guaranteed best execution to our clients.

The experience and expertise of our traders along with prudent and conservative risk limits allow us to provide continuous liquidity to our clients and trade profitably in all market conditions.

Close Brothers Seydler Bank AG, based in Frankfurt, offers securities and capital market services focused on German mid-sized companies.

Asset Management

The Asset Management division provides a full range of advice, investment management and self directed services to private and corporate clients and professional advisers.

Through our national network of around 130 financial advisers, we offer a holistic financial planning service, which includes access to our investment management products. We offer flexible service levels including face to face, telephone, or online access. For self directed clients, we offer direct access to our technology platform and products through our client portal.

Our investment management follows a global, multi-asset philosophy. Our product range includes directly invested, multi-manager and passive funds which are available both through our own advisers and third party IFAs. Our investment management offering also includes separately managed accounts and fully bespoke portfolio management services.

£135.0m

(2011: £106.3m)

Adjusted operating profit[1]

£24.5m

(2011: £54.8m)

Adjusted operating profit[1]

£(4.3)m

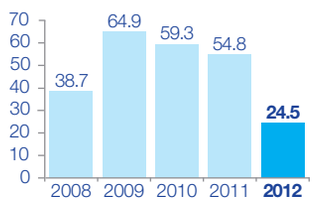
(2011: £(8.6)m)

Adjusted operating loss[1]

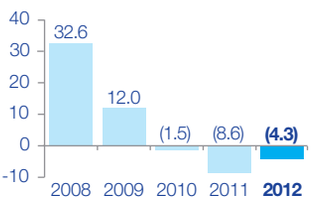
1 Stated before exceptional items, goodwill impairment, amortisation of intangible assets on acquisition, discontinued operations and tax; and excludes group segment income and expense.

Banking adjusted operating profit
£ million

Securities adjusted operating profit
£ million



Asset Management adjusted operating profit/(loss)
£ million



Corporate Overview
Chairman's and Chief Executive's Statement

Strone Macpherson, Chairman (left) and Preben Prebensen, Chief Executive.

Close Brothers has delivered a solid financial performance and made good strategic progress in the 2012 financial year.

Our strong balance sheet and the market positions of our businesses leave us well placed to deliver sustainable profit growth and shareholder returns over time.

Solid Overall Performance in the Current Market Environment

Overall, adjusted operating profit increased 2% to £134.2 million (2011: £131.2 million) and adjusted basic earnings per share increased 4% to 67.3p (2011: 64.8p). This reflects continued strong profit growth in Banking, while profit in Securities reduced substantially due to the difficult external trading conditions and Asset Management made a further small loss as it progressed with its restructuring.

We recorded net exceptional income of £5.6 million on the partial sale of Mako, principally reflecting foreign exchange gains realised on disposal. The prior year included net exceptional charges of £46.9 million principally related to an impairment of our investment in Mako and restructuring in Asset Management. As a result, operating profit before tax, after exceptional items, increased significantly to £134.9 million (2011: £78.5 million) and basic earnings per share increased to 68.6p (2011: 29.6p).

The Banking division has continued to grow strongly, while maintaining its distinctive lending model and the quality of its loan book.

In Securities, Winterflood has maintained its strong market position and capacity despite a difficult market environment.

In Asset Management, we have substantially completed our restructuring and are now positioned to return to profitability.

We have maintained a prudent funding position and continue to have access to a diverse range of funding sources. We raised or renewed over £900 million of wholesale funding in the year, as well as continuing to grow our deposit base, and the loan book was 142% (31 July 2011: 157%) covered by available funding at the balance sheet date. We have also maintained a good level of high quality liquidity in the form of deposits with the Bank of England and UK gilts, while at the same time reducing our holding of less liquid debt securities to optimise balance sheet efficiency.

We have maintained a strong capital position with a core tier 1 capital ratio of 12.8% (31 July 2011: 13.1%), and a leverage ratio of 9.7% (31 July 2011: 9.5%), despite a 20% increase in the loan book and reduced profits in Securities. These ratios are comfortably ahead of all applicable regulatory requirements and industry benchmarks and are not expected to be materially affected by Basel III.

The board is recommending a 1.0p increase in the final dividend per share to 27.5p (2011: 26.5p), resulting in a full year dividend per share of 41.5p (2011: 40.0p), up 4%. This reflects the group's solid performance in the 2012 financial year and our continued confidence in the prospects of our businesses.

Good Strategic Progress in Core Businesses

Following a number of disposals over the last three financial years, we are now focused on developing our core businesses, which have the capacity to deliver high quality, sustainable earnings over time.

As we continue to grow and develop, we are committed to maintaining the key attributes of our business model, which are simple and straightforward business activities; a prudent approach to managing our business and balance sheet; the expertise of our people; and strong relationships with clients and intermediaries. These attributes underpin our strategic priorities of building our client franchises and driving sustainable profits. We undertake a detailed strategic review of each division on an annual basis, and at this year's review we concluded that existing strategic priorities remain appropriate, and execution remains on track.

Strong growth with maintained model in Banking

The strategic priority in the Banking division continues to be to capture growth opportunities while maintaining our distinctive, specialist lending model and the quality of our loan book. The operating environment for the division remains favourable, with strong demand for specialist lending services and limited supply of competing sources of credit, and we have achieved significant growth in our loan book while maintaining consistent lending criteria.

This is reflected in three years of strong loan book growth while maintaining all key ratios well within their historical ranges. In the 2012 financial year, the loan book increased a further 20% to £4.1 billion (31 July 2011: £3.4 billion), the net interest margin remained strong at 9.4% (2011: 9.8%) and the bad debt ratio improved to 1.5% (2011: 2.1%). As a result, the division's adjusted operating profit increased 27% to £135.0 million (2011: £106.3 million).

Loan book growth is principally driven by continued expansion of our core client franchises, and we remain focused on building lending relationships directly with small businesses and with distributors such as motor dealers and insurance brokers. During the year we have further expanded our sales capacity with a net increase of around 40 front line staff, bringing the total to nearly 500, and the opening of a further motor finance branch in the UK. Our local, service and expertise led approach ensures we maintain strong relationships with borrowers and intermediaries, and we continue to generate high levels of repeat business across the division.

Corporate Overview
Chairman's and Chief Executive's Statement continued

"The group is well positioned for the current financial year."

We are undertaking significant investment to support our growing business, ensure our growth remains safe, and maximise our long-term efficiency. This includes the recent launch of a division wide credit management information system, which allows us to more effectively monitor and analyse credit risk at the divisional, business or individual loan level. We have also upgraded our infrastructure and information systems in the areas of finance and IT. At the same time, we have a number of projects underway to streamline and refine processes across the division to ensure we maximise efficiency while maintaining the local expertise and integrated model which underpin our customer proposition and business model.

Maintained market positions and capacity in Securities

The Securities division has continued to deliver against its strategic priorities of maintaining its leading market positions and maximising profitability in all trading conditions. However, overall adjusted operating profit for the division reduced substantially to £24.5 million (2011: £54.8 million) reflecting difficult market conditions throughout the period.

Winterflood has again demonstrated the strength of its business model, which underpins a 25 year track record of profitability. However, its results were affected by low retail investor risk appetite and reduced client trading activity across all sectors, particularly in the less liquid AIM and small-cap stocks, and adjusted operating profit reduced significantly to a ten year low of £16.0 million (2011: £43.2 million).

Notwithstanding the difficult trading conditions, Winterflood's loss days remained relatively modest at 13 days (2011: one loss day) out of 253 (2011: 251) trading days, reflecting the experience and expertise of its traders and tight risk controls. Importantly, Winterflood has maintained its leading market position and remains the largest market-maker to UK retail brokers. In addition, its focus on market-making and variable cost structure have allowed it to maintain its trading capacity while reducing its costs by 30% to reflect the reduction in trading activity. As a result, although trading conditions remain difficult, it remains profitable and well positioned for any increase in activity.

Winterflood's primary focus remains its core UK market-making activities, but it continues to explore growth opportunities through Winterflood Business Services

which offers outsourced execution and custody services, and through its recently opened office in the US.

Close Brothers Seydler has also experienced difficult conditions in the German market, and its adjusted operating profit reduced significantly to £1.3 million (2011: £9.0 million) as a result of low market volumes and reduced debt and equity capital markets activity, particularly in the first half of the financial year. However, the business has a strong client franchise and remains well placed for any recovery.

During the year, we agreed the phased sale of our entire 49.9% investment in Mako to the management team, and at 31 July 2012 our holding in Mako had reduced to 27.3%.

Significant strategic progress in Asset Management

In Asset Management we have substantially completed the restructuring of the division to build a leading private client business in the UK. As expected, the division made a small adjusted operating loss of £4.3 million (2011: loss of £8.6 million).

The private client business continued to grow, reflecting both continued organic growth and acquisitions. Net inflows of private client assets were £284 million (2011: £249 million) in the year, driven by both our advised business and sales of our investment products through third party IFAs. We added a further £330 million of Assets under Management ("AuM") through acquisitions, principally Scott-Moncrieff Wealth Management, an IFA business based in Scotland.

Consistent with our strategy, institutional AuM continued to reduce reflecting redemptions of institutional client assets and the closure of non-core funds. In March 2012 we also completed the disposal of OLIM's property funds business with £355 million of AuM. As a result, at 31 July 2012 overall AuM reduced to £8.3 billion (31 July 2011: £9.6 billion), of which the significant majority now relates to private clients.

During the year we completed the development of our new client propositions and technology platform, with a total investment of £20 million over the last three years. In November 2011, we launched the new proposition for advised clients, which has been well received by advisers and clients with a steadily building pipeline. In May 2012, we launched our offering for self directed clients which provides direct access to our investment portal.

We also completed our range of investment management solutions and now offer a full range of directly invested, multi-manager and passive funds, as well as separately managed accounts and bespoke portfolio management services, all managed by our integrated investment team. Performance of our new investment management products has been strong, with all five of our direct funds achieving a first or second quartile performance in the year to 30 June 2012. In addition, over half of our bespoke portfolio AuM achieved first quartile performance within their respective ARC peer groups over the same period.

With our client propositions, technology and business model now in place, our focus going forward is on driving revenue and asset growth through our new client propositions while stabilising and optimising the cost base. Initially the focus will be on selling our new integrated advice and investment management offering to existing advised clients, with an increasing focus on new organic growth over time. With the restructuring substantially behind us, Asset Management is now in a position to move into profitability during the course of the 2013 financial year and, subject to market conditions, we currently expect the division to achieve an operating margin of at least 15% by the 2015 financial year.

Board Changes

We have further strengthened our board with the addition of Shonaid Jemmett-Page as a non-executive director, and Elizabeth Lee as an executive director and group head of legal and regulatory affairs, both with effect from 1 August 2012.

Shonaid Jemmett-Page is currently a non-executive director at GKN plc, APR Energy plc and Amlin plc and has previously held executive positions at Unilever plc and CDC Group plc. Elizabeth Lee joined Close Brothers in 2009 as group legal counsel and company secretary.

Outlook

In an uncertain market environment, we remain confident in the business model and position of each of our businesses.

In the Banking division, we see prospects for continued loan book and profit growth.

Winterflood has continued to experience low levels of market activity but remains well positioned for any improvement in trading conditions.

Asset Management has substantially completed its restructuring and is now positioned to move into profitability during the course of the 2013 financial year.

Overall, the group is well positioned for the current financial year.

Corporate Overview
Business Model

Close Brothers is a financial services group which makes loans, trades securities and provides advice and investment management solutions to a wide range of clients. We typically operate in segments of the financial market where we can differentiate ourselves and where we do not compete directly with traditional financial institutions.

Each of our businesses is distinct and a specialist in its field, but they share a number of key attributes. Together, these key attributes allow us to offer a differentiated proposition to our clients and underpin our long track record of financial performance through the economic cycle.

Simple

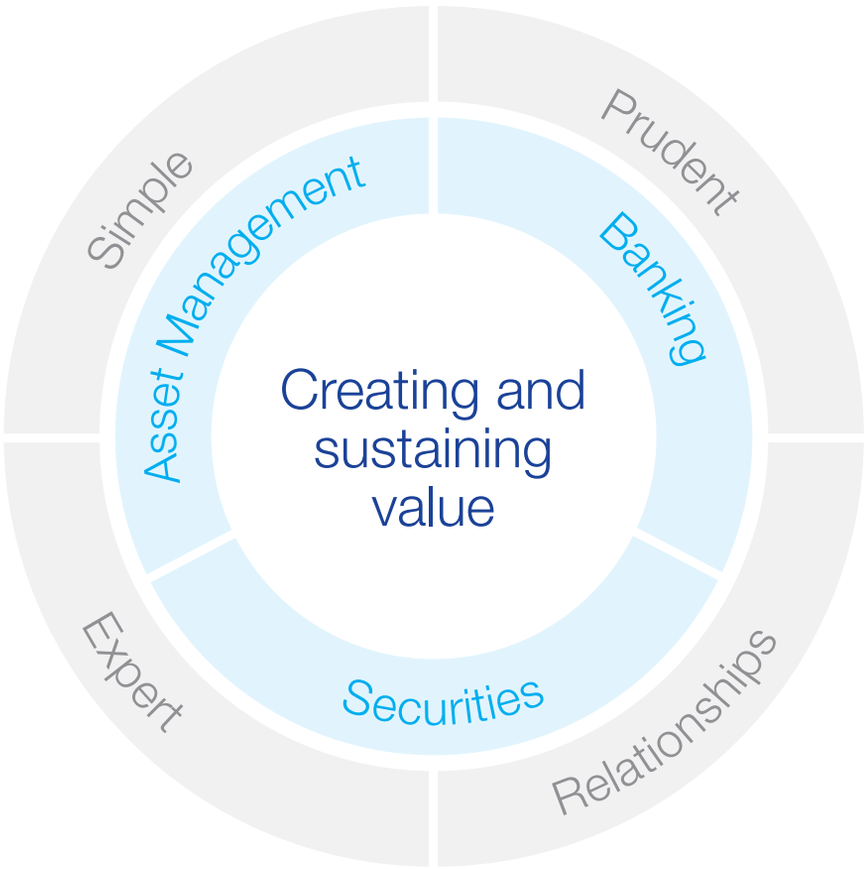
- Our business activities are straightforward: we make loans; we trade securities; and we provide advice and investment management solutions.
- We offer simple products with straightforward, transparent pricing.
- Our balance sheet is transparent and we do not invest in complex securities products or derivatives.

The group's simple products, business activities and balance sheet ensure we maintain the confidence of clients, lenders and depositors, shareholders, and other stakeholders.

Expert

- Our employees are experts in their fields with strong knowledge of their products, markets and clients.
- Our experienced local teams have delegated decision making authority, with strong central oversight.
- Our remuneration structures aim to balance long and short-term performance to promote sustainability of profits.

Our local knowledge and experience allow us to provide a differentiated and valuable service to our clients and is a core part of our risk management.



Prudent

- We have a prudent, diversified funding position and we borrow longer than we lend.
- We have a strong capital position with a core tier 1 capital ratio of 12.8% and leverage ratio of 9.7%.
- We apply prudent and consistent criteria to our lending and our loan portfolio is predominantly secured, short term and diverse.
- In our trading businesses, exposures are short term and relate to market-making positions.

The prudent nature of our business and balance sheet has allowed us to continue meeting our clients' financial needs and deliver solid returns through the economic cycle.

Relationships

- We offer high service levels and build long-term relationships with clients and intermediaries.
- Our local presence and knowledge allow us to understand and meet client needs.
- Our financial strength and prudent, consistent model ensure we can continue serving our clients at all stages of the economic cycle.

Strong relationships with clients, intermediaries and other stakeholders ensure our service offering meets their needs and generates sustainable revenues.

Each of our businesses shares common attributes, but their business models are distinct:

Banking

Provides specialist lending to small and medium-sized businesses and individuals across a diverse range of asset classes and also offers deposit taking services.

- We provide finance directly to SMEs across the UK and also distribute our finance products through intermediaries such as motor dealers and insurance brokers.
- Our loan book is predominantly secured, has a short maturity and is diverse across asset classes and sectors.
- Through high service levels and flexible solutions we build long-term relationships with clients and intermediaries and generate high levels of repeat business.
- Our local, integrated teams are responsible for loans from new business generation to collection.

Securities

Provides trading services to retail brokers and institutions principally through Winterflood, a leading market-maker in the UK.

- Winterflood has a strong market position as the largest market-maker to UK retail brokers, with broad market coverage.
- We have a strong and unique culture with approximately 100 experienced traders and a proprietary technology platform.
- Our focus on market-making, low fixed cost base and strong risk management have allowed us to remain consistently profitable in a wide range of market conditions.
- Seydler has a strong position in the German small and mid-cap market as designated sponsor to over 200 listed companies.

Asset Management

Provides a full range of advice, investment management and self directed services to private and corporate clients and professional advisers.

- We provide an integrated offering for private clients combining financial planning advice and professional investment management.
- We offer a wide range of funds, separately managed accounts and bespoke portfolios, all supported by an integrated investment process.
- We access multiple distribution channels including our own and third party advisers, high net worth portfolio managers and an online portal for self directed clients.

For more information on our divisions please see pages 18 to 23.

Corporate Overview
Strategy and Key Performance Indicators

Our strategy is to focus on businesses where we have a differentiated proposition and which have the capacity to deliver high quality, sustainable earnings over time. Over the last few years we have exited a number of non-core businesses which did not meet these criteria. The group is focused on three core divisions: Banking, Securities and Asset Management. Going forward our priority is to continue to maximise the opportunity for each of these three divisions in a range of market conditions.

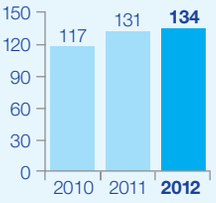
The group's overall strategic objectives are:

	Description	Progress
Drive sustainable profits	We focus on businesses and activities that generate recurring, sustainable profits	• Adjusted operating profit and earnings per share increased despite mixed conditions for our businesses. • Strong profit growth in Banking while strengthening front line sales capacity, information systems and infrastructure. • Winterflood remained profitable despite difficult market conditions. • Substantially completed restructuring in Asset Management and rolled out new client propositions.
Build client franchises	We develop and maintain strong relationships that deliver repeat business and recurring income	• Loan book increased 20%, the third consecutive year of strong growth with continued high repeat business. • Private client AuM increased through organic growth and acquisitions. • Winterflood maintained its leading market position.
Remain prudent and efficient	We maintain a strong funding, capital and liquidity position at all times and are committed to maintaining loan book quality	• Maintained a strong capital position while employing capital for loan book growth. • Maintained a diverse funding position with prudent maturity profile. • Maintained a good level of high quality liquidity while improving balance sheet efficiency through lower holdings of debt securities. • Maintained underwriting discipline and quality of loan book.
Deliver shareholder returns	We aim to generate sustainable growth in dividends and shareholder returns	• Maintained solid return on equity despite challenging year for Securities. • Increased full year dividend per share by 4%.

1 Adjusted operating profit excluding associate income after tax and non-controlling interests on opening equity.

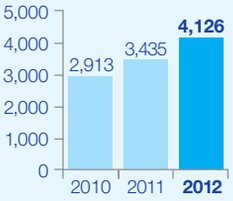
Key performance indicators

Adjusted operating profit
£ million



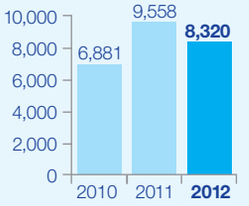
Adjusted earnings per share
pence

Loan book
£ million

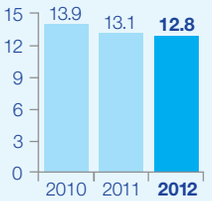


Winterflood income
£ million

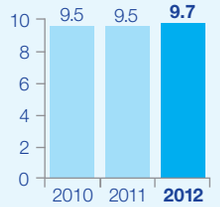
Assets under Management
£ million



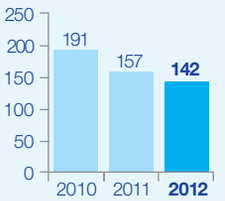
Core tier 1 capital ratio
per cent



Leverage ratio
per cent

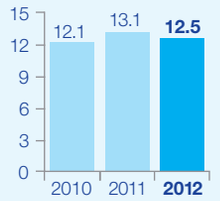


Total funding of loan book
per cent

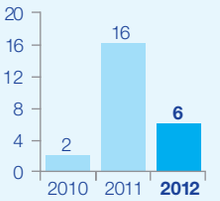


Dividend per share
pence

Return on equity[1]
per cent



Total shareholder return
per cent



Strategic priorities by division:

In the **Banking division,** to capture sustainable growth opportunities while maintaining our distinctive, specialist lending model.

In **Securities,** to maintain our leading market positions and maximise profitability in all trading conditions.

In **Asset Management,** to complete the restructuring and drive sales of our new client propositions.

For more information on our divisions please see pages 18 to 23.

Business Review
Financial Overview

The group has demonstrated the strength of its business model and delivered a solid performance in the 2012 financial year in the current market conditions. Overall adjusted operating profit was up 2% to £134.2 million (2011: £131.2 million) reflecting a strong performance from Banking, difficult market conditions for Securities and continued investment in Asset Management.

A Solid Financial Performance
Adjusted operating income reduced 3% to £531.7 million (2011: £548.5 million) reflecting substantially lower income in Securities as trading conditions remained difficult throughout the year. This offset strong growth in Banking driven by very good demand for lending services and more modest growth in Asset Management principally reflecting the full year effect of prior year acquisitions.

Adjusted operating expenses reduced 3% to £339.9 million (2011: £352.1 million), as we continue to manage costs while investing to ensure we have the capacity and infrastructure to support growth. In Banking, expenses increased reflecting strong loan book growth and ongoing investment in the division's infrastructure. In Securities, our variable cost structure has enabled us to reduce costs without compromising capacity, while in Asset Management, expenses increased modestly in its final year of substantial investment. Overall, the group expense/income ratio increased slightly to 65% (2011: 64%) however the compensation ratio (total staff costs excluding exceptional items on adjusted operating income excluding associate income) was slightly lower at 38% (2011: 40%) reflecting lower performance related costs in Securities.

Over the last few years, we have focused on maintaining our lending model and credit quality as we grow. During the year impairment losses on loans and advances ("bad debts") reduced £7.6 million to £57.6 million (2011: £65.2 million). As a result, the bad debt ratio improved to 1.5% (2011: 2.1%), principally driven by the Commercial and Property lending businesses.

Overall, adjusted operating profit for the group increased £3.0 million, or 2%, to £134.2 million (2011: £131.2 million) corresponding to an operating margin of 24% (2011: 24%), stable on the prior year, and a return on opening equity of 12.5% (2011: 13.1%). Adjusted operating profit in Banking increased 27% to £135.0 million (2011: £106.3 million) reflecting continued loan book growth and lower bad debt charges. In Securities, both Winterflood and Seydler's performance were impacted by difficult trading conditions which led to a 55% reduction in adjusted operating profit to £24.5 million (2011: £54.8 million). Asset Management delivered a small loss of £4.3 million (2011: loss of £8.6 million).

During the year, we recorded net exceptional income of £5.6 million relating to the reduction in our investment in Mako from 49.9% to 27.3%, principally foreign exchange gains realised on disposal. The prior year included net exceptional charges of £46.9 million, principally relating to the impairment of our investment in Mako and restructuring in Asset Management, and a goodwill impairment charge of £3.7 million in Asset Management. In line with our normal accounting policy, we also recorded a charge for amortisation of intangible assets on acquisition of £4.9 million (2011: £2.1 million).

After exceptional items, goodwill impairment and amortisation of intangible assets on acquisition, operating profit before tax increased significantly to £134.9 million (2011: £78.5 million).

The tax charge for the year was £33.5 million (2011: £35.1 million), corresponding to an effective tax rate of 25% (2011: 45%), in line with the UK corporation tax rate. The prior year tax rate was significantly above the UK corporation tax rate principally due to the impact of £46.4 million of non tax-deductible exceptional items and goodwill impairment in that year.

After tax, profit attributable to shareholders was £99.7 million (2011: £42.7 million), a significant increase on the prior year. As a result, basic earnings per share also increased to 68.6p (2011: 29.6p). Excluding

exceptional items and amortisation of intangible assets on acquisition, adjusted basic earnings per share increased 4% to 67.3p (2011: 64.8p).

There were no discontinued operations in the 2012 financial year, however the prior year included a loss from discontinued operations of £27.6 million related to the group's businesses in the UK offshore and Cayman Islands which were sold in that year.

As a result, profit attributable to shareholders from continuing and discontinued operations in the prior year was £14.6 million.

Dividend increase

The board is recommending an increase of 1.0p in the final dividend to 27.5p (2011: 26.5p), resulting in a 4% increase in the total dividend for the year to 41.5p (2011: 40.0p). The final dividend will be paid on 27 November 2012 to shareholders on the register at 19 October 2012.

Balance Sheet

We remain focused on managing our resources prudently and during the year, we have maintained our strong funding and capital positions. We have also maintained a strong and stable holding of high quality liquidity, while at the same time continuing to increase the overall efficiency of our balance sheet through lower holdings of less liquid debt securities. As a result, total assets increased modestly to £6,355.8 million (31 July 2011: £6,108.6 million) at 31 July 2012, despite strong loan book growth in the year.

Group Income Statement

	2012 £ million	2011 £ million	Change %
Continuing operations[1]			
Adjusted operating income	**531.7**	548.5	(3)
Adjusted operating expenses	**(339.9)**	(352.1)	(3)
Impairment losses on loans and advances	**(57.6)**	(65.2)	(12)
Adjusted operating profit	**134.2**	131.2	2
Exceptional items	**5.6**	(46.9)	
Goodwill impairment	**–**	(3.7)	
Amortisation of intangible assets on acquisition	**(4.9)**	(2.1)	
Operating profit before tax	**134.9**	78.5	72
Tax	**(33.5)**	(35.1)	(5)
Non-controlling interests	**(1.7)**	(0.7)	
Profit attributable to shareholders: continuing operations	**99.7**	42.7	133
Loss from discontinued operations	**–**	(27.6)	
Non-controlling interests: discontinued operations	**–**	(0.5)	
Profit attributable to shareholders: continuing and discontinued operations	**99.7**	14.6	
Adjusted basic earnings per share: continuing operations	**67.3p**	64.8p	4
Basic earnings per share: continuing operations	**68.6p**	29.6p	132
Basic earnings per share: continuing and discontinued operations	**68.6p**	10.1p	
Ordinary dividend per share	**41.5p**	40.0p	4

1 Results from continuing operations for 2011 exclude the UK offshore and Cayman Islands businesses, the sales of which completed in 2011 and which have been classified as discontinued operations under IFRS 5. There were no discontinued operations in the 2012 financial year and all commentary relates to continuing operations except where specified.

Note: Adjusted operating income, expenses, operating profit and earnings per share exclude the effect of exceptional items, goodwill impairment and amortisation of intangible assets on acquisition.

Divisional Adjusted Operating Profit/(Loss)

	2012		2011[1]		Change
	£ million	%	£ million	%	%
Banking	**135.0**	**87**	106.3	70	27
Securities	**24.5**	**16**	54.8	36	(55)
Asset Management	**(4.3)**	**(3)**	(8.6)	(6)	(50)
Total divisions	**155.2**	**100**	152.5	100	2
Group	**(21.0)**		(21.3)		(1)
Adjusted operating profit	**134.2**		131.2		2

1 Results for 2011 exclude the UK offshore and Cayman Islands businesses, the sales of which completed in 2011 and which have been classified as discontinued operations under IFRS 5.

Business Review
Financial Overview continued

Simple, transparent balance sheet

The group's balance sheet is simple and transparent reflecting the straightforward nature of its business activities. Assets principally relate to customer loans and assets held for liquidity purposes by the group's Treasury function. Trading exposures principally relate to short-term market-making positions at Winterflood and Seydler.

In the 2012 financial year, the loan book increased 20% to £4,125.9 million (31 July 2011: £3,435.3 million) and now accounts for 65% (31 July 2011: 56%) of the balance sheet. The quality of our loan book is a core attribute of our business model and our loans are predominantly secured, with prudent loan to value ratios. Our loans are generally small and short term, with an average maturity of 14 months (31 July 2011: 13 months) and the portfolio is diversified with no material concentration in individual asset classes.

Cash and loans and advances to banks and non-trading debt securities principally relate to the group's Treasury assets and are held primarily for liquidity purposes.

Our holding of cash and loans and advances to banks increased in the year to £816.8 million (31 July 2011: £709.3 million), reflecting an increase in deposits at the Bank of England as we continue to focus on maintaining an appropriate level of high quality liquidity.

At the same time, non-trading debt securities reduced to £353.0 million (31 July 2011: £810.2 million) as we continued to reduce our holding of less liquid debt securities to optimise balance sheet efficiency. Our debt securities are high quality, UK and international floating rate notes ("FRNs") and certificates of deposit ("CDs") as well as UK gilts, and do not include debt issued by financial institutions or sovereigns in the Eurozone.

Assets and liabilities that relate to the market-making businesses are predominantly short-term settlement balances and equity and debt trading positions. In the year these reduced to £598.5 million (31 July 2011: £706.9 million) on the asset side and £501.7 million (31 July 2011: £585.4 million) on the liability side, reflecting lower trading activity at the balance sheet date.

Liabilities on the balance sheet principally comprise funding for the loan book and for the group's liquid asset holdings in the form of customer deposits and borrowings. Customer deposits increased 9% to £3,448.1 million (31 July 2011: £3,170.5 million) reflecting growth in term retail deposits. Borrowings include loans and overdrafts from banks, a group bond, securitisations and subordinated loan capital, and increased £196.6 million to £1,322.3 million (31 July 2011: £1,125.7 million) to fund loan book growth.

Shareholders' equity increased £41.5 million to £769.8 million (31 July 2011: £728.3 million) reflecting the increase in profit attributable to shareholders to £99.7 million, partly offset by dividend payments during the year of £58.3 million, while the net effect of other reserve movements was neutral.

Prudent and efficient funding

The objective of the group's Treasury function is to fund the loan book prudently with a focus on diversity and maturity, while maintaining an appropriate level of high quality liquidity.

During the year, the group has maintained good access to a diverse range of funding sources and further increased both its wholesale funding and its deposit base. Total group funding at 31 July 2012 increased £457.1 million to £5,859.1 million (31 July 2011: £5,402.0 million), equivalent to 142% (2011: 157%) of the loan book.

Customer deposits increased £277.6 million to £3,448.1 million (31 July 2011: £3,170.5 million) reflecting growth in term, retail deposits as the group's Treasury expanded its savings product offering. The group's corporate deposit base remained stable in the year.

Drawn and undrawn bank facilities also increased £131.6 million to £1,436.7 million (31 July 2011: £1,305.1 million). This includes £500 million raised through a new securitisation facility on the motor finance loan book, which was partly offset by maturities of smaller facilities. We also renewed around £450 million of facilities which were due to mature in the period.

We are committed to maintaining a prudent maturity profile of funding relative to the loan book. During the period we increased our term funding, with a residual maturity greater than one year, by £298.1 million to £2,758.7 million (31 July 2011: £2,460.6 million), principally through additional term retail deposits. At the balance sheet date this term funding covered 67% (31 July 2011: 72%) of the loan book. This ratio fluctuates depending on the timing of new funding raised and renewals, but remains consistent with our conservative risk appetite.

The weighted average maturity of this term funding, excluding equity, at 27 months (31 July 2011: 36 months) continues to be

substantially longer than the loan book with a maturity of 14 months (31 July 2011: 13 months). The reduction in average maturity reflects funding movements in the period, including the new £500 million securitisation which had a maturity of just over 12 months at the balance sheet date.

Good level of high quality liquidity

We have maintained a strong liquidity position, which is comfortably ahead of the FSA's liquidity requirements and our own internal policies. In the year, total high quality liquid assets were broadly stable at £806.9 million (31 July 2011: £823.2 million) and comprised £706.8 million (31 July 2011: £594.4 million) of Bank of England deposits and £100.1 million (31 July 2011: £228.8 million) of gilts.

At the same time, we reduced our holding of less liquid debt securities as we continued to focus on the quality of our liquidity while optimising balance sheet efficiency and as a result, overall treasury assets reduced £344.8 million to £1,059.8 million (31 July 2011: £1,404.6 million). Our CD portfolio reduced £154.2 million to £130.3 million (31 July 2011: £284.5 million) as maturities in the period were not replaced. In addition, we continued to reduce the FRN portfolio to £122.6 million (31 July 2011: £296.9 million) reflecting maturities in the period. The portfolio had an average residual maturity of 12 months (31 July 2011: 15 months) at 31 July 2012.

Close Brothers Group plc and Close Brothers Limited ("CBL"), the group's regulated banking subsidiary, have credit ratings from Fitch Ratings ("Fitch") and Moody's Investors Services ("Moody's"). Fitch has maintained the ratings for Close Brothers Group plc and CBL at A/F1, both with stable outlooks. In July 2012, Moody's downgraded both Close Brothers Group plc and CBL by one notch to Baa1/P2 and A3/P2 respectively, both with unchanged negative outlooks. Moody's decision was based on strong loan book growth and the weak outlook for the UK economy, although recognising the group's consistently strong financial performance, the secured nature of our lending, our stable funding base and our strong capital position. We do not expect this rating change to materially impact our ability to access funding going forward.

Group Balance Sheet

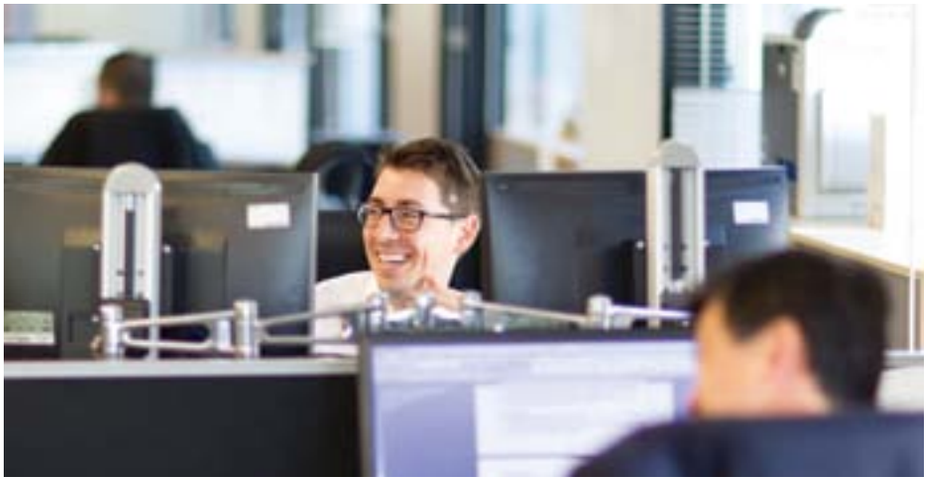
	31 July 2012 £ million	31 July 2011 £ million
Assets		
Cash and loans and advances to banks	**816.8**	709.3
Settlement balances, long trading positions and loans to money brokers	**598.5**	706.9
Loans and advances to customers	**4,125.9**	3,435.3
Non-trading debt securities	**353.0**	810.2
Intangible assets	**139.7**	133.1
Other assets	**321.9**	313.8
Total assets	**6,355.8**	6,108.6
Liabilities		
Settlement balances, short trading positions and loans from money brokers	**501.7**	585.4
Deposits by banks	**88.0**	192.8
Deposits by customers	**3,448.1**	3,170.5
Borrowings	**1,322.3**	1,125.7
Other liabilities	**225.9**	305.9
Total liabilities	**5,586.0**	5,380.3
Equity	**769.8**	728.3
Total liabilities and equity	**6,355.8**	6,108.6

Group Funding Overview

	31 July 2012 £ million	31 July 2011 £ million	Change £ million
Deposits by customers	**3,448.1**	3,170.5	277.6
Drawn and undrawn facilities[1]	**1,436.7**	1,305.1	131.6
Group bond	**204.5**	198.1	6.4
Equity	**769.8**	728.3	41.5
Total available funding	**5,859.1**	5,402.0	457.1

1 Includes £331.9 million (31 July 2011: £410.2 million) of undrawn facilities and excludes £13.0 million (31 July 2011: £32.7 million) of non-facility overdrafts included in borrowings.

Business Review
Financial Overview continued



Maintained strong capital position

We have maintained a strong capital position while continuing to employ capital in the loan book. The group's core tier 1 capital and leverage ratios remain comfortably above regulatory minimum requirements and industry benchmarks.

At 31 July 2012, the group had a core tier 1 capital ratio of 12.8% (31 July 2011: 13.1%), a modest reduction on the prior year despite strong loan book growth and reduced profits in Securities. This is an increase from 12.3% at 31 January 2012 partly reflecting the timing of interim and full year dividend payments in the year and we expect a broadly similar profile in the core tier 1 capital ratio in the 2013 financial year. The group does not expect its core tier 1 capital ratio to be materially impacted by the implementation of Basel III, given that it does not have complex trading exposures which give rise to higher credit and counterparty risk weightings, and does not have material deferred tax assets which are subject to new capital deductions.

In the 2012 financial year, core tier 1 capital increased 5% to £620.8 million (31 July 2011: £588.5 million) principally reflecting an increase in retained earnings partially offset by dividend payments. Overall risk weighted assets increased 8% in the year to £4,859.7 million (31 July 2011: £4,493.0 million). This primarily reflects an increase in credit and counterparty assets due to strong loan book growth, partially offset by the lower holding of debt securities. Risk weighted assets related to operational risk also reduced reflecting lower trading activity in Securities.

The leverage ratio, defined as core tier 1 capital as a percentage of total balance sheet assets adjusting for intangible assets and certain off-balance sheet exposures, increased to 9.7% (31 July 2011: 9.5%) as the growth rate in total balance sheet assets was lower than the growth in the capital base. The leverage ratio is a transparent measure of capital strength which is not affected by risk weightings and taken together, our leverage and core tier 1 capital ratios demonstrate the strength and quality of our capital base.

Group Funding Maturity Profile

	Less than one year £ million	One to two years £ million	Greater than two years £ million	Total £ million
Deposits by customers	2,269.0	956.1	223.0	3,448.1
Drawn and undrawn facilities[1]	825.3	536.4	75.0	1,436.7
Group bond	6.1	–	198.4	204.5
Equity	–	–	769.8	769.8
Total available funding at 31 July 2012	**3,100.4**	**1,492.5**	**1,266.2**	**5,859.1**
Total available funding at 31 July 2011	2,941.4	982.8	1,477.8	5,402.0

1 Includes £331.9 million (31 July 2011: £410.2 million) of undrawn facilities and excludes £13.0 million (31 July 2011: £32.7 million) of non-facility overdrafts included in borrowings.

Treasury Assets

	31 July 2012 £ million	31 July 2011 £ million	Change £ million
Gilts	**100.1**	228.8	(128.7)
Bank of England deposits	**706.8**	594.4	112.4
High quality liquid assets	**806.9**	823.2	(16.3)
Certificates of deposit	**130.3**	284.5	(154.2)
Floating rate notes	**122.6**	296.9	(174.3)
Total Treasury assets	**1,059.8**	1,404.6	(344.8)

Group Capital Position

	31 July 2012 £ million	31 July 2011 £ million
Core tier 1 capital ratio	**12.8%**	13.1%
Total capital ratio	**14.5%**	14.9%
Leverage ratio	**9.7%**	9.5%
Core tier 1 capital	**620.8**	588.5
Total regulatory capital	**702.9**	669.1
Risk weighted assets	**4,859.7**	4,493.0

Business Review
Banking

The strategy of the Banking division is to capture sustainable growth opportunities while maintaining the distinctive, specialist lending model that underpins our track record of profitability through the economic cycle.

Strategic Priorities and Progress

The strategy of the Banking division is to capture sustainable growth opportunities while maintaining the distinctive, specialist lending model that underpins our track record of profitability through the economic cycle.

The key strategic priorities for the division are unchanged:

Expanding our client franchise

- Loan book increased 20%, the third consecutive year of strong growth with continued high repeat business.

Maintaining a consistent approach to lending and loan book quality

- Maintained strong underwriting discipline and loan book remains short term, diverse and predominantly secured.
- Key ratios and overall shape of loan book remain consistent.

Managing resources for growth

- Maintained a strong funding, liquidity and capital position.
- Strengthened front line sales capacity, information systems and infrastructure to support a growing business.

Overview of 2012 Financial Performance

The Banking division achieved another strong result as we continued to make the most of strong demand and limited competition and increased the loan book to £4.1 billion (31 July 2011: £3.4 billion).

Adjusted operating income increased 11% to £361.5 million (2011: £326.0 million) driven by 13% growth in net interest and fees on the loan book, with growth spread across Retail, Commercial and Property. Treasury and other income reduced to £7.5 million (2011: £13.7 million) as we focus on funding the loan book and holding high quality liquid assets.

Adjusted operating expenses increased 9% to £168.9 million (2011: £154.5 million), reflecting increased volume related costs and ongoing investment in infrastructure to support the division's growth.

Bad debt charges reduced to £57.6 million (2011: £65.2 million) as the credit quality of the loan book continued to improve.

As a result, adjusted operating profit increased 27% to £135.0 million (2011: £106.3 million), corresponding to an operating margin of 37% (2011: 33%), and we maintained a strong return on opening equity of 22% (2011: 21%).

Expanding our client franchise

We achieved loan book growth of 20% overall driven by strong demand and limited competition in many of our markets. Across our businesses we continue to experience good demand from both new and existing clients, with high levels of repeat business, driven by our local presence, strong client relationships and service led approach.

In Retail, the loan book increased 15% to £1.7 billion (2011: £1.5 billion) as motor finance increased 25%, benefiting from continued strong demand, limited competition and increased geographic coverage. Premium finance increased 2%, with good growth from personal lines but lower demand in commercial lines.

The Commercial loan book increased 18% to £1.6 billion (2011: £1.4 billion), driven by 23% growth in asset finance, reflecting continued strong demand for specialist lending services and limited competition. Invoice finance was broadly flat as it continues to maintain consistent lending criteria notwithstanding ongoing high levels of competition in its market.

Following a period of slower growth, the Property loan book increased 39% to £0.8 billion (31 July 2011: £0.6 billion), reflecting increasing demand for residential property development and bridging finance, as very low levels of competition have allowed us to achieve significant growth while lending selectively and continuing to improve the quality of our loan book.

Overall, the composition of our loan book remains broadly unchanged, with Retail accounting for 41% (2011: 43%), Commercial for 40% (2011: 41%) and Property 19% (2011: 16%).

Maintaining a consistent approach to lending and loan book quality

As we continue to grow, our priority is to maintain our predominantly secured, distinctive lending model and we continue to apply prudent, consistent criteria to our lending decisions. As a result, all key ratios and the overall shape of the loan book remain consistent with their historical ranges.

The net interest margin was 9.4% (2011: 9.8%), slightly above the ten year average of 9.2%. This is a modest reduction on the ten year high achieved in the prior year, partly reflecting the ongoing change in mix of loan book growth.

The bad debt ratio improved to 1.5% (2011: 2.1%), reflecting a continued improvement in credit quality across the loan book, and is slightly below the ten year average of 1.6%. The bad debt ratio in Retail remains at historically low levels

while it reduced in both Commercial and Property. The return on the net loan book (adjusted operating profit before tax on average net loans and advances to customers) improved to 3.6% (2011: 3.3%).

Our focus on credit quality is supported by strong credit approval processes at both local and divisional level, and our integrated local teams have end to end responsibility for loans from origination to collection. In addition, during the year we completed the rollout of a division wide credit management information system which allows us to more effectively review detailed credit information at the divisional, business and individual loan level, adding an additional layer of management control and information to ensure we continue to protect our credit quality as the business grows.

Managing resources for growth

As we grow, we have to ensure we maintain the capacity to increase our lending while optimising the efficiency of our business longer term, and we are continuing to invest in central infrastructure and support to effectively manage a larger business.

In the 2012 financial year, adjusted operating expenses increased 9% to £168.9 million (2011: £154.5 million). The expense/income ratio was consistent with the prior year at 47% (2011: 47%) and the compensation ratio was also stable at 27% (2011: 27%). The increase in cost principally reflects increased volume related costs due to strong growth and the associated increase in headcount, particularly in asset and motor finance. We also continued to invest in information and infrastructure projects, including the new credit information system, an integrated IT system and a new common finance platform. This investment accounted for £5 million of the cost increase in the year.

We remain focused on managing our financial resources prudently and have maintained a strong funding, liquidity and capital position, comfortably above regulatory requirements. The group's funding, liquidity and capital is discussed in more detail on pages 14 to 17 of the Financial Overview.

Key Financials

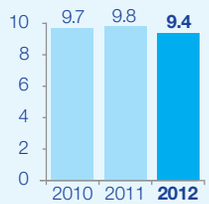
	2012 £ million	2011 £ million	Change %
Adjusted operating income	**361.5**	326.0	11
Net interest and fees on loan book	**354.0**	312.3	13
Retail	**144.9**	128.8	13
Commercial	**161.1**	140.6	15
Property	**48.0**	42.9	12
Treasury and other non-lending income	**7.5**	13.7	(45)
Adjusted operating expenses	**(168.9)**	(154.5)	9
Impairment losses on loans and advances	**(57.6)**	(65.2)	(12)
Adjusted operating profit	**135.0**	106.3	27

Loan Book Analysis

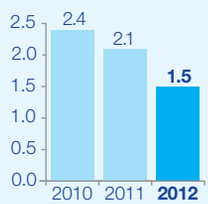
	31 July 2012 £ million	31 July 2011 £ million	Change %
Retail	**1,707.8**	1,481.5	15
Motor finance	**1,086.8**	870.8	25
Premium finance	**621.0**	610.7	2
Commercial	**1,635.9**	1,390.7	18
Asset finance	**1,327.2**	1,079.2	23
Invoice finance	**308.7**	311.5	(1)
Property	**782.2**	563.1	39
Closing loan book	**4,125.9**	3,435.3	20

Key Performance Indicators

Net interest margin[1]
per cent



Bad debt ratio[2]
per cent



Expense/income ratio[3]
per cent

Return on opening equity[4]
per cent

1 Net interest and fees on average net loans and advances to customers.
2 Impairment losses on average net loans and advances to customers.
3 Adjusted operating expenses on adjusted operating income.
4 Adjusted operating profit after tax and non-controlling interests on opening equity.

Business Review
Securities

The strategy of the Securities division is to maintain our leading market positions and maximise profitability in all trading conditions. Notwithstanding the recent difficult market conditions, the division has continued to deliver against its key strategic priorities.

Strategic Priorities and Progress
The strategy of the Securities division is to maintain our leading market positions and maximise profitability in all trading conditions. Notwithstanding the recent difficult market conditions, the division has continued to deliver against its key strategic priorities:

Maximising revenue opportunities in all market conditions
- Winterflood managed challenging markets through its experienced traders and tight risk controls with only 13 loss days out of 253 trading days.

Managing costs and maximising profitability while maintaining capacity
- Winterflood reduced costs by 30% while maintaining capacity and remained profitable in difficult markets.

Maintaining leading market positions through the cycle
- Winterflood maintained position as leading market-maker and remains well positioned for any market recovery.

During the period, the group agreed the phased sale to the management team of its entire 49.9% investment in Mako for a consideration of US$40 million and up to US$7.5 million deferred contingent consideration. At 31 July 2012, the group had reduced its holding to 27.3%.

Overview of 2012 Financial Performance
The performance of the Securities division was impacted by difficult market conditions throughout the year, reflecting low client trading activity, sustained low investor risk appetite and periods of high volatility.

Adjusted operating income was £101.4 million (2011: £158.7 million), a reduction of 36% reflecting substantially lower trading income at both Winterflood and Seydler. Adjusted operating expenses overall reduced 26% to £76.9 million (2011: £103.9 million) reflecting the variable cost structure of our Securities businesses. The expense/income ratio was 82% (2011: 67%) and the compensation ratio was 46% (2011: 45%). As a result, overall adjusted operating profit was down 55% to £24.5 million (2011: £54.8 million), corresponding to an operating margin of 18% (2011: 33%).

Maximising revenue opportunities in all market conditions
Market conditions throughout the financial year were characterised by low risk appetite, particularly amongst retail investors leading to reduced client trading activity across all sectors, particularly in higher margin, less liquid AIM and small cap stocks.

Winterflood's performance is highly sensitive to retail investor trading activity and its adjusted operating income reduced 41% to £73.2 million (2011: £124.5 million).

Despite lower client trading activity, average bargains per day were broadly stable at 46,829 (2011: 47,742) reflecting smaller bargain sizes on order book trades across the market. However, income per bargain was substantially lower at £6.18 (2011: £10.39) reflecting the lower client trading activity and a shift in mix away from higher margin, less liquid stocks.

The experience and expertise of Winterflood's traders and tight risk controls has ensured it continues to maximise the revenue opportunity in all market conditions. While higher than last year, loss days in the last financial year remained relatively modest at 13 days (2011: 1 loss day) out of 253 (2011: 251) trading days.

Seydler's trading business was also impacted by low trading volumes in difficult market conditions and adjusted operating income reduced 34% to £21.0 million (2011: £31.6 million). However, its performance improved slightly in the second half of the year as equity and debt capital markets activity in Germany increased.

Managing costs and maximising profitability while maintaining capacity
Winterflood's business model has a low fixed cost structure reflecting its focus on market-making, which allows it to manage costs and adapt to changing market conditions while maintaining its trading capacity. In the year, adjusted operating expenses reduced 30% to £57.2 million (2011: £81.3 million) principally reflecting lower volume and performance related costs, mitigating some of the revenue reduction. As a result, Winterflood's adjusted operating profit reduced 63% to £16.0 million (2011: £43.2 million).

Seydler also reduced adjusted operating expenses in the period to £19.7 million (2011: £22.6 million), principally through lower volume related costs, and its adjusted operating profit was £1.3 million (2011: £9.0 million).

Mako contributed associate income of £7.2 million (2011: £2.6 million) driven by a short period of high volatility which benefited derivatives markets in the first quarter, followed by a return to more normal trading conditions thereafter.

Maintaining leading market positions through the cycle

The priority for the Securities businesses is to maintain their leading market positions through the cycle so they are well placed to benefit from any market recovery.

During the recent difficult markets, Winterflood has maintained its position as the leading market-maker to retail brokers in the UK, where it deals in over 15,000 UK and international securities across FTSE 100 to AIM and small cap stocks and provides continuous liquidity to over 300 private client brokers.

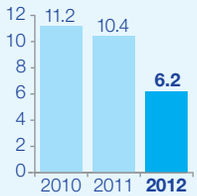
Seydler is a Frankfurt based specialist floor trading and designated sponsoring business making markets in approximately 2,500 German and international stocks and bonds. It has also maintained its strong market position in Germany and remains well placed for any market recovery.

Key Figures

	2012 £ million	2011 £ million	Change %
Adjusted operating income	**101.4**	158.7	(36)
Winterflood	**73.2**	124.5	(41)
Seydler	**21.0**	31.6	(34)
Mako (associate income after tax)	**7.2**	2.6	177
Adjusted operating expenses	**(76.9)**	(103.9)	(26)
Winterflood	**(57.2)**	(81.3)	(30)
Seydler	**(19.7)**	(22.6)	(13)
Adjusted operating profit	**24.5**	54.8	(55)
Winterflood	**16.0**	43.2	(63)
Seydler	**1.3**	9.0	(86)
Mako (associate income after tax)	**7.2**	2.6	177

Key Performance Indicators

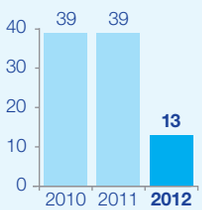
Winterflood income per bargain
£



Winterflood average bargains per day
'000

Operating margin[1]
per cent

Return on opening equity[2]
per cent



1 Adjusted operating profit on adjusted operating income after excluding associate income.
2 Adjusted operating profit excluding associate income after tax and non-controlling interests on opening equity.

Business Review
Asset Management

The Asset Management division has now substantially completed its restructuring and the development of its new client propositions.

Strategic Priorities and Progress
The Asset Management division has now substantially completed its restructuring and the development of its new client propositions.

In the last year we have made good progress on our strategic priorities for the division:

Focusing on managed and advised private clients
- Private client assets increased through organic and acquisition growth and now account for significant majority of AuM.

Developing our client propositions, platform and infrastructure
- Completed £20 million non-recurring investment.
- Rolled out new client propositions and technology platform.

Over the next few years, our focus will be on increasing sales of our new propositions to new and existing clients while stabilising the cost base, to drive revenue and profit growth.

Overview of 2012 Financial Performance
The Asset Management division made a small operating loss in the 2012 financial year, reflecting the final stage of its restructuring.

At 31 July 2012, total AuM was £8.3 billion (31 July 2011: £9.6 billion), which reflects a continued reduction in institutional assets consistent with our strategic focus on private clients. With the division's restructuring now substantially complete, we have introduced new disclosures for the division's AuM and income, and we will no longer be reporting institutional AuM separately.

Adjusted operating income increased 9% to £69.6 million (2011: £63.8 million). This reflects an increase in income on AuM to £68.5 million (2011: £58.4 million), due to acquisitions made in the 2011 and 2012 financial years. Other income reduced to £1.1 million (2011: £5.4 million) reflecting income from the residual interest in the group's former private equity operations in the prior year.

Adjusted operating expenses increased modestly to £73.9 million (2011: £72.4 million) in the division's final year of substantial investment. Overall the division's operating loss reduced to £4.3 million (2011: loss of £8.6 million).

Focusing on managed and advised private clients
The division has substantially completed its restructuring to focus principally on the private client market and private client assets now account for the significant majority of our AuM. Overall, AuM reduced 13% to £8.3 billion (31 July 2011: £9.6 billion), reflecting the continued reduction in the institutional business which is no longer a strategic focus for the group. This includes £1.3 billion of net institutional outflows reflecting client redemptions and closure of non-core funds, and the disposal of OLIM's property fund management business with £355 million of AuM.

The private clients business continued to experience good organic growth, with net inflows of £284 million (2011: £249 million), coming through both our own advisers and third parties. We also acquired £330 million of private client AuM, including Scott-Moncrieff Wealth Management, an IFA with £280 million of client assets and a further small book of client assets.

Market movements were modestly negative, reflecting a continued challenging market environment, the defensive positioning of our client portfolios and the timing of institutional outflows in the period. In the year to 30 June 2012, all five of our direct funds achieved a first or second quartile performance, and over half of our bespoke portfolio AuM achieved first quartile performance within their respective ARC peer groups.

Consistent with our new integrated client proposition, we have introduced new disclosure for AuM:
- Advised AuM includes all our personal and corporate advised and self-directed client assets, including those which are also managed by Close Brothers. At 31 July 2012 total advised AuM was £4.6 billion (31 July 2011: £4.3 billion), an increase on the prior year reflecting the acquisition of Scott-Moncrieff and inflows into the advised business.
- Managed AuM includes all client assets which are invested in Close Brothers' investment products, including funds, separately managed accounts, and bespoke high net worth client portfolios. At 31 July 2012, these were £5.3 billion (31 July 2011: £6.9 billion). Although sales of our investment funds have grown, the reduction in managed AuM reflects the reduction in institutional assets in the year.

At the financial year end, £1.7 billion (31 July 2011: £1.7 billion), or 36% (31 July 2011: 38%) of advised client assets were also managed by Close Brothers, and included in both advised and managed AuM above as they generate both advice and investment management income. Our objective is to grow this proportion over time, as we increase sales of our new integrated proposition which combines our financial advice and investment management offerings.

Developing our client propositions, platform and infrastructure
Over the last few years we have made significant investment in our client propositions, as well as strengthening our distribution capacity, infrastructure and management capability, to drive future growth and support a larger business. In the last financial year we completed the development of our advised and self directed client propositions and technology

platform, which accounted for a total of £20 million of non-recurring investment in the last three years, of which £16 million has been expensed through the income statement.

Overall, adjusted operating expenses increased 2% to £73.9 million (2011: £72.4 million), as a reduction in non-recurring investment spend to £2 million (2011: £8 million) was more than offset by the effect of acquisitions. This is equivalent to an expense/income ratio of 106% (2011: 113%), with a compensation ratio of 64% (2011: 65%). The phase of significant investment is now complete and going forward, we expect the division's fixed cost base to stabilise.

Driving revenue growth from new and existing clients

Our AuM generate two principal types of income: income from advice and other services and investment management income.

In the 2012 financial year, income from advice and other services increased substantially to £30.6 million (2011: £17.5 million), principally reflecting acquisitions in the two prior years. This represents a revenue margin on total advised assets of 68 bps (2011: 60 bps), an increase on the prior year principally due to the timing of acquisitions.

Investment management income reduced 7% to £37.9 million (2011: £40.9 million). This reflects the reduction in institutional assets in the period, and represents a revenue margin of 62 bps (2011: 59 bps) on total managed assets.

Overall income on AuM increased 17% to £68.5 million (2011: £58.4 million), corresponding to a revenue margin of 77 bps (2011: 71 bps). This overall margin is higher than the advised and managed revenue margins, due to the £1.7 billion of assets which generate both advice and investment management income.

We expect the overall revenue margin for the division to rise to around 100 bps by the 2015 financial year, principally by increasing the proportion of assets which are both managed and advised and expanding the advice margin on new business.

Key Financials

	2012 £ million	2011 £ million	Change %
Adjusted operating income	**69.6**	63.8	9
Income on AuM	**68.5**	58.4	17
Advice and other services[1]	**30.6**	17.5	75
Investment management	**37.9**	40.9	(7)
Other income[2]	**1.1**	5.4	(80)
Adjusted operating expenses	**(73.9)**	(72.4)	2
Adjusted operating loss	**(4.3)**	(8.6)	(50)

1 Income from financial advice and self directed services, excluding investment management income.
2 Interest income and expense, income on investment assets and other income.

Note: Prior year income numbers have been re-presented to reflect the division's increased focus on the managed and advised private client business.

Movement in Assets under Management

	£ million
At 1 August 2011	9,558
Inflows	988
Outflows	(1,974)
Net outflows	(986)
Acquisitions and disposals	(25)
Market movement	(227)
At 31 July 2012	**8,320**
Change	(13)%

Assets under Management by type

	31 July 2012 £ million	31 July 2011 £ million	Change %
Total AuM	**8,320**	9,558	(13)
Advised AuM[1]	**4,639**	4,290	8
Managed AuM[2]	**5,332**	6,918	(23)
Both advised and managed AuM	**1,651**	1,650	–

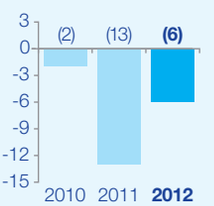
1 All personal and corporate advised and self directed client assets, including those which are also managed by Close Brothers.
2 All client assets which are invested in Close Brothers' investment products, including funds, separately managed accounts and bespoke high net worth client portfolios.

Key Performance Indicators

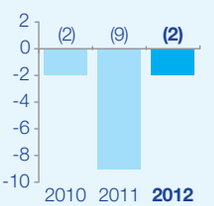
Net inflows[1] £ million

Revenue margin[2] bps

Operating margin[3] per cent



Return on opening equity[4] per cent



1 Private clients only.
2 Income from advice and other services and investment management over average AuM.
3 Adjusted operating profit on adjusted operating income.
4 Adjusted operating profit after tax and non-controlling interests on opening equity.

Business Review
Principal Risks and Uncertainties

The group faces a range of risks and uncertainties which could affect both its financial performance and the achievement of its strategic objectives.

Our Approach to Risk

We seek to achieve an appropriate balance between taking risk and generating sustainable returns for shareholders. In order to achieve this we focus on:

Sticking to the established model

We are focused on the resilient and prudent attributes of our business model as set out on pages 8 and 9. These attributes have enabled the group to have a long track record of delivering strong profits and maintaining a stable balance sheet even when market conditions are stressed.

Clearly defined risk appetite

The group continues to have at its core a cautious approach, in particular ensuring that the group is well capitalised, soundly funded and has adequate access to liquidity. Risk appetites are reviewed and approved annually by the board and translated into individual limits and metrics, such as acceptable loan to value ratios, in order that they may be applied to day to day business decisions.

Integrated risk management

The group's risk functions are integrated throughout our businesses providing independent oversight and challenge to risk decisions to ensure they are in line with the established business model and within our risk appetite. The group's approach to risk management is set out in more detail on page 37.

This approach mitigates the principal risks and uncertainties faced by the group which are set out below. In addition to these the board considers the maintenance of the group's reputation paramount and fundamental to its ongoing success. The approach outlined above together with a firm commitment to demonstrate a high level of integrity in all its activities and treating customers and business counterparts in a fair and open manner is designed to protect that reputation. Overall the group continues to be well positioned despite the uncertain macro environment and the principal risks and uncertainties outlined below are unchanged from the prior year as the group has continued to follow its established model.

The disclosures below should not be regarded as a comprehensive list of the risks and uncertainties faced by the group but rather a summary of those which the group currently faces and believes have the potential to have a significant impact on its financial performance and future prospects.

Key: ⊖ No change ⓓ Risk decreased ⓤ Risk increased

Risk/uncertainty	Risk mitigation and management	Change
Uncertain economic environment Economic conditions, particularly in the UK, could impact on the group's performance in a number of different ways including: • Lower demand for the group's products and services due to lower economic activity; • Increased bad debts due to customers inability to repay loans and lower asset values for security held against these loans; • Lower investor risk appetite reducing trading volumes for the Securities division; and • Asset write downs as a result of reduced trading expectations due to lower economic activity.	The group's businesses typically trade in specialist areas where they have developed significant market knowledge and expertise. Across the divisions, the group aims to build long-term relationships with its customers adding resilience to trading performance in difficult economic conditions. The group carries out regular stress testing to test that the historic resilience of its businesses can be expected to continue. In Banking, loans are short term with conservative loan to value ratios and are predominantly secured on accessible assets. In Securities, our businesses offer liquidity across a diverse range of products and maintain a low fixed cost base allowing the division to trade profitably even when investor risk appetite is reduced. In Asset Management, the key focus is to manage, protect and enhance the wealth of private and corporate clients.	⊖ The economic environment remains volatile with an uncertain outlook for the demand for our services across the divisions. However this continues to be offset by the strong performance of our Banking division.

Risk/uncertainty	Risk mitigation and management	Change
Credit losses The group faces credit and counterparty risk across its divisions but particularly in relation to its banking activities. The group advances loans to a range of corporate, SME and individual customers. In addition the group places surplus funding with other financial institutions and has a limited number of derivative contracts to hedge interest rate, foreign exchange and equity exposures in its treasury operations. These risks are enhanced given the uncertain economic environment and potential dislocation in global financial markets. The group has limited direct exposure to the Eurozone (see note 34 on page 106) but the indirect impact of a Eurozone break up on our primarily UK customers could be material.	The group's lending businesses have a dual approach to mitigate credit risk: • Robust processes that facilitate the assessment of the credit quality and covenant of the underlying borrower; and • Lending on a predominantly secured basis with significant emphasis on the quality of the underlying security to minimise any loss should the customer not be able to repay. These are supplemented by timely and rigorous collections and arrears management processes. The majority of the group's lending is short term and average loan size is small with the result that few individual loans have the capacity to materially impact the group's earnings. The Banking division monitors the credit quality of the counterparties with whom it places deposits, enters into derivative contracts or whose debt securities are held, within approved limits. Interest rate and foreign currency derivatives are solely held to hedge the interest rate and foreign currency exposures. Similarly, the equity derivatives are only held to hedge the embedded derivatives within our structured deposits funding. The Securities division exposure 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.	⊕ While underlying economic conditions have weakened and the outlook for financial markets is uncertain, impairments in the Banking division have fallen. Surplus funding is more concentrated in UK gilts and deposits at Bank of England, reducing risk.
Availability of funding Access to funding is fundamental to the Banking division in particular to support its lending activities. Inability to source sufficient funding could constrain growth and in extreme circumstances require reductions to lending levels. Access to funding is also fundamental to the group maintaining sufficient levels of liquidity.	The group's funding and liquidity profile are managed closely within clearly defined risk appetites. The group's funding is diversified and amounted to £5.9 billion at 31 July 2012, equivalent to 142% of the loan book. The surplus provides a sufficient level of liquidity relative to the duration of lending and is of high quality with the majority invested in UK gilts or deposited at the Bank of England. Weekly stress testing is carried out to ensure adequate liquidity is maintained at all times.	⊖ The availability of interbank funding has continued to be limited although the securitisation of our motor finance loan book has further improved funding diversity. We have also continued to demonstrate our ability to access the retail deposit market.

Business Review
Principal Risks and Uncertainties continued

Risk/uncertainty	Risk mitigation and management	Change
Regulatory change The group operates in a highly regulated environment and significant changes to the regulatory and legislative environment are currently being introduced. The changes affect, inter alia, capital and liquidity levels and the way in which the group's employees are remunerated. In addition intervention to funding markets by legislative and/or regulatory bodies has the potential to impact on the group's competitive position. The impact on the group's businesses caused by changes in regulation, legislation or the tax system is potentially material notwithstanding that many of the proposed changes are aimed primarily at larger institutions.	The group monitors regulatory and legal developments and engages in dialogue with regulatory authorities on a regular basis. We continue to maintain a conservative model with a strong, well capitalised and funded balance sheet and believe we are well placed to react to regulatory change. The group has a central tax function which liaises regularly with the tax authorities and has developed a group tax policy to ensure a consistent and conservative approach is taken to tax issues across the group.	↑ The reputation of the banking industry remains in the spotlight increasing the risk of significant regulatory change.
Employees As outlined on pages 8 and 9, the group's experienced people are fundamental to the group's performance. The loss of key employees or teams could impact on the group's performance.	The group's human resources function reviews the performance management framework and the reward and incentive schemes regularly to ensure that the group is successful in attracting and retaining the calibre of employees necessary to meet its objectives. In addition the group has also further extended its succession planning for its key employees during the year and is committed to continuing to develop its employees.	⊖ The overall market for financial services personnel is largely benign, although our specialist teams continue to be potential targets for competitors.
IT systems and business continuity The group's activities are highly reliant on their IT infrastructure in their daily operations. Failure to respond to new technology, develop existing systems and ensure a robust infrastructure could have a material effect either competitively or operationally on the group's earnings and reputation.	Each of the businesses continually invests in its IT platforms to ensure they remain up to date and fit for purpose for the markets in which they operate. Additionally, business continuity plans are in place to enable the businesses to respond in a timely manner to a disaster event.	⊖ While investment into the group's IT infrastructure continues, the group remains highly reliant on its IT systems.
Execution of strategy In line with its strategic plans, the group has achieved significant growth in its banking activities and is investing in its infrastructure to support a larger business. In addition within Asset Management we are rolling out our new proposition to existing and prospective clients as well as continuing to integrate the acquisitions made in the last two years. If these strategic plans which are supported by substantial expenditure are not delivered as anticipated, earnings could grow more slowly or decline.	The group devotes substantial management resources to the development and execution of its strategic plans, monitoring key performance and risk indicators and has various policies and practices to mitigate strategic risk, including subscribing to sound corporate governance practices, which require that activities, processes and decisions are based on carefully considered principles. The group regularly reinforces these policies and practices through transparent communication, accurate reporting, continuous group culture and values assessment, regulatory compliance review and risk management practices. This is supported by more formal strategy and budget reviews.	↓ The low average duration of the Banking division's lending means that many of the new loans advanced in the last three years of high loan book growth have already been repaid demonstrating that growth has been successfully managed despite the economic environment. The group has now substantially completed its investment in its Asset Management division and has made progress on integrating the acquisitions made.

Risk/uncertainty	Risk mitigation and management	Change
Exposure to markets The group's securities businesses are exposed to market movements deriving from trading in equity and fixed income securities. Interest income is a substantial proportion of the group's revenues. Movements in interest rates have the potential to affect the group's earnings. While the majority of the group's activities are located in the UK and transacted in sterling, the group is subject to foreign exchange exposure. The group has currency assets and liabilities, principally lending and FRNs as well as borrowings and customer deposits, within the Banking division. In addition the group has a small number of overseas subsidiaries and currency denominated investments.	In Securities, the primary activity is to act as a market-maker, providing liquidity in short dated exchange traded products. Position limits are set annually for each product, sector and individual stock with real time monitoring and oversight by senior management. The group's policy is to match fixed and variable interest rate liabilities and assets utilising interest rate swaps where necessary. Returns from the group's capital and reserves are necessarily subject to interest rate fluctuations and as a matter of policy are not hedged. A sensitivity analysis on interest rate exposures is shown on page 109. The foreign exchange exposures arising from the Banking division's 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 does not hedge its currency exposure to its overseas subsidiaries and currency investments since it is relatively modest. A sensitivity analysis on foreign currency exposures is shown on page 109.	⊖ The group's approach is consistent with prior years and the risk is considered unchanged despite the volatile and challenging financial markets.

Governance
Board of Directors

Strone Macpherson
Chairman
Strone was appointed a director in 2003, senior independent director in 2004, deputy chairman in 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 and JP Morgan Smaller Companies Investment Trust plc. He is also a governor of Heriot-Watt University and a trustee of the King's Fund. Formerly he was a director of Flemings, chairman of Tribal Group plc, executive deputy chairman of Misys plc and a non-executive director of AXA UK plc and Kleinwort Benson Private Bank Limited.

Preben Prebensen
Chief Executive
Preben 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 from 2004 to 2006, and then chief investment officer and a member of the group executive committee at Catlin Group Limited.

Jonathan Howell
Finance Director
Jonathan 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.

Ray Greenshields
Non-executive Director
Ray was appointed a director in November 2008 and chairman of the Risk Committee in December 2010. He is senior adviser to Standard Life Assurance, a member of Standard Life Assurance With Profits Committee and chairman of Octopus VCT 3 plc. Formerly he was chairman of Bestinvest Group, a director of Standard Life Assurance Limited, managing director of Barclays Wealth Management, CEO of Zurich Financial Services UK and International Life, and managing director of AMP Financial Services.

Douglas Paterson
Non-executive Director
Douglas was 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, Montague Place Custody Services and Rothesay Life Limited, and is a non-executive officer of Generation Investment Management LLP. Formerly he was a senior partner in the banking and capital markets division of PricewaterhouseCoopers.

Jamie Cayzer-Colvin
Non-executive Director
Jamie was appointed a director in January 2008. He is chairman of the Henderson Smaller Companies Investment Trust plc and a number of unquoted companies, a director of Caledonia Investments plc and a non-executive director of Polar Capital Holdings plc and India Capital Growth Fund. Previously he was with Whitbread and GEC and is a former director of Rathbone Brothers Plc.

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

Elizabeth Lee
Group Head of Legal and Regulatory Affairs, and Company Secretary
Elizabeth joined Close Brothers as general counsel and company secretary in September 2009 and was appointed a director in August 2012 with responsibility for legal and regulatory affairs. Formerly she was with Lehman Brothers and General Electric's financial services businesses.

Bruce Carnegie-Brown
Senior Independent Director
Bruce was appointed a director in June 2006 and senior independent director in June 2008. He is chairman of the Remuneration Committee. He is chairman of Aon UK Limited, senior independent director of Catlin Group Limited and a non-executive director of Moneysupermarket.com Group PLC. Formerly he was with 3i Group, Marsh & McLennan and JP Morgan.

Geoffrey Howe
Non-executive Director
Geoffrey was appointed a director in January 2011. He is chairman of Nationwide Building Society and of Jardine Lloyd Thompson Group plc. Formerly he was chairman of Railtrack plc, a non-executive director of Investec plc and JP Morgan Overseas Investment Trust plc, a director of Robert Fleming Holdings Limited and a managing partner of Clifford Chance.

Shonaid Jemmett-Page
Non-executive Director
Shonaid was appointed a director in August 2012. She is a non-executive director of GKN plc, Amlin plc and APR Energy plc. Formerly she was chief operating officer of CDC Group plc, a non-executive director of Havelock Europa plc, held executive positions with Unilever plc and was a financial sector audit partner at KPMG.

Governance
Executive Committee

Preben Prebensen
Chief Executive

Jonathan Howell
Finance Director

Stephen Hodges
Managing Director and Banking Chief Executive

Elizabeth Lee
Group Head of Legal and Regulatory Affairs, and Company Secretary

Tazim Essani
Group Head of Corporate Development

Julian Palfreyman
Winterflood Chief Executive

Martin Andrew
Asset Management Chief Executive

Rebekah Etherington
Group Head of Human Resources

Governance
Report of the Directors

The directors present their report and the audited financial statements for the year ended 31 July 2012.

Business Review and Principal Activities

Close Brothers Group plc ("the Company") is the parent company of a specialist financial services group which makes loans, trades securities and provides advice and investment management solutions to a wide range of clients.

The principal subsidiary undertakings at 31 July 2012 and their principal activities are listed in note 27 on page 94 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
Business Model	8 and 9
Strategy and Key Performance Indicators	10 and 11
Business Review	12 to 23
Principal Risks and Uncertainties	24 to 27
Board of Directors	28 and 29
Corporate Governance	33 to 43
Corporate Responsibility	44 and 45
Report of the Board on Directors' Remuneration	46 to 57

Results and Dividends

The consolidated results for the year are shown on page 59. The directors recommend a final dividend for the year of 27.5p (2011: 26.5p) on each ordinary share which, together with the interim dividend of 14.0p (2011: 13.5p), makes an ordinary distribution for the year of 41.5p (2011: 40.0p) per share. The final dividend, if approved by shareholders at the 2012 Annual General Meeting ("AGM"), will be paid on 27 November 2012 to shareholders on the register as at 19 October 2012.

Directors

The current directors of the Company at the date of this report appear on pages 28 and 29. Shonaid Jemmett-Page and Elizabeth Lee were appointed to the board on 1 August 2012. All other directors held office throughout the year.

Directors' interests

The directors' interests in the share capital of the Company at 31 July 2012 are set out on page 53.

Powers and appointment of directors

Details on the powers and appointment of directors are set out on page 36.

Directors' indemnity

The Company has granted indemnities to all of its directors on terms consistent with the applicable statutory provisions. Qualifying third party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were accordingly in force during the course of the year, and remain in force at the date of this report.

Share Capital

At 31 July 2012 the Company had 150.6 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 24 on page 92 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 70,042 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 32 to the Financial Statements on pages 99 and 100.

Restrictions on the transfer of shares

There are no specific restrictions on the transfer of the Company's shares which are governed by the general provisions of the articles of association and prevailing legislation.

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, with 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.

Purchase of Own Shares

Under section 724 of the Companies Act 2006 a company may purchase its own shares to be held in treasury ("Treasury Shares").

The existing authority given to the Company at the last AGM to purchase Treasury Shares of up to 10% 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 intends to seek shareholder approval to purchase Treasury Shares 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 AGM.

Awards under the Company's employee share plans are met from a combination of shares purchased in the market and held either in treasury or in the employee share trust as well as by newly issued shares.

During the year, the Company did not purchase any Treasury Shares.

Governance
Report of the Directors continued

In 2012, 996,492 Treasury Shares were transferred out to satisfy share option awards, for a total consideration of £3.1 million. The maximum number of Treasury Shares held at any time during the year was 4.5 million with a nominal value of £1.1 million.

Employee Share Trust
Bedell Trustees Limited is the trustee of the Close Brothers Group Employee Share Trust, an independent trust, which holds shares for the benefit of employees and former employees of the group. The trustee has agreed to satisfy a number of awards under the employee share plans. As part of these arrangements the Company funds the trust, from time to time, to enable the trustee to acquire shares to satisfy these awards, details of which are set out in note 32 to the Financial Statements on pages 99 and 100.

During the year, the employee share trust made market purchases of 1,446,299 ordinary shares.

Substantial Shareholdings
Details on substantial shareholdings in the Company are set out on page 42.

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 the Company bonds due 2017, certain insurance policies, bank facility agreements and employee share plans.

The group had committed facilities totalling £1.4 billion at 31 July 2012 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 facilities.

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 on pages 37 to 39 and in note 34 to the Financial Statements on pages 102 to 111.

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 19 (2011: 19).

Charitable and Political Donations
The group made charitable donations in the year amounting to £160,000 (2011: £228,500). Further details are set out in the Corporate Responsibility report on pages 44 and 45. No political donations were made during the year (2011: £nil).

Resolutions at the AGM
The Company's AGM will be held on 22 November 2012. Resolutions to be proposed at the AGM include the renewal of the directors' authority to allot shares, the disapplication of pre-emption rights, authority for the Company to purchase its own shares and the re-election of all the directors.

The full text of the resolutions is set out in the Notice of AGM sent to the Company's shareholders. A letter from the chairman which explains the purpose of the resolutions will accompany the Notice of AGM.

Auditor
Resolutions to reappoint Deloitte LLP as the Company's auditor and to give the directors the authority to determine the auditor's remuneration will be proposed at the forthcoming AGM.

Disclosure of Information to Auditor
Each of the persons who are directors at the date of approval of this Annual Report confirms that:
- So far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- They have taken all the steps that they ought to have taken as a director in order to make themselves 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

Elizabeth Lee
Company Secretary

25 September 2012

Governance
Corporate Governance

Strone Macpherson, Chairman.

As chairman of Close Brothers, I view the governance and oversight of its distinctive and prudent business model and strategy as key to the ongoing creation and delivery of value to its stakeholders, particularly in an economic environment that remains both uncertain and challenging.

To accomplish this the board has met nine times this year and prior to each board meeting receives reports, not only on the results of each of the three divisions and key performance indicators, but also detailed updates on the progress and implementation of the agreed strategies for each division. The board has the opportunity to discuss the reports and challenge each of the divisional chief executives, who attend all or part of the board meetings, directly on the progress and implementation of their divisional strategy. In addition, in May 2012 the board attended two strategy days dedicated to discussing and reviewing the group's long-term strategy with executive management.

This year there has been a particular focus on monitoring the growth within the Banking division and ensuring that it has the appropriate infrastructure and resources to support and maintain the current pace of growth and expansion while maintaining a prudent business model. In relation to the Securities division the board has spent time understanding the impact of the current market conditions on its business model and long-term strategy. In Asset Management the focus has been on monitoring the transformation process with the development of the new client propositions and platform and ensuring that key milestones are met and within budget. The board has also spent significant time reviewing and understanding the potential impact of external factors on the group such as the ongoing Eurozone uncertainty, regulatory developments as a result of the new Financial Services Bill and the recommendations from the Independent Commission on Banking.

We are committed to the principles established in the UK Corporate Governance Code ("the Code") issued by the Financial Reporting Council and this report will explain and demonstrate how the group has complied with the Code.

Strone Macpherson
Chairman

25 September 2012

Governance
Corporate Governance continued

Compliance

The Code, issued by the Financial Reporting Council in May 2010, has been applied by the Company since the start of the financial year on 1 August 2011.

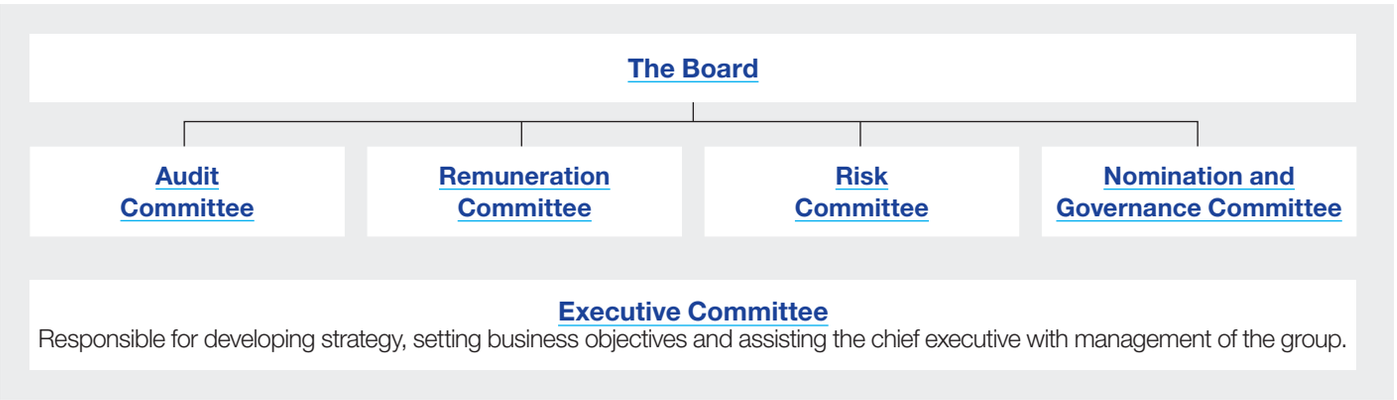
The Code sets out guidance on best practice in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice. The Financial Services Authority ("FSA") requires companies with a premium listing in the UK to disclose, in relation to the Code, how they have applied its principles and whether they have complied with its provisions throughout the financial year. Where the provisions have not been complied with, companies must provide an explanation for this.

It is the board's view that the Company's governance regime has been fully compliant with the best practice set out in the Code for the year.

A copy of the Code can be found on the Financial Reporting Council's website: www.frc.org.uk.

Governance Framework

Board governance structure



Board and committee meeting attendance 2011/2012

The attendance of directors at board meetings and committee meetings of which they were members during the financial year is shown in the table below. Some directors also attended committee meetings as invitees during the year. This is not reflected in the table.

	Board			Audit Committee			Remuneration Committee			Risk Committee			Nomination and Governance Committee		
	Reg	Ad hoc	**Total**	Reg	Ad hoc	**Total**	Reg	Ad hoc	**Total**	Reg	Ad hoc	**Total**	Reg	Ad hoc	**Total**
Number of meetings during the year	8	1	**9**	5	–	**5**	5	–	**5**	5	1	**6**	3	–	**3**
Executive director															
Stephen Hodges	8	1	**9**	–	–	**–**	–	–	**–**	–	–	**–**	–	–	**–**
Jonathan Howell	8	1	**9**	–	–	**–**	–	–	**–**	–	–	**–**	–	–	**–**
Preben Prebensen	8	1	**9**	–	–	**–**	–	–	**–**	–	–	**–**	–	–	**–**
Non-executive director															
Bruce Carnegie-Brown	8	1	**9**	5	–	**5**	5	–	**5**	5	1	**6**	3	–	**3**
Jamie Cayzer-Colvin	8	1	**9**	–	–	**–**	–	–	**–**	–	–	**–**	–	–	**–**
Ray Greenshields	8	1	**9**	5	–	**5**	5	–	**5**	5	1	**6**	3	–	**3**
Geoffrey Howe[1]	8	1	**9**	2	–	**2**	3	–	**3**	2	1	**3**	2	–	**2**
Strone Macpherson	8	1	**9**	–	–	**–**	–	–	**–**	–	–	**–**	3	–	**3**
Douglas Paterson	8	1	**9**	5	–	**5**	5	–	**5**	5	1	**6**	3	–	**3**

1 Geoffrey Howe was appointed a member of the Audit, Remuneration, Risk and Nomination and Governance committees on 13 February 2012 and attended all committee meetings since this date.

The Board

Leadership of the board

The board's primary role is to provide leadership, ensure that the Company is appropriately managed and deliver long-term shareholder value. It sets the group's strategic objectives and provides direction for the group as a whole. A number of key decisions are reserved for and may only be made by the board, which enables the board and executive management to operate within a clear governance framework.

Below is a summary of matters specifically reserved for the board:
- Setting and monitoring strategy;
- Oversight of regulatory compliance and internal control;
- Ensuring adequate financial resources;
- Acquisitions and disposals over certain thresholds;
- Board appointments and removals; and
- Communication with shareholders.

The board has delegated specific powers for some matters to its committees as set out in each committee's terms of reference which are reviewed annually and can be found on our website at www.closebrothers.com/investor-relations/corporate-governance/board-committees. The chairman of each committee regularly reports to the board on matters discussed at committee meetings.

At each regular scheduled meeting the board receives reports from the chief executive and finance director on the performance and results of the group. In addition, the heads of the Banking, Securities and Asset Management divisions update the board on performance, strategic developments and initiatives in their respective areas and the board receives updates from the group operating functions on legal, compliance, human resources and corporate development matters.

There is an annual schedule of rolling agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the financial and regulatory cycle. Meetings are structured to ensure that there is sufficient time for consideration and debate of all matters.

During the year, the board has, in particular, focused on:
- Internal Capital Adequacy Assessment Process ("ICAAP") and reverse stress testing;
- Budget for the 2013 financial year;
- Appointment of new directors;
- Recovery and resolution plan for the Bank;
- Audit, compliance and risk plans for the 2013 financial year;
- Board and committee evaluation; and
- Implications of the new regulatory regime.

Board size, composition and independence

During the year the board comprised nine members: the chairman, three executive directors and five non-executive directors. On 1 August 2012 Shonaid Jemmett-Page was appointed as an independent non-executive director and Elizabeth Lee was appointed as an executive director. The structure of the board continues to ensure that no individual or group of individuals is able to dominate the decision making process and no undue reliance is placed on any individual.

Details of the individual directors and their biographies are set out on pages 28 and 29.

The board has assessed the independence of each non-executive director and is of the opinion that each acts in an independent and objective manner and therefore, under the Code, is independent and free from any relationship that could affect their judgement, 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 they are independent in character and judgement;
- How they conduct themselves in board and committee meetings;
- Whether they have any interests which may give rise to an actual or perceived conflict of interest; and
- Whether they act 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 their independence.

The board reviewed and considered the Davies report on diversity and is committed to ensuring a diverse pool of candidates is considered for any vacancies that may arise and that they are filled by the most qualified candidates based on merit, having regard to the benefits of diversity.

Meetings and attendance

The board has regular scheduled meetings. During the year there were eight scheduled board meetings and one ad hoc board meeting called to deal with specific time critical business matters. There were also additional board meetings convened to deal with operational issues. Details of attendance at board meetings can be found on page 34.

The directors receive detailed papers in advance of each board meeting. The board agenda is carefully structured by the chairman in consultation with the company secretary and the chief executive. Each director may review the agenda and propose items for discussion with the chairman's agreement. Additional information is also circulated to directors between meetings including analyst reports on the group and relevant regulatory announcements.

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.

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 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 28. The board is satisfied that his significant commitments do not 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

Governance
Corporate Governance continued

skills and knowledge and that the performance of the board, its committees and the individual directors is evaluated on an annual basis.

The group chief executive is Preben Prebensen who is primarily responsible for the day-to-day management of the group'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 may have with the senior independent director.

New directors are also available to meet major shareholders on request.

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 2011 AGM.

Board evaluation
In 2012 the Nomination and Governance Committee recommended that the board evaluation should be carried out internally. In accordance with the requirements of the Code the board intends to appoint an external consultant to facilitate the board evaluation in 2013. The 2012 internal evaluation was led by the company secretary and took the form of confidential questionnaires which assessed the performance of the board and its committees with the option for a confidential interview. In order to assess the progress of the board over the year, the 2012 evaluation focused on the same areas as the 2011 evaluation:
- Board and committee competencies and experience;
- Effectiveness of the board and director commitment;
- Succession planning and talent review;
- Strategic direction;
- Board training; and
- Use of time at board meetings.

The feedback from the evaluations was collated by the company secretary, reviewed with the chief executive and chairman and presented to the Nomination and Governance Committee in July 2012.

The majority of responses were positive and the feedback confirmed that there had been notable improvement in a number of areas identified in the 2011 evaluation and forming the basis of the 2012 action plan including succession planning, board training and culture and the performance of the Risk Committee.

The 2012 evaluation also assessed the effectiveness of each of the board's committees. The committee members were asked questions regarding governance arrangements, the quality of advice and input from external advisers, the quality of contribution of relevant internal functions, the quality of presentations and disclosure by the executive and the overall effectiveness of the committees. The majority of responses were positive.

The evaluations confirmed the directors' opinion that the board and its committees continue to be highly effective.

In addition to the 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.

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.

In accordance with the Code all directors will be subject to re-election at the AGM. 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. Following the performance evaluations, the board will be recommending that all directors be re-elected by shareholders and confirms that each director continues to be effective and demonstrates commitment to their role.

Letters of appointment are available for inspection by shareholders at each AGM and during normal business hours at the Company's registered office.

Induction and professional development
On appointment all new directors receive a comprehensive and personalised induction programme to familiarise them with the Company and to meet their specific requirements. The Company also provides bespoke inductions for directors when they are appointed as a committee chair. Induction programmes are tailored to a director's particular requirements but would typically include site visits, one-to-one meetings with executive directors, the company secretary, senior management for the business areas and support functions and a confidential meeting with the external auditor. Directors also receive guidance on directors' liabilities and responsibilities.

There is a central training programme in place for the directors which is reviewed and considered by the board. In addition, the chairman discusses and agrees any specific requirements as part of each non-executive director's half year and year end reviews. During the year, training took the form of site visits, including visits to the Asset Management division's businesses at Cuckfield and Northwich, informal meetings with senior management, in-depth business reviews, attendance at external seminars and FSA forums and briefings from both internal and external advisers covering topics such as:
- The Retail Distribution Review;
- The new regulatory regime;
- Governance and the audit committee; and
- Regulatory risk management.

All directors also attended a dedicated two day strategy session in May 2012 which focused on strategy development and execution. Training and development records are maintained by the company secretary and reviewed annually by the chairman and each individual director.

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 external professional advice to assist with the performance of their duties at the Company's expense.

Risk and Control Framework

The board has overall responsibility for maintaining a system of internal control that ensures an effective risk management and oversight process operates across the group. The risk management framework and associated governance arrangements are designed to ensure that there is a clear organisational structure with well defined, transparent and consistent lines of responsibility and effective processes to identify, manage, monitor and report the risks to which the group is, or might become, exposed.

Identification, measurement and management of risk are strategic priorities for the group. Over the past 12 months the group has continued to strengthen its risk management framework and further develop the group's risk committee, and its divisional risk committees, which continue working efficiently and effectively.

A key priority of the risk and control framework is to allow business opportunities to be captured while maintaining an appropriate balance of risk and reward. The group's risk management framework is designed to ensure that the risks to which the group is or may become exposed are identified and that those which the group chooses to take are managed, controlled and, where appropriate, mitigated so that the group is not subject to material unexpected loss.

The group reviews and revises its risk appetite as part of the strategy setting process. This aligns risk taking with the achievement of strategic objectives. Adherence to appetite is monitored by the group's risk committees.

The risk management framework is based on the concept of "three lines of defence". Business management are responsible for ensuring that all key risks have been identified, assessed and evaluated and that, where necessary, appropriate controls have been put in place to manage and mitigate them within defined risk appetites. Risk functions provide oversight of this and group internal audit ensures that the first and second lines of defence are working effectively. The risk management framework is illustrated in the table below.

The key principles underlying risk management in the group are:

- Business management own all the risks assumed throughout the group and are responsible for ensuring that these are managed on a day-to-day basis to ensure that risk and return are balanced;
- The board and business management promote a culture in which risks are identified, assessed and reported in an open, transparent and objective manner;
- The overriding priority is to protect the group's long-term viability and produce sustainable medium to long-term revenue streams;
- Risk functions are independent of the businesses and provide oversight of and advice on the management of risk across the businesses;
- Risk management across the group is proportionate to the scale and complexity of the group's individual businesses;
- Risk mitigation and control activities are commensurate with the degree of risk; and
- Risk management and control supports decision making.

Risk Management Framework

First line of defence	Second line of defence	Third line of defence
Group Risk and Compliance Committee	**Risk Committee**	**Audit Committee**
Reports to the board via the Risk Committee.	Reports to the board.	Reports to the board.
Chief executive delegates to divisional and operating business heads day-to-day responsibility for risk management, regulatory compliance and internal control in running their divisions or businesses.	Risk Committee delegates to the chief risk officer day-to-day responsibility for oversight and challenge on risk related issues.	Audit Committee mandates the head of internal audit with day-to-day responsibility for independent assurance.
Business management has day-to-day ownership, responsibility and accountability for risks: • Identifying and assessing risks; • Managing and controlling risks; • Mitigating risks; and • Reporting risks.	Risk functions provide support and independent challenge on: • Risk framework; • Risk assessment; • Risk appetite and strategy; • Performance management; • Risk reporting; and • Adequacy of mitigation plans.	Group internal audit provides independent assurance on: • First and second lines of defence; • Appropriateness/effectiveness of internal controls; and • Effectiveness of policy implementation.
Key features • Promotes a strong risk culture and focus on sustainable risk-adjusted returns; • Implements the risk framework; • Promotes a culture of adhering to limits and managing risk exposures; and • Ongoing monitoring of positions and management of risks.	**Key features** • Over-arching "risk oversight unit" takes an integrated view of risk (qualitative and quantitative); • Risk management separate from risk control but work together; • Supports through developing and advising on risk strategies; and • Creates constructive tension through challenge, "critical friend".	**Key features** • Draws on in depth knowledge of the group and its businesses; • Independent assurance on the activities of the firm including the risk management framework; and • Assesses the appropriateness and effectiveness of internal controls.

Governance
Corporate Governance continued

Ray Greenshields, Chairman of the Risk Committee.

Risk Committee

Chairman's overview

This report explains the role and responsibilities of the Risk Committee which supports the board in its oversight of risk management across the group. The sections below set out the Committee's membership, key responsibilities, and the key areas upon which we have focused on during the year. The identification, management and mitigation of risk is fundamental to the success of the group. The Committee plays an important role in setting the tone and culture that promotes effective risk management across the group.

This was the first full year of operation for the Committee following its establishment in January 2011. The year has seen some particular challenges for the Committee in its oversight of risk management. Global economic conditions have continued to be difficult. Concerns over the economic prospects for the Eurozone, specific countries within it and the possibility of a break up, have greatly influenced our consideration of our risk profile and emerging issues. The regulatory environment has also evolved, as our regulators continue to seek assurance as to the robustness of risk management and the financial viability of financial institutions in a stressed environment.

In an increasingly challenging external environment, the overarching objective of the Committee's work has been to maintain assurances that the group continues to operate within the board's approved strategy and risk appetite; and that the group's risk management framework is properly structured and effectively implemented.

Membership and meetings

The Committee comprises me as chairman, Douglas Paterson and Bruce Carnegie-Brown who chair the Audit and Remuneration Committees respectively and Geoffrey Howe who joined the Committee with effect from 13 February 2012. Each of the Committee members is independent and attended all of the six meetings held during the year other than Geoffrey Howe who attended all three meetings held since his appointment. Shonaid Jemmett-Page was appointed to the Committee on 1 August 2012.

Meetings are regularly attended by the chairman, chief executive, finance director, chief risk officer, head of compliance and the head of internal audit all of whom have supported and informed the Committee's discussions. The company secretary acts as secretary to the Committee.

Other executives, subject matter experts and external advisers may also be invited to attend the Committee to present and advise on reports commissioned.

I continue to meet regularly with the chief risk officer and have regular formal and informal meetings with senior management across the group to discuss key risks and emerging issues.

Responsibilities

The role of the Committee in summary is to:

- Oversee the maintenance and development of a supportive culture in relation to the management of risk;
- Review and set risk appetite, which is the level of risk the group is willing to take in pursuit of its strategic objectives;
- Monitor risk profile against the prescribed appetite;
- Review the effectiveness of the risk framework to ensure that key risks are identified and appropriately managed; and
- Provide input from a risk perspective into the alignment of remuneration with performance against risk appetite (through the Remuneration Committee).

The Committee's full terms of reference are available from the corporate governance section of our website.

Activity in 2012 financial year

The Committee has focused on ensuring that, as the loan book grows, we maintain credit quality and stay within the credit risk appetite. As part of this we have overseen the further development of the credit risk management framework including the further enhancement of management information. We have also reviewed and challenged stress testing and risk analysis of key areas of the loan book and considered the associated operational risks to ensure loan book growth is both scalable and sustainable.

We continue to oversee and review the change management programmes across the group, focusing on the Banking and Asset Management divisions. Specifically we have reviewed the project management office in the Banking division. In our regular Committee meetings we review and challenge the progress of key projects.

The Committee continued to closely monitor the turbulent external environment and the changing regulatory environment. While our direct exposure to the Eurozone is low we have continued to review and assess the impact both directly and indirectly of the current environment and consider the potential effect of a worsening of the Eurozone situation. In all our Committee meetings we devote considerable time to current and emerging regulatory challenges to ensure the group is well placed to implement new regulation.

The Committee undertook regular reviews of the group's risk profile against the key performance indicators set out in the Risk Appetite Statement and considered the need for any adjustment to the risk appetite which has recently been refreshed.

Given the criticality of capital and liquidity, over the course of the year the Committee has maintained its focus on this area. The Committee considers and discusses the group's capital and liquidity position, regulatory environment and expectations at each scheduled meeting. This includes oversight of key regulatory submissions such as the ICAAP; the Individual Liquidity Adequacy Assessment ("ILAA"); and the Bank's Recovery and Resolution Plan ("RRP").

Looking ahead to 2012/2013

Key priorities for the coming year include:

- Continuing to ensure that an appropriate balance is struck between strategic forward looking oversight of the group's risks and more detailed review of management information and risk management processes across all risk types;
- Continuing to keep abreast of the changing economic landscape and evolving regulatory environment. Macroeconomic factors and regulation will continue to shape the Committee's agenda; and
- Continuing to monitor our risk profile and performance against risk appetite to ensure that this remains aligned to business strategy, with a particular focus on capital and liquidity.

Remuneration

We provided input to the Remuneration Committee, to ensure that risk behaviours and incidents over the course of the financial year were appropriately reflected in the annual performance appraisal and compensation review process.

Ray Greenshields
Chairman of the Risk Committee

25 September 2012

Governance
Corporate Governance continued

Douglas Paterson, Chairman of the Audit Committee.

Audit Committee

Chairman's overview

This report explains the role and responsibilities of the Audit Committee in support of the board in its oversight of the internal control systems and integrity of the financial statements. The sections below set out the Committee's membership, key responsibilities and the key areas we have focused on during the year. There is also more detail on how the Committee has discharged its oversight of both internal and external audit.

In addition to the Committee's regular responsibilities, during the year we have considered evolving developments in company stewardship and commissioned an independent review of the front section of our Annual Report disclosures. As a result we have made a number of changes to our Annual Report which the Committee believes provides a clearer insight of the group's performance, business model and strategy.

Membership and meetings

The Committee comprises me as chairman, Bruce Carnegie-Brown and Ray Greenshields who chair the Remuneration and Risk Committees respectively and Geoffrey Howe who joined the Committee with effect from 13 February 2012. Each of the Committee members is independent and attended all of the five meetings held during the year except for Geoffrey Howe who attended both meetings held since his appointment. The meetings held were scheduled to coincide with the financial reporting cycle of the group. Shonaid Jemmett-Page was appointed to the Committee on 1 August 2012.

Standing invitations are extended to the chairman, the other non-executive directors and the executive directors, all of whom attend the meetings as a matter of practice. In addition the heads of group internal audit, compliance and risk and the group financial controller also attend by invitation. I meet with the group finance director and this latter group to set the agenda and receive full briefing on relevant issues in advance of each of the scheduled meetings.

In addition I have had regular contact with the lead audit partner throughout the year. The external audit partner attends all the meetings and meets in private with the Committee on each occasion. I have also met with the heads and senior staff in each of the divisions to discuss and review with them enhancing the effectiveness of internal audit and the reports issued.

Responsibilities

The key role of the Committee in summary is to:

- Monitor the integrity of the group's financial statements and to ensure any significant financial judgements are appropriate;
- Review the adequacy of the group's system of regulatory compliance and internal control; and
- Monitor and review the activities and performance of both internal and external audit.

The Committee's full terms of reference are available from the corporate governance section of our website.

Activity in 2012 financial year

During the year under review the Committee focused, inter alia, on the following key areas:

Integrity of financial statements

- Considered the results of an independent review of the front section of the Annual Report and management's proposals in response;
- At both interim and full year stages, reviewed the group's reporting and key accounting judgements. In particular this year the Committee focused on the approach taken to accounting for the phased disposal of Mako and its impairment implications; and
- Reviewed briefings on the latest consultation papers from the Financial Reporting Council on company stewardship and corporate governance.

Compliance and internal control

- Reviewed the annual compliance plan and regular compliance updates at each meeting;
- Reviewed a summary of the group's tax affairs and endorsed the group's tax policy; and
- Received a presentation on the project to install a new general ledger system across the majority of the group's businesses.

Review of internal and external audit
- Reviewed and challenged the annual plans of both internal and external audit;
- Considered the effectiveness of the external audit and assessed external auditor independence particularly with reference to the level of non-audit fees paid in the year;
- Reviewed internal audit's presentation at each meeting covering the 32 reports completed during the year;
- Discussed and endorsed an acquisitions review process and an enhanced internal audit report process; and
- Considered, challenged and ultimately concluded on the ongoing independence of both the internal and external auditor, including reviewing the external audit fee.

Oversight of internal and external audit

Internal audit

The role of internal audit is to evaluate continuously the adequacy and effectiveness of governance systems, risk management, compliance and internal control and to report regularly to the Committee on the results of these assessments.

The Committee receives a report from the head of group internal audit at each meeting as well as reviewing the department's plan on an annual basis. The head of internal audit meets privately with the Committee at each meeting and with me regularly throughout the year.

During the year the Committee has focused on ensuring that reports are agreed with management and issued promptly following field work as well as continuing to actively monitor the timely completion of agreed action points from past reports.

External audit

The Committee is responsible for monitoring the performance, objectivity and independence of the external auditor as well as recommending the reappointment of the auditor to the board.

Deloitte LLP has acted as auditor to the group for the year and has been the sole auditor of the group since 2008. There are no contractual obligations restricting the group's choice of external auditor.

An evaluation of audit performance is undertaken annually following the completion of the Annual Report and audit. Key areas covered by the evaluation include:
- The experience and expertise of the engagement team;
- The scope of the audit work planned and carried out;
- The quality of dialogue between the auditor, the Committee and senior management;
- The clarity, quality and robustness of written reports presented to the Committee on audit findings and the group's systems of control; and
- The views of management.

The Committee also assesses the objectivity and independence of the auditor, having particular regard to the level of non-audit work carried out. We have a policy in place to regulate the level of non-audit work which reflects the Committee's continued view that the group benefits from Deloitte carrying out non-audit work. This arises where:
- Work is closely related to the audit work;
- A detailed understanding of the group is required; or
- Deloitte LLP is deemed able to provide a higher quality and/or better value service than available in the market place.

The Committee balances these benefits with any possible threat to independence. Non-audit fees during the year primarily related to tax compliance services and assurance work on securitisation in the Banking division and client assets within Asset Management. Details of all fees paid to Deloitte LLP are shown in note 6 on page 77.

Non-audit work in excess of £100,000 must be pre approved by the Committee and I am consulted for any individual work over £10,000.

The Committee believes that the framework described continues to ensure that Deloitte LLP remain independent and objective and the audit remains effective. The Committee has reviewed the proposed audit fee and is satisfied that it is appropriate to ensure an adequate audit can be undertaken. As a result, we do not believe an audit tender is necessary at this time and the board will propose the re-election of Deloitte LLP at the Company's AGM.

Douglas Paterson
Chairman of the Audit Committee

25 September 2012

Governance
Corporate Governance continued

Nomination and Governance Committee

This report sets out the role and responsibilities of the board Nomination and Governance Committee.

Membership and meetings

The Committee comprises me as chairman, Geoffrey Howe and Bruce Carnegie-Brown, Ray Greenshields and Douglas Paterson who chair the Remuneration, Risk and Audit committees respectively. All the members of the Committee are independent non-executive directors. A record of attendance at meetings during the year is set out on page 34. In addition, Jamie Cayzer-Colvin and the chief executive attend meetings by invitation. Shonaid Jemmett-Page was appointed to the Committee on 1 August 2012.

The company secretary acts as secretary to the Committee.

Responsibilities

The Committee's primary responsibilities are:

- Considering the appointment or retirement of directors; 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 considering succession planning for directors and other senior executives; and
- Assessing the contribution of non-executive directors.

Work in 2012

During the year the Committee focused on:

- Appointment of new directors;
- Reviewing the Company's succession plans to ensure that an appropriate balance of skills and experience is maintained and recommending new non-executive and executive director appointments;
- Executive management and succession planning;
- Board evaluation; and
- Diversity within the group.

Strone Macpherson
Chairman of the Nomination and Governance Committee

25 September 2012

Remuneration Committee

Details of the role and work of the Committee are set out in the Report of the Board on Directors' Remuneration on pages 46 to 57.

Conflicts of Interest

The articles of association include 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.

Investor Relations

The group has an extensive investor relations ("IR") programme to inform shareholders and financial analysts about the group's performance throughout the year and to ensure they have appropriate access to the group's management. The IR team also regularly provides the board with feedback from investor meetings, relevant analyst research and updates on share price performance.

The chief executive and finance director meet with the group's major institutional shareholders on a regular basis. The chairman and the senior independent director are also available to meet with major shareholders, particularly in relation to corporate governance and remuneration. Shareholders also have the opportunity to ask the board questions at the AGM, either in person or by submitting written questions in advance. The chairman of each of the board committees attends the AGM and all other directors are expected to attend the meeting.

The group's financial reports, news releases, presentation materials and web casts of financial presentations are available on the IR section of the Close Brothers group website: www.closebrothers.com.

Substantial Shareholdings

The Company has been notified at 14 September 2012 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	17.6	11.97
Lloyds Banking Group	14.3	9.72
Prudential	10.0	6.81
Standard Life Investments	8.3	5.65
Schroders	6.4	4.33
Artemis Investment Management	5.9	4.01
Norges Bank	4.5	3.09
Legal & General	4.4	3.00
Aberdeen Asset Management	4.3	2.89

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 12 to 23 respectively. The principal risks and uncertainties the group currently faces are described on pages 24 to 27 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 has traded profitably during the year. It is well positioned in each of its core businesses, well capitalised, soundly funded and has adequate access to liquidity.

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 Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the International Accounting Standards Regulation ("IAS") and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they 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 the parent company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any 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.

In preparing the group financial statements, IAS 1 requires that directors:

- 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 IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The management report, which is incorporated into the Report of the Directors, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the board

Elizabeth Lee
Company Secretary

25 September 2012

Governance
Corporate Responsibility

Introduction

We are committed to maintaining and promoting a high level of integrity in all our business activities. Our business model is underpinned by key attributes which include prudence, simplicity, expertise and building and maintaining relationships in order to create and sustain value. The group applies these same attributes to its wider corporate and social responsibilities ensuring that its principles guide its relationships with customers, employees, and the communities and environment in which we operate.

The group has continued to focus on corporate responsibility ("CR") throughout the year and has made progress on its strategic CR objectives:

- Maintaining good employee engagement and developing talent;
- Treating customers fairly and supporting employee integrity;
- Minimising our impact on the environment; and
- Contributing to the community.

The group's CR activities are coordinated by a group wide CR Committee, established in 2010, and chaired by a member of the executive committee. The Committee has met regularly throughout the year to ensure continuous awareness of the group's responsibilities and CR objectives. It is the responsibility of each of the divisions to communicate and implement the group's CR objectives.

Maintaining Good Employee Engagement and Developing Talent

As an organisation that relies on the expertise and commitment of our people, we remain committed to investing in our employees and developing new talent.

Equal opportunities and diversity

The group is committed to providing equal opportunities to its employees and values diversity amongst its workforce. The group gives fair consideration to equality and diversity in its recruitment and training of new talent and promotion and development of existing employees.

Each of the group's divisions has a Recruitment and Equal Opportunity policy which encourages equality of opportunity regardless of race, gender, age, disability, sexual orientation or religion and seeks to create a workplace free of harassment or bullying.

Employee engagement

The group values communication and feedback with its employees and is planning a further group wide Employee Opinion Survey in the 2013 financial year. This survey will provide employees with the opportunity to give honest and confidential feedback on their views of the group and how it operates. Response to the previous survey in the 2011 financial year was positive both in terms of response rate and levels of employee engagement. Opportunities to further enhance employee engagement were identified through the survey and action plans were put in place locally to address these. Focus groups and short pulse-surveys have been used in local businesses to gain further feedback over the last 12 months.

Training and development

The group remains focused on training and development of all its employees and is committed to investing in its existing talent.

At the beginning of each financial year, all employees are required to agree performance objectives and training needs with line managers. These are used to measure performance in the year end annual performance review. The reviews also cover the employees' development and training requirements and provide an opportunity for employees to discuss their career aspirations with their line manager.

Employee benefits

All of the group's UK based permanent employees are offered pension and life assurance benefits. In order to involve the employees in the success of the group, a Save as You Earn ("SAYE") scheme is promoted amongst employees and at 31 July 2012 the group had approximately one third (31 July 2011: one third) of its UK based employees participating.

Health and safety

The group promotes high standards of health and safety at work for all its employees and all divisions have health and safety policies. It is the responsibility of the health and safety representatives to communicate these to staff.

Treating Customers Fairly and Supporting Employee Integrity

The group's business model is built around long-term relationships with clients and intermediaries, and we strive to operate with the highest standards of integrity with respect to lending to and dealing with customers. We remain committed to supporting sustainable growth in the UK economy through our products and actively look at ways to support SMEs and develop innovative and optimum solutions for all our clients.

Treating customers fairly ("TCF")

Our long-term relationships with customers depend on maintaining high levels of customer service and maintaining their trust. As such, TCF principles are fully embedded within the group's business culture. The minimum required standards are documented in group and divisional policies and are regularly reviewed for effectiveness at divisional board level.

The scope and content of TCF reporting is subject to review at least annually and all staff are given appropriate TCF training applicable to their role. During the year, we have introduced enhanced management information to enable policies and procedures to be more closely monitored and reviewed.

Complaint handling

We seek to ensure customer satisfaction in all our new and existing relationships, and ensure that there are no unreasonable post-sale barriers for any of our products or services. This includes the provision of a transparent complaints process to ensure that any concerns raised with us are addressed promptly and efficiently. We also seek to identify the root cause of complaints and to make any appropriate changes to our products and processes.

Review of new and existing products and services
The group's business model is based on providing simple, straightforward products and communicating clearly and openly with our clients. All new products and services offered by the group are subject to a detailed review process prior to their introduction to the market which ensures they:
- Meet the needs of our customers;
- Are marketed in a way that is clear, fair and not misleading to the customer;
- Perform as expected; and
- That any advice given as part of the sales process, is based on a consideration of the needs of each customer.

All existing products and services are subject to periodic review to ensure that they continue to be fit for purpose in meeting customer needs and are performing as expected.

Anti-bribery and corruption
The group conducts its business to the highest ethical standards and professional conduct and seeks to mitigate where possible the risks of financial crime.

The group's anti-bribery and corruption policy applies to all employees and sets out minimum standards and best practice for business conduct. The group adheres to the Bribery Act 2010 and compliance, risk and internal audit ensure compliance across the group through their review work.

Whistleblowing
The group has a whistleblowing policy which aims to protect employees who expose wrongdoing. We seek to ensure transparency in dealing with all stakeholders and encourage high standards of openness and accountability.

Anti-money laundering
The group complies with all applicable anti-money laundering regulations and all staff are given regular training to raise awareness of their responsibilities. Each of our regulated entities have a dedicated money laundering reporting officer and compliance officer who are responsible for overseeing best practice and report any issues to the group centre.

Minimising our Impact on the Environment
We recognise our responsibilities in minimising the impact of our activities on the environment. Given the nature of our businesses, the direct environmental impacts are limited and principally relate to energy consumption and carbon emissions of our properties, waste and recycling.

Energy consumption and carbon management
The group remains committed to reducing greenhouse gas emissions, through optimising its energy consumption, and reducing its carbon footprint of its electricity.

We encourage employees to adopt energy efficient approaches in the workplace including turning off PC's and lights and other energy savings measures. During the year, we have been working with a third party energy management company who have provided improved mechanisms for the group's head office to monitor and report its carbon emissions.

Waste reduction and recycling
The group seeks to improve waste management and recycling where possible. During the year, the waste management contractor at the group's head office was changed and as a result we are now recycling a higher proportion of general waste.

Contributing to the Community
As we maintain our commitment to support the communities in which we operate, we encourage all staff to support charitable causes and promote a number of opportunities for employee participation.

Charitable donations and matched giving
The group continued to support The Prince's Trust as its leading charity of choice during the year. Various fundraising activities were held throughout the year including a "charity week" in February 2012 in which employees across all locations were encouraged to raise money for charities of their choice.

The group has a matched giving policy which supports both individual and team fundraising efforts by matching 30% of the fundraised amount, up to a maximum of £250 per employee. In the year, the group donated a total amount of £160,000 (2011: £228,500) to charitable causes, of which total matched funding schemes contributed 36% (2011: 25%).

In addition to cash donations, the group also encouraged staff to participate in other charitable giving opportunities through company arranged events including donating women's clothing to DressforSuccess charity and holding a Christmas Toy Appeal for Community Links.

Give As You Earn ("GAYE")
We encourage our employees to donate to charity in a tax efficient manner through the GAYE payroll giving scheme. In the 2011 financial year, we actively promoted our GAYE scheme through an organised campaign to raise awareness and increase participation across the group. The success of that campaign resulted in the group being awarded the National Payroll Giving Excellence Award for "Best Re-Launch of an Existing Scheme" at No.11 Downing Street in October 2011.

During the year, the participation in the scheme has remained broadly stable at just over 10% (2011: 11%) of all UK employees, and the group maintained its Payroll Giving Quality Mark Gold Award awarded in 2011 in recognition of the strong participation rate.

Employee volunteering
We recognise the importance of employees volunteering their time in the community and during the year, the group partnered with a school in Tower Hamlets, London and launched a school reading project where staff volunteered their time to read with primary school children once a week. This has been very successful and it is now in its second year.

Governance
Report of the Board on Directors' Remuneration

Bruce Carnegie-Brown, Chairman of the Remuneration Committee.

I am pleased to present the report on directors' remuneration for the 2012 financial year.

Close Brothers is a financial services group which makes loans, trades securities and provides advice and investment management solutions to a wide range of clients. We typically operate in segments of the financial market where we can differentiate ourselves and where we do not compete directly with traditional financial institutions.

The remuneration structures within the group are designed to support the group's key attributes across our businesses, which are simplicity, expertise, prudence and relationships. These require knowledgeable and experienced employees and the remuneration policies aim to balance the needs and requirements of all key stakeholders, including employees, clients, shareholders and regulators. The Committee believes that the group's remuneration structures are appropriate for our business model.

The remuneration structures reflect the short-term risk profile of the business undertaken within the group. However, in order to encourage the attributes of prudence, strong client relationships and sustained performance over the medium to long term, the remuneration structure for executives and senior employees includes deferral of a high proportion of the variable remuneration and a Long Term Incentive Plan ("LTIP") subject to performance measures over a three year period.

All our businesses have a "pay for performance" culture. Performance management is integral to our annual compensation award processes and assessment of performance for discretionary bonus awards takes into account a broad range of performance measures, both financial and non-financial. These include an assessment of risk management behaviour which ensures that negative behaviours are penalised, resulting in lower or no variable compensation, regardless of financial performance. Our review process to determine annual awards includes input from the group control functions (risk, compliance and internal audit) to ensure awards have been adjusted to take into account positive or negative issues from a risk and compliance perspective.

The mix of fixed and variable remuneration is structured to ensure that employees are not incentivised to take disproportionate risks for short-term gain, with 88% of employees across the group receiving bonuses less than or equal to £25,000 for the 2012 financial year.

The Committee feels the remuneration policies balance the requirements of all key stakeholders. The shareholder "share" of adjusted operating profit, calculated as the dividend and retained surplus as a percentage of adjusted operating profit before bonus and after tax, has increased over the last three years to approximately 59% for the 2012 financial year. The remuneration for the directors as a percentage of both adjusted operating profit and all staff costs has remained broadly stable over the last ten years.

The Committee believes that the group's resilient performance over the past few years shows that the group's remuneration policies provide an effective incentive for executives and employees while striking a balance between risk and reward for the business as a whole.

I hope that you will find this report on the directors' remuneration useful, understandable and clear. I will be available to answer questions at the forthcoming AGM on 22 November 2012.

Bruce Carnegie-Brown
Chairman of the Remuneration Committee

This report sets out the remuneration and other applicable information for those persons who served as a director during the 2012 financial year. It 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 UK Corporate Governance Code. It will be presented to shareholders for approval at the AGM on 22 November 2012.

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

The Remuneration Committee

Objectives and responsibilities

The Committee's key objectives are to:

- Determine the over-arching principles and parameters of remuneration policy on a group wide basis;
- Establish and maintain a competitive remuneration package to attract, motivate and retain high calibre executive directors and senior management across the group;
- Promote the achievement of the group's annual plans and its strategic objectives by providing a remuneration package that contains appropriately motivating targets that are consistent with the group's risk appetite (see page 24 "Clearly defined risk appetite"); and
- Align senior executives' remuneration with the interests of shareholders.

The Committee's main responsibilities are to:

- Review and determine the total remuneration packages of executive directors and other senior executives in consultation with the chairman and chief executive and within the terms of the agreed policy;
- Approve the design and targets of any performance related pay schemes operated by the group;
- Review the design of all employee share incentive plans;
- Ensure that contractual terms on termination and any payments made are fair to the individual and the group, that failure is not rewarded and that a duty to mitigate loss is fully recognised;
- Review any major changes in employee benefits structures throughout the group;
- Select, appoint and determine terms of reference for independent remuneration consultants to advise the Committee on remuneration policy and levels of remuneration;
- Ensure that the remuneration structures in the group are compliant with the rules and requirements of regulators, and all relevant legislation;
- Ensure that provisions regarding disclosure of remuneration are fulfilled; and
- Seek advice from group risk to ensure remuneration structures and annual bonuses are appropriately aligned to the group's risk appetite.

Membership

The Committee comprises me as chairman, Ray Greenshields and Douglas Paterson who chair the Risk and Audit Committees respectively and Geoffrey Howe who joined the Committee with effect from 13 February 2012. Each of the Committee members is independent. The chairman of the board, chief executive, group head of human resources, group head of reward and Jamie Cayzer-Colvin attend the meetings. The company secretary or nominee acts as secretary to the Committee. A record of attendance at meetings during the year ended 31 July 2012 is set out on page 34. Shonaid Jemmett-Page was appointed to the Committee on 1 August 2012.

Activities during the year

The Committee is required by its terms of reference to meet at least twice a year and has a standing calendar of items within its remit. In addition to these standing items, the Committee discusses matters relating to the operation of the remuneration policy and emerging regulatory and market practices. The Committee met on five occasions during the year and discussed, amongst others, the issues set out below:

Meeting	Standing agenda items	Other agenda items
September 2011	• Performance testing results for the 2008 LTIP, the 2009 Matching Share Award ("MSA") and the 2003/2004 Executive Share Option Scheme "H" options.	• Measurement of the strategic goals elements of the 2009 MSA vesting in September 2011; and • Review and recommendation of proposed new SAYE scheme for approval by the board and shareholders.
January 2012	• Review of executive remuneration structure within the group.	• Update on long-term divisional incentive plan; and • Review of regulatory and legislative changes and developments.
April 2012	• Review of the anticipated compensation spend, including variable remuneration, for the 2012 financial year; • Annual review and approval of proposed Code Staff[1]; and • Annual review and approval of the group remuneration policy.	• Review and approval of proposed process for incorporating risk factors into bonus decision making; • Review of proposed LTIP structure for 2012 LTIP grants; • Review and approval of the process to determine whether to apply malus[2]; and • Update on closure of the defined benefit pension scheme.
June 2012	• Review of the initial proposals for the financial year 2012 compensation review; • Review and approval of impact of risk on bonus pools and individual bonus decisions; and • Review whether or not to exercise malus[2] adjustment for awards vesting in 2012.	• Review and approval of revised structure of LTIP performance measures; and • Review of regulatory and legislative changes and developments.
July 2012	• Determination of 2009 LTIP award grants for 2012; • Review of LTIP performance target ranges for 2012 grants; • Review and approval of final bonus pools; and • Review and approval of specific recommendations for salary and bonus awards to the executive directors and Code Staff[1] within the group.	• Review of regulatory and legislative changes and developments.

1 Code Staff are the group's employees whose professional activities have a material impact on the firm's risk profile.
2 Malus is the provision under which deferred awards are subject to forfeiture or may be reduced after grant in certain adverse circumstances.

Governance
Report of the Board on Directors' Remuneration continued

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

PricewaterhouseCoopers ("PwC")
- Compliance with the FSA Remuneration Code ("Remuneration Code");
- Periodic monitoring of the 2004 Long Term Incentive Plan ("2004 LTIP") and 2009 LTIP total shareholder return ("TSR") targets; and
- Advice on regulatory and legislative changes.

Slaughter and May
- Operation of the group's share plans.

Chief executive
- 2012 financial year compensation recommendations for executive directors and other senior executives; and
- Input regarding the structure of the LTIP performance measures.

Group head of human resources and group head of reward
- Review of the executive remuneration structure within the group;
- Regulatory and legislative changes and developments;
- Approach to assessing performance against the strategic goals in the 2009 LTIP;
- Governance on approval for reward and termination packages;
- Approach to the compensation review process across the group; and
- Approach to divisional incentive structures.

Group chief risk officer
- Advice and recommendations dealing with the impact of risk on the bonus pools and individual compensation decisions; and
- Advice on the approach to exercising malus provisions in deferred awards.

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

PwC provides advice to management on relevant remuneration matters. PwC also provided consultancy services and Slaughter and May legal services to the group during the financial year.

Remuneration Policy
The reward structure aims to:
- Attract, motivate and retain high calibre employees across the group;
- Reward good performance;
- Promote the achievement of the group's annual plans and its longer-term strategic objectives;
- Align the interests of employees with those of all key stakeholders in particular our shareholders, clients and regulators; and
- Support good risk management procedures and a positive client conduct culture.

The ultimate responsibility for determining the over-arching principles and parameters of the reward policy on a group wide basis lies with the Committee.

Discretion and judgement are applied to ensure that all relevant factors, including risk management and market conditions, are taken into account.

The majority of employees in the group have the potential to receive a performance related element of pay as part of their overall compensation package. This element is based on a combination of the overall assessment of the performance of the business and the individual. Employees have individual objectives against which their personal performance is rated. These objectives cover both financial and non-financial measures, including risk management objectives appropriate to their role. In addition to the assessment of performance against these objectives (conducted by an individual's line manager as part of their overall performance review) the group chief risk officer reports independently to the Committee on behalf of group risk, compliance and internal audit to ensure that any concerns highlighted by the control functions during the year are appropriately addressed in individual remuneration proposals.

Final determination of performance related pay for staff in the group risk, compliance and internal audit functions is determined by the group heads of those functions independently of the business areas that they control and is based on their performance against risk, compliance and internal audit objectives.

The Committee has oversight of individual remuneration and termination packages for Code Staff. The Committee also approves changes to compensation structures for groups of individuals and mandates the involvement of group risk in determining new structures to ensure that they are appropriately aligned to the risk profile of the business in which they operate.

Remuneration Policy in Practice for Executive Directors

Element	Objective	Policy	Delivery
Base salary	• Attract and retain high calibre employees. • Reflect the employee's role and experience.	• Set annually based on individual role and experience, pay for the broader employee population, and external factors, where applicable.	• Paid monthly in cash. • Reviewed annually by the Committee, effective from 1 August.
Annual bonus	• Reward good performance. • Motivate employees to support the group's goals, strategies and values over both the medium and long term. • Align the interests of senior employees and executives with those of key stakeholders, including shareholders, and increase retention for senior employees, through the use of deferrals.	• Set annually based on the achievement of pre-determined objectives. • The aggregate level of bonuses is determined by reference to group and divisional metrics, including financial and non-financial metrics, such as risk and strategic considerations. • Individual bonuses are differentiated based on both financial and non-financial performance, including adherence to relevant risk and control frameworks. • The annual bonus for executive directors is capped at 300% of base salary.	• For Code Staff, including executive directors, 60% of variable remuneration[1] is deferred (40% where variable remuneration is not more than £500,000). • The deferred variable remuneration is delivered as follows: – 50% in shares through the LTIP and Deferred Annual Bonus (equal vesting over three years with an additional six month holding period) – 50% in Deferred Cash subject to equal vesting over three years. • The non-deferred variable remuneration is delivered as follows: – 50% in shares subject to a six month holding period – 50% in cash paid in September following the relevant financial year end. • As a result, a maximum of 20% of the annual variable remuneration for executive directors is paid in cash with no deferral. • All deferrals are subject to forfeiture and may be reduced after grant in certain adverse circumstances ("malus").
Long Term Incentive Plan	• Motivate executives to achieve the group's longer-term strategic objectives. • Aid the attraction and retention of key staff. • Align executive interests with those of shareholders.	• Executive directors are eligible to receive an annual award of shares with a face value of up to 200% of base salary.	• Awards vest after three years subject to achieving absolute TSR growth, adjusted earnings per share ("EPS") growth and strategic performance targets. • The LTIP awards are also subject to an additional six month holding period after vesting and are subject to forfeiture and malus provisions.
Share Matching Plan ("SMP")	• Align the interests of executives with those of shareholders through building a shareholding. • Assist executives to build up required shareholdings.	• Executive directors can choose to invest up to the value of 100% of base salary from their total deferred and non-deferred annual bonus into Close Brothers Group plc shares ("Invested Shares") for three years. • Invested Shares will be matched with free matching shares ("Matching Shares") for every Invested Share. • The Committee has determined the matching ratio for the 2012 award for executive directors will remain at two Matching Shares for each Invested Share.	• The Invested Shares will be released in full at the end of the three year deferral. • The Matching Shares are subject to performance conditions over the three year deferral period. • The performance conditions for the 2012 Matching Share awards will be the same as the performance conditions in respect of this year's LTIP awards. • Both the Invested Shares and the Matching Shares are subject to an additional six month holding period after vesting, and forfeiture and malus provisions.
Shareholding guideline	• Align the interests of executives with those of shareholders.	• Executive directors are required to build and maintain a shareholding of two times base salary over a reasonable timeframe.	

1 Variable remuneration is defined as the annual bonus plus 60% of the face value of the LTIP grant.

Governance
Report of the Board on Directors' Remuneration continued

Overview of Directors' Remuneration for the 2012 Financial Year

The key elements of the remuneration structure for the year ended 31 July 2012 are set out in this section. 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 had a solid performance in the year with continued strong performance in the Banking division.

The Banking division has continued to grow, while maintaining its distinctive lending model and the quality of its loan book. In Securities, Winterflood has maintained its leading market position and capacity despite a difficult external market environment. In Asset Management, we have substantially completed our restructuring and are now positioned to return to profitability.

These factors were taken into consideration in determining bonus payments for executive directors for the financial year, as outlined in the "Annual bonus" section.

Base salary and benefits

The Committee has reviewed the base salaries for the executive directors based on individual role and experience, pay for the broader employee population, and external factors, where applicable. The average salary increase awarded across the group overall was 2.4%. However, the Committee has determined that there will be no salary increases for the executive directors this year.

Details of the executive director base salaries are set out below. In addition, the group also provided benefits which consisted of healthcare cover, prolonged disability and life assurance cover, payment of an allowance in lieu of a company car and a pension contribution or payment of an allowance in lieu thereof.

	Annual base salary		
	From 1 August 2012	1 August 2011 to 31 July 2012	Increase %
Preben Prebensen	**£500,000**	£500,000	–
Stephen Hodges	**£450,000**	£450,000	–
Jonathan Howell	**£380,000**	£380,000	–

Annual bonus

The annual bonus policy which was applied during the year is described on page 49. Bonus payments made in respect of the 2012 financial year were determined by reference to a number of financial and non-financial metrics, which include risk and compliance measures.

Preben Prebensen's and Jonathan Howell's bonuses are determined 50% by reference to group performance, as measured by the financial and non-financial measures, and 50% by reference to individual performance. The measures for Jonathan Howell also include financial key performance indicators and capital and balance sheet management. 50% of Stephen Hodges' bonus was determined by a mix of group and Banking division performance. The remaining 50% of Stephen Hodges' bonus was determined by reference to individual performance.

Adjusted operating profit before tax for the 2012 financial year was £134.2 million, a 2% increase on the prior year and an increase of 18% over three years. Refer to page 11 for details of the other key financial metrics.

Adjusted operating profit before tax for the Banking division for the 2012 financial year was £135.0 million, a 27% increase on the prior year. Refer to pages 18 and 19 for details of the Banking Division performance.

Based on these factors, the Committee determined that the bonuses for Preben Prebensen and Jonathan Howell should be flat to the 2011 financial year and that Stephen Hodges should receive a 3.6% increase. All executive director bonuses have reduced as a multiple of salary from the 2011 financial year, at between 2.63 and 2.70 times base salary.

Bonus payments are not pensionable.

Deferred awards

Awards made to executive directors during the year were compliant with the deferral levels and structural requirements of the Remuneration Code. 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 deferred awards may also be reduced and/or the deferral period increased in certain additional circumstances, in line with the malus provisions. Following vesting, these shares may be called for at any time up to 12 months from the date of vesting. When the shares are called for, the executive director is entitled to the gross value of accumulated dividends in respect of the shares held under the deferred awards over the period of deferral.

Annual bonus and deferral

	2012 financial year bonus			2011 financial year bonus			Increase/ decrease in bonus from prior year %
	Total bonus	**Immediate cash**	**Shares and deferred[1]**	Total bonus	Immediate cash	Shares and deferred[1]	
Preben Prebensen	**£1,350,000**	**£384,000**	**£966,000**	£1,350,000	£384,000	£966,000	–
Stephen Hodges	**£1,200,000**	**£332,640**	**£867,360**	£1,158,000	£324,240	£833,760	4
Jonathan Howell	**£1,000,000**	**£288,800**	**£711,200**	£1,000,000	£288,800	£711,200	–

1 This includes the Non-deferred Share Awards, Deferred Cash Bonus Plan and Deferred Annual Bonus Plan.

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 purchased shares held in an employee benefit trust and the number of shares awarded to the executive was determined by reference to the average mid-market share price of the Company's shares for the five business days following the announcement of the group's financial results on 27 September 2011 which was 684.6p per share.

Long term incentives

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

- 2009 LTIP;
- 2004 LTIP;
- 1995 Executive Share Option Scheme; and
- SAYE scheme.

2009 LTIP

This is delivered through an annual award of nil cost options (or conditional shares or restricted shares) with a face value of up to 200% of base salary. The Committee decides annually the actual size of individual awards.

The Committee indicated in 2009 that as the group moved from a transition to a delivery phase in its current strategic plan it would reduce the weighting for strategic goals and thereby increase the weighting on performance measures directly aligned with shareholder objectives. Accordingly, for the October 2012 award, we have agreed the following changes to the weighting of the performance measures and the makeup of the broader goals:

	2009 LTIP awards granted prior to 31 July 2012	2009 LTIP awards granted after 31 July 2012
Performance targets	33.3% absolute TSR growth 33.3% adjusted EPS growth 33.3% balanced scorecard of strategic goals	40% absolute TSR growth 40% adjusted EPS growth 20% risk management objectives
Broader goals[1] (equal weighting of each)	Strategic priorities People Capital and balance sheet management Risk, compliance and controls Financial key performance indicators	Capital and balance sheet management Risk, compliance and controls

1 Called "Strategic Goals" for awards prior to 31 July 2012, and "Risk Management Objectives" thereafter.

Consistent with the FSA's guidance, the Committee is concerned that the group's performance awards should continue to include vesting criteria which measure the appropriate management of risk in the business. Therefore, the Committee has retained the two goals that focus on the management of risk; (i) capital and balance sheet management and (ii) risk, compliance and controls. As a result strategic priorities, people and financial KPIs are no longer part of the goals being measured and the strategic goals have been renamed Risk Management Objectives.

The Committee also undertook an extensive review of the adjusted EPS and absolute TSR growth targets and determined that the targets for the grants being made this year under the 2009 LTIP award are unchanged from last year as follows:

Absolute TSR:

Absolute TSR growth over three years	Vesting % of TSR element	Vested award for executive directors (% salary)[1]
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%

Adjusted EPS:

Adjusted EPS growth over three years	Vesting % of EPS element	Vested award for executive directors (% salary)[1]
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%

1 Example based on awards of 200% of base salary.

Risk management objectives

As stated, for this year's grant these are (i) capital and balance sheet management and (ii) risk, compliance and controls. These are equally weighted. The Committee will assess management's performance against these over the performance period.

For awards made under the 2009 LTIP prior to July 2012, these were called Strategic Goals and comprised:

- Strategic priorities;
- People;
- Capital and balance sheet management;
- Risk, compliance and controls; and
- Financial key performance indicators.

Progress in these five areas over the period of the award is outlined here.

Strategic priorities

The group's strategy has remained unchanged and very clear, both internally and externally; we have achieved our focus in the Banking Division to grow safely and to maintain our prudent, distinctive lending model; in Securities, despite the difficult external market environment Winterflood has maintained its leading market position; and in Asset Management we have substantially completed the restructuring and are now well placed for delivery.

People

A number of important senior management appointments have been successfully made in all businesses and in the control functions with all the key hires performing well; a strong human resources function has been developed leading to improved consistency of policies across the group where appropriate; and we have improved employee evaluation and appraisal, and succession planning.

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2009 LTIP awards

	2012 award face value	2012 award as a percentage of 2012 base salary	2011 award face value	2011 award as a percentage of 2011 base salary	2010 award face value	2009 award face value	2009 award percentage vesting
Preben Prebensen	**£950,000**	**190%**	£950,000	200%	£950,000	£950,000	25%
Stephen Hodges	**£772,000**	**172%**	£772,000	200%	£772,000	£736,000	25%
Jonathan Howell	**£740,000**	**195%**	£740,000	200%	£740,000	£720,000	25%

Note: The details of the actual share awards made under these awards are shown in the table "Directors' NDSAs, DSAs and LTIP Awards" on page 55.

Capital and balance sheet management
The development of a detailed group capital model has been completed; we have maintained our strategy of diversifying our funding sources, as well as the term structure of our funding; we have carefully managed liquidity; a robust process for setting ICAAP and ILAA levels across the group has been implemented; and we were pleased with the outcome of the ICAAP process.

Risk, compliance and controls
The governance framework for control functions has been significantly upgraded in all divisions; the ARROW process reflected very positively on the overall control framework that has been established; risk governance is now well established; and an effective and well embedded process for the measurement and management of risk is now in place.

Financial key performance indicators
The group has had a solid performance with both adjusted operating profit and return on opening equity increasing since 2009 to £134.2 million and 12.5% respectively; the Banking division has delivered strong growth, while maintaining its distinctive lending model and the quality of its loan book; Winterflood has maintained its leading market position; and in Asset Management we have substantially completed the final stages of our restructuring and are now positioned to return to profitability.

The Committee has evaluated developments in all five categories and determined that the vesting percentage on these strategic goals, covering one third of the award, should be 76%. As set out in last year's report, the vesting evaluated after two years was also 76% and the Committee believe that, as outlined above, management has continued to perform strongly in these areas.

For the three year period to 31 July 2012, the minimum 3% real EPS per annum compounded growth target and the minimum absolute TSR growth of 10% per annum (each covering one third of the award) were not met.

Accordingly, the 2009 LTIP award will vest at 25.3% in November 2012.

As stated, the strategic goals will become Risk Management Objectives for awards granted after 31 July 2012.

Details of 2009 LTIP awards made to the executive directors since 2009, and associated vesting, are set out in the table above.

2004 LTIP
This was based on a conditional award of free shares, the vesting of which is subject to demanding performance conditions. Grants were restricted to a maximum of twice an individual's base salary in any one year. Performance conditions for each award were determined by the Committee at the time of each grant. Performance is measured over a single period of three years with no retesting. The last awards made under this plan were in October 2008 and vested, subject to performance conditions, in 2011.

The performance conditions under the 2004 LTIP were a range of EPS growth targets from RPI +5% to RPI +10% for two thirds of an award and relative TSR targets for the remaining one third. For the TSR element performance was measured against a group of companies drawn from the FTSE 350 General Financial Index. Performance against the performance criteria is calculated by the Committee and independently verified by external advisers. The final 2004 LTIP award, granted in October 2008 vested at 33%.

Close Brothers Group 1995 Executive Share Option Scheme ("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 at the time of grant. The group intends to operate this plan during the 2013 financial year.

Pensions
Preben Prebensen and Jonathan Howell receive a monthly cash pension allowance equivalent to 22.5% of base salary.

Close Brothers also operated a defined benefits pension plan, the Close Brothers (1979) Pension Plan (the "Plan"). Following consultation with the active members of the Plan, it was closed to future accruals effective 5 April 2012. Stephen Hodges, the only executive director that was an active member of the Plan now receives a monthly cash pension allowance equivalent to 22.5% of base salary, in line with the other executive directors.

Prior to closure, Stephen Hodges participated in the Plan which provides that the normal pensionable age is 65 for benefits accrued after 31 January 2011, 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 31.5% per annum of pensionable salary, effective from April 2010 (ceasing on closure at 5 April 2012).

The table on page 54 summarises pension benefits from the group's defined benefits pension scheme for Stephen Hodges. 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
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
Preben Prebensen	9 February 2009	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.

Directors' Interests

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

	Ordinary shares	
	31 July 2012	1 August 2011
Bruce Carnegie-Brown	**20,000**	10,000
Jamie Cayzer-Colvin	**–**	–
Ray Greenshields	**3,000**	3,000
Stephen Hodges	**618,549**	593,573
Geoffrey Howe	**5,000**	5,000
Jonathan Howell	**164,756**	98,945
Strone Macpherson	**13,300**	13,300
Douglas Paterson	**14,000**	12,000
Preben Prebensen	**234,324**	153,564

There have been no changes in notifiable interests between 31 July 2012 and 25 September 2012.

Executive Directors' Shareholdings Against Guidelines

	Actual share ownership as a percentage of salary at 31 July 2012	Share ownership requirement as a percentage of salary	Shareholding requirement met
Stephen Hodges	1,023%	200%	Yes
Jonathan Howell	323%	200%	Yes
Preben Prebensen	349%	200%	Yes

Chairman and Non-executive Directors

The chairman and the non-executive directors are engaged under letters of appointment for terms not exceeding three years, which are renewable by mutual agreement and terminable on one months notice. In respect of the services of Jamie Cayzer-Colvin as non-executive director for the year ended 31 July 2012, Caledonia Investments plc was paid £66,000.

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 following table shows non-executive fees for the year to 31 July 2012. These are reviewed annually and were last increased with effect from 1 December 2010.

	Non-executive fees 2012	Non-executive fees 2011
Chairman	**£200,000**	£200,000
Non-executive director	**£55,000**	£55,000
Supplements		
Senior independent director	**£10,000**	£10,000
Chairman of Audit Committee	**£20,000**	£20,000
Chairman of Remuneration Committee	**£20,000**	£20,000
Chairman of Risk Committee	**£20,000**	£20,000
Chairman of Nomination and Governance Committee	**–**	–
Committee membership	**£5,000**	£5,000

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Directors' Remuneration – Audited
The following table shows the remuneration of each director for the year to 31 July 2012.

	Salaries and fees £'000	Allowances[1] £'000	Other benefits[2] £'000	Annual bonus: Cash £'000	Annual bonus: Shares and deferred bonus[3] £'000	Total: 2012 £'000	Total: 2011 £'000	Company pension contributions: 2012 £'000	Company pension contributions: 2011 £'000
Executive director									
Stephen Hodges	450	73	1	333	867	**1,724**	1,577	**70**	102
Jonathan Howell	380	98	2	289	711	**1,480**	1,444		28
Preben Prebensen	500	131	2	384	966	**1,983**	1,952		
Non-executive director									
Bruce Carnegie-Brown	95					**95**	86		
Jamie Cayzer-Colvin	66					**66**	51		
Ray Greenshields	85					**85**	72		
Geoffrey Howe[4]	62					**62**	32		
Strone Macpherson	200					**200**	193		
Douglas Paterson	85					**85**	77		
	1,923	302	5	1,006	2,544	**5,780**	5,484	**70**	130

1 (i) The three executive directors received an allowance in lieu of a company car and a cash allowance in lieu of employer pension contributions; (ii) The cash allowance in lieu of employer pension contributions for Stephen Hodges comprised an allowance above capped pensionable salary, which has now ceased following the closure of the defined benefits pension scheme as outlined in the "Pensions" section, and four months of pension allowance in line with the other two executive directors (22.5% of base salary).
2 This is healthcare cover.
3 This includes the Non-deferred Share Awards, Deferred Cash Bonus Plan and Deferred Annual Bonus Plan.
4 Geoffrey Howe was appointed a director on 4 January 2011.

Defined Pension Benefits – Audited
The following table shows the pension benefits of the executive director participating in the group's defined benefits pension scheme:

	Transfer value of accrued pension[1]: At 31 July 2011 £'000	Director's contributions £'000	Actual increase excluding director's contribution £'000	At 31 July 2012 £'000	Accrued pension: Increase during the year £'000	At 31 July 2012 £'000
Stephen Hodges	4,353	12	913	**5,278**	8	**183**

1 The accrued pension at 31 July 2012 represents the deferred pension to which the director was entitled to at 31 July 2012.

The real increase of the accrued pension transfer value excluding director's contribution was £774,000. During 2011 it was identified that the normal retirement age of scheme members of the defined benefits pension scheme was not effectively equalised at 65. As a result, a substantial proportion of the scheme liabilities (for service prior to 31 January 2011) have been remeasured to a normal retirement age of 60.

Directors' Non-Deferred Share Awards ("NDSA"), Deferred Share Awards ("DSA") and LTIP Awards
The NDSA and DSA form part of the annual performance related bonus award.

The NDSA vest immediately so the entitlements to these awards do not lapse in any circumstances unless they are not called prior to the end of the calling period. There is, however a requirement to hold these for six months from the date of award. Following the end of the holding period they may then be called for at any time up to 12 months from the date of vesting. The value of the awards is charged to the group's income statement in the year to which the award relates.

The DSA and the LTIP consist 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. The DSA and LTIP Awards may be forfeited if the executive director leaves employment in certain circumstances preceding the vesting date. Following vesting, there is a requirement to hold these shares for an additional six months. They may be called for at any time up to 12 months from the date of vesting, with the exception of the 2009 DSA which has a five year calling period, and the 2009 LTIP which will be immediately released. The value of the awards is charged to the group's income statement in the year to which the award relates for the DSA, and spread over the vesting period for LTIP awards.

The NDSA, DSA and the LTIP awards held by each director at 31 July 2012 are outlined in the following table. The LTIP awards are held under the 2009 LTIP and 2004 LTIP and are subject to the performance criteria described in this report under "2009 LTIP" and "2004 LTIP" on pages 51 and 52.

Directors' NDSA, DSA and LTIP Awards – Audited

	Held at 1 August 2011	Awarded	Called	Lapsed	**Held at 31 July 2012**	**Value at 31 July 2012 £**	Market price on award p	Market price on calling p	Dividends paid on vested shares £	Earliest vesting date
Stephen Hodges										
2011 NDSA	–	22,734	22,734		**–**	**–**	684.6	768.9	6,025	4 April 2012
	–	**22,734**	**22,734**	**–**	**–**	**–**			**6,025**	
2009 DSA	46,406				**46,406**	**345,493**	793.0			1 October 2011
2010 DSA	35,638				**35,638**	**265,325**	743.6			7 October 2012
2011 DSA	–	3,383			**3,383**	**25,186**	684.6			4 October 2012
	82,044	**3,383**	**–**	**–**	**85,427**	**636,004**			**–**	
2004 LTIP–2008 Award[1]	131,414		43,805	87,609	**–**	**–**	559.3	709.2	69,781	7 October 2011
2009 LTIP–2009 Award	105,339				**105,339**	**784,249**	699.0			18 November 2012
2009 LTIP–2010 Award	101,499				**101,499**	**755,660**	760.6			19 October 2013
2009 LTIP–2011 Award	–	112,767			**112,767**	**839,550**	684.6			4 October 2014
	338,252	**112,767**	**43,805**	**87,609**	**319,605**	**2,379,459**			**69,781**	
2010 SMP–Invested	49,422				**49,422**	**367,947**	743.6			7 October 2013
2010 SMP–Matched	98,844				**98,844**	**735,894**	743.6			7 October 2013
2011 SMP–Invested	–	47,362			**47,362**	**352,610**	684.6			4 October 2014
2011 SMP–Matched	–	94,724			**94,724**	**705,220**	684.6			4 October 2014
	148,266	**142,086**	**–**	**–**	**290,352**	**2,161,671**			**–**	
Jonathan Howell										
2011 NDSA	–	18,959	18,959		**–**	**–**	684.6	768.9	5,024	4 April 2012
	–	**18,959**	**18,959**	**–**	**–**	**–**			**5,024**	
2009 DSA	45,397				**45,397**	**337,981**	793.0			1 October 2011
2010 DSA	30,931				**30,931**	**230,281**	743.6			7 October 2012
	76,328	**–**	**–**	**–**	**76,328**	**568,262**			**–**	
2004 LTIP–2008 Award[1]	128,732		42,911	85,821	**–**	**–**	559.3	610.5	68,357	7 October 2011
2009 LTIP–2009 Award	103,049				**103,049**	**767,200**	699.0			18 November 2012
2009 LTIP–2010 Award	97,292				**97,292**	**724,339**	760.6			19 October 2013
2009 LTIP–2011 Award	–	108,093			**108,093**	**804,752**	684.6			4 October 2014
	329,073	**108,093**	**42,911**	**85,821**	**308,434**	**2,296,291**			**68,357**	
2010 SMP–Invested	48,414				**48,414**	**360,442**	743.6			7 October 2013
2010 SMP–Matched	96,828				**96,828**	**720,884**	743.6			7 October 2013
2011 SMP–Invested	–	43,822			**43,822**	**326,255**	684.6			4 October 2014
2011 SMP–Matched	–	87,644			**87,644**	**652,510**	684.6			4 October 2014
	145,242	**131,466**	**–**	**–**	**276,708**	**2,060,091**			**–**	
Preben Prebensen										
2011 NDSA	–	20,964	20,964		**–**	**–**	684.6	768.9	5,555	4 April 2012
	–	**20,964**	**20,964**	**–**	**–**	**–**			**5,555**	
2010 DSA	45,052				**45,052**	**335,412**	743.6			7 October 2012
	45,052	**–**	**–**	**–**	**45,052**	**335,412**			**–**	
2009 LTIP–2009 Award	135,967				**135,967**	**1,012,274**	699.0			18 November 2012
2009 LTIP–2010 Award	124,902				**124,902**	**929,895**	760.6			19 October 2013
2009 LTIP–2011 Award	–	138,768			**138,768**	**1,033,128**	684.6			4 October 2014
	260,869	**138,768**	**–**	**–**	**399,637**	**2,975,297**			**–**	
2010 SMP–Invested	63,879				**63,879**	**475,579**	743.6			7 October 2013
2010 SMP–Matched	127,758				**127,758**	**951,158**	743.6			7 October 2013
2011 SMP–Invested	–	69,384			**69,384**	**516,564**	684.6			4 October 2014
2011 SMP–Matched	–	138,768			**138,768**	**1,033,128**	684.6			4 October 2014
	191,637	**208,152**	**–**	**–**	**399,789**	**2,976,429**			**–**	

1 The 2008 LTIP award was tested in October 2011 against the performance conditions set by the 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 in the top 20% of the comparator group, warranting the vesting of 100% of the shares subject to this part of the award. Accordingly two thirds of the original 2008 LTIP award shares lapsed during the year.

Note: The market price on award and at calling is required to be disclosed by Regulation 11 and Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008.

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Directors' Share Option Entitlements – Audited

	Held at 1 August 2011	Granted	Exercised	Lapsed	**Held at 31 July 2012**	Exercise price p	Market price on exercise p	Exercisable from	Exercisable to
Stephen Hodges									
2002	46,411		46,411		**–**	436.3	780.2	8 October 2005	7 October 2012
2002	46,411		46,411		**–**	436.3	780.2	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
2008 SAYE	2,242		2,242		**–**	428.0	787.0	1 December 2011	31 May 2012
2011 SAYE	–	1,645			**1,645**	547.0		1 December 2014	31 May 2015
	208,512	**1,645**	**95,064**	**–**	**115,093**				
Preben Prebensen									
2010 SAYE	1,525				**1,525**	590.0		1 December 2013	31 May 2014
	1,525	**–**	**–**	**–**	**1,525**				

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

Share option entitlements, other than SAYE options, are subject to the performance criteria described in this report under the "1995 Scheme" section on page 52. Unexercised options over ordinary shares held by directors under the 1995 Scheme and SAYE scheme are shown above.

Matching Share Awards and Restricted Share Awards ("RSA") – Audited

Preben Prebensen joined the group as chief executive on 1 April 2009. His remuneration package as agreed prior to the commencement of his employment includes an MSA and a RSA. The MSA is subject to a personal investment in shares of £500,000, satisfaction of the same performance conditions as the 2009 LTIP and continued employment until the vesting date.

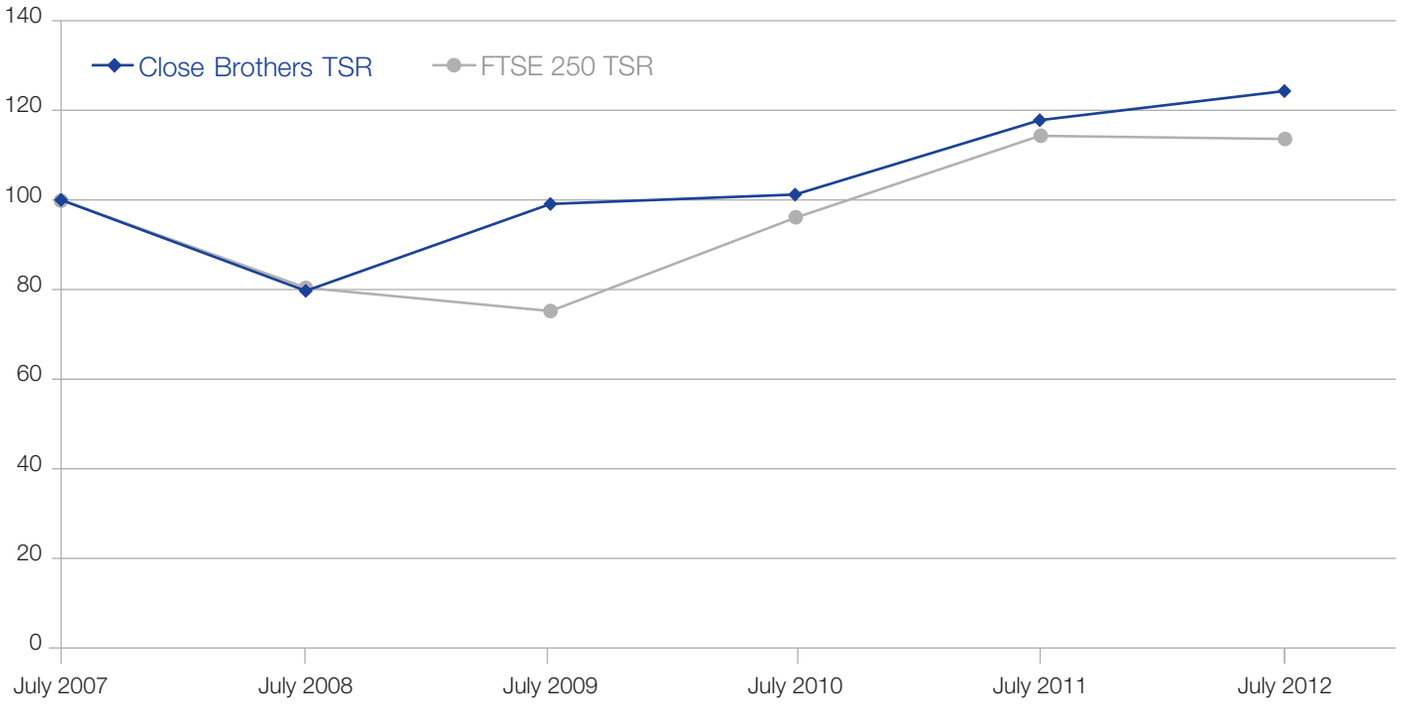
The second of four annual tranches of Preben Prebensen's MSA vests in September 2012, with vesting subject to the 2009 LTIP performance conditions. As outlined in the section "2009 LTIP", this will vest at 25.3%.

	Held at 1 August 2011	Awarded	Called	Lapsed	**Held at 31 July 2012**	**Value at 31 July 2012 £**	Market price on calling p	Earliest vesting date
Preben Prebensen								
2009 MSA	65,902		29,722	36,180	**–**	**–**	697.5	September 2011
2009 MSA	65,902				**65,902**	**490,640**		September 2012
2009 MSA	65,902				**65,902**	**490,640**		September 2013
2009 MSA	65,902				**65,902**	**490,640**		September 2014
	263,608	**–**	**29,722**	**36,180**	**197,706**	**1,471,920**		
2009 RSA	27,924		27,924		**–**	**–**	794.4	March 2012
	27,924	**–**	**27,924**	**–**	**–**	**–**		

The RSA was granted to Preben Prebensen in May 2009 in compensation for share awards which were forfeited on leaving his previous employer. 25% and 50% of the award vested following announcement of the Company's interim results for the financial years 2010 and 2011 respectively. The final 25% vested following announcement of the Company's interim results in March 2012.

Total Shareholder Return

The graph below shows a comparison of TSR for the Company's shares for the five years ended 31 July 2012 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 2012, of £100 invested in Close Brothers Group plc on 31 July 2007 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 2012 was 744.5p and the range during the year was 590p to 812p.

Approval

This report was approved by the board of directors on 25 September 2012 and signed on its behalf by:

Bruce Carnegie-Brown
Chairman of the Remuneration Committee

Financial Statements
Report of the Auditor

Independent Auditor's Report to the Members of Close Brothers Group plc

We have audited the financial statements of Close Brothers Group plc ("the Company") for the year ended 31 July 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, and the related notes 1 to 34. 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 Chapter 3 of Part 16 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 auditor's 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 auditor

As explained more fully in the Statement of Directors' Responsibilities, 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 and express an opinion on 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 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 at 31 July 2012 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 Corporate Governance, in relation to going concern;
- The part of the Corporate Governance relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- Certain element of the Report of the Board on Directors' Remuneration.

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

25 September 2012

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.

Consolidated Income Statement
for the year ended 31 July 2012

	Note	2012 £ million	2011 £ million
Continuing operations			
Interest income	4	**412.2**	360.5
Interest expense	4	**(141.3)**	(129.6)
Net interest income		**270.9**	230.9
Fee and commission income	4	**167.0**	175.9
Fee and commission expense	4	**(21.1)**	(19.2)
Gains less losses arising from dealing in securities		**78.8**	132.2
Share of profit of associates	28	**7.2**	2.6
Other income		**28.9**	26.1
Non-interest income		**260.8**	317.6
Operating income		**531.7**	548.5
Administrative expenses	4	**(339.9)**	(352.1)
Impairment losses on loans and advances	13	**(57.6)**	(65.2)
Total operating expenses before exceptional items, goodwill impairment and amortisation of intangible assets on acquisition		**(397.5)**	(417.3)
Operating profit before exceptional items, goodwill impairment and amortisation of intangible assets on acquisition		**134.2**	131.2
Exceptional items	5	**5.6**	(46.9)
Goodwill impairment	17	**–**	(3.7)
Amortisation of intangible assets on acquisition	17	**(4.9)**	(2.1)
Operating profit before tax		**134.9**	78.5
Tax	7	**(33.5)**	(35.1)
Profit after tax from continuing operations		**101.4**	43.4
Loss for the period from discontinued operations, net of tax	8	**–**	(27.6)
Profit for the year		**101.4**	15.8
Profit attributable to non-controlling interests from continuing operations		**1.7**	0.7
Profit attributable to non-controlling interests from discontinued operations		**–**	0.5
Profit attributable to the shareholders of the company		**99.7**	14.6
From continuing operations			
Basic earnings per share	10	**68.6p**	29.6p
Diluted earnings per share	10	**67.5p**	29.0p
From continuing and discontinued operations			
Basic earnings per share	10	**68.6p**	10.1p
Diluted earnings per share	10	**67.5p**	9.9p
Interim dividend per share paid	11	**14.0p**	13.5p
Final dividend per share	11	**27.5p**	26.5p

Financial Statements

Consolidated Statement of Comprehensive Income

for the year ended 31 July 2012

	2012 £ million	2011 £ million
Profit for the year	**101.4**	15.8
Other comprehensive income from continuing operations		
Currency translation losses	**(2.2)**	(2.1)
(Losses)/gains on cash flow hedging	**(2.3)**	0.6
Other losses	**(3.8)**	(0.7)
Gains/(losses) on financial instruments classified as available for sale:		
Gilts	**1.1**	–
Floating rate notes	**7.6**	2.8
Equity shares	**0.3**	(0.2)
Transfer to income statement of realised currency translation gains	**(7.3)**	–
Other comprehensive (expense)/income for the year, net of tax, from continuing operations	**(6.6)**	0.4
Total comprehensive income for the year	**94.8**	16.2
Attributable to		
Non-controlling interests	**1.7**	1.2
Shareholders	**93.1**	15.0
	94.8	16.2

Consolidated Balance Sheet
at 31 July 2012

	Note	2012 £ million	2011 £ million
Assets			
Cash and balances at central banks		**706.8**	594.5
Settlement balances		**442.0**	551.1
Loans and advances to banks	12	**110.0**	114.8
Loans and advances to customers	13	**4,125.9**	3,435.3
Debt securities	14	**406.4**	852.8
Equity shares	15	**52.9**	57.1
Loans to money brokers against stock advanced		**68.7**	75.3
Derivative financial instruments	16	**50.6**	45.2
Investment in associate	28	**21.8**	33.4
Intangible assets	17	**139.7**	133.1
Property, plant and equipment	18	**75.0**	62.2
Deferred tax assets	19	**28.0**	26.7
Prepayments, accrued income and other assets	20	**128.0**	127.1
Total assets		**6,355.8**	6,108.6
Liabilities			
Settlement balances and short positions	21	**465.5**	521.8
Deposits by banks	22	**88.0**	192.8
Deposits by customers	22	**3,448.1**	3,170.5
Loans and overdrafts from banks	22	**205.0**	502.6
Debt securities in issue	22	**1,040.0**	548.1
Loans from money brokers against stock advanced		**36.2**	63.6
Derivative financial instruments	16	**44.2**	45.3
Accruals, deferred income and other liabilities	20	**181.7**	260.6
Subordinated loan capital	23	**77.3**	75.0
Total liabilities		**5,586.0**	5,380.3
Equity			
Called up share capital	24	**37.6**	37.6
Share premium account		**283.4**	283.0
Retained earnings		**454.3**	416.2
Other reserves		**(9.2)**	(10.4)
Total shareholders' equity		**766.1**	726.4
Non-controlling interests in equity		**3.7**	1.9
Total equity		**769.8**	728.3
Total liabilities and equity		**6,355.8**	6,108.6

Approved and authorised for issue by the Board of Directors on 25 September 2012 and signed on its behalf by:

P.S.S. Macpherson
Chairman

P. Prebensen
Chief Executive

Financial Statements

Consolidated Statement of Changes in Equity

for the year ended 31 July 2012

	Called up share capital £ million	Share premium account £ million	Retained earnings £ million	Other reserves: Available for sale movements reserve £ million	Other reserves: Share-based reserves £ million	Other reserves: Exchange movements reserve £ million	Other reserves: Cash flow hedging reserve £ million	Total attributable to equity holders £ million	Non-controlling interests £ million	Total equity £ million
At 1 August 2010	37.4	275.9	457.3	(4.7)	(34.1)	23.7	(3.6)	751.9	2.5	754.4
Profit for the year	–	–	14.6	–	–	–	–	14.6	1.2	15.8
Other comprehensive (expense)/income	–	–	(0.7)	2.6	–	(2.1)	0.6	0.4	–	0.4
Total comprehensive income/(expense) for the year	–	–	13.9	2.6	–	(2.1)	0.6	15.0	1.2	16.2
Exercise of options	–	0.1	–	–	–	–	–	0.1	–	0.1
Dividends paid	–	–	(55.7)	–	–	–	–	(55.7)	(0.4)	(56.1)
Shares purchased	–	–	–	–	(0.3)	–	–	(0.3)	–	(0.3)
Shares issued	0.2	7.0	–	–	–	–	–	7.2	–	7.2
Shares released	–	–	–	–	6.4	–	–	6.4	–	6.4
Other movements	–	–	0.7	(0.4)	5.0	(3.5)	–	1.8	(1.4)	0.4
At 31 July 2011	37.6	283.0	416.2	(2.5)	(23.0)	18.1	(3.0)	726.4	1.9	728.3
Profit for the year	–	–	99.7	–	–	–	–	99.7	1.7	101.4
Other comprehensive (expense)/income	–	–	(3.8)	9.0	–	(9.5)	(2.3)	(6.6)	–	(6.6)
Total comprehensive income/(expense) for the year	–	–	95.9	9.0	–	(9.5)	(2.3)	93.1	1.7	94.8
Exercise of options	–	0.1	–	–	–	–	–	0.1	–	0.1
Dividends paid	–	–	(58.3)	–	–	–	–	(58.3)	(0.1)	(58.4)
Shares purchased	–	–	–	–	(10.3)	–	–	(10.3)	–	(10.3)
Shares issued	–	0.3	–	–	–	–	–	0.3	–	0.3
Shares released	–	–	–	–	8.3	–	–	8.3	–	8.3
Other movements	–	–	0.5	–	6.0	–	–	6.5	0.2	6.7
At 31 July 2012	**37.6**	**283.4**	**454.3**	**6.5**	**(19.0)**	**8.6**	**(5.3)**	**766.1**	**3.7**	**769.8**

Consolidated Cash Flow Statement
for the year ended 31 July 2012

	Note	2012 £ million	2011 £ million
Net cash inflow from operating activities	33(a)	**63.4**	67.9
Net cash outflow from investing activities			
Dividends received from associate		**8.7**	2.5
Purchase of:			
Assets let under operating leases		**(29.4)**	(26.8)
Property, plant and equipment		**(8.8)**	(9.5)
Intangible assets – software		**(13.9)**	(7.2)
Equity shares held for investment		**(0.3)**	(0.5)
Subsidiaries	33(b)	**(5.1)**	(39.0)
Sale of:			
Property, plant and equipment		**4.6**	5.2
Equity shares held for investment		**0.2**	20.7
Subsidiaries and associate	33(c)	**12.6**	(231.0)
		(31.4)	(285.6)
Net cash inflow/(outflow) before financing		**32.0**	(217.7)
Financing activities			
Issue of ordinary share capital, net of transaction costs	33(d)	**0.4**	0.2
Purchase of own shares for employee share award schemes		**(10.3)**	(0.3)
Equity dividends paid		**(58.3)**	(55.7)
Dividends paid to non-controlling interests		**(0.1)**	(0.4)
Interest paid on subordinated loan capital and debt financing		**(18.6)**	(5.6)
Debt securities redeemed		**–**	(20.5)
Net decrease in cash		**(54.9)**	(300.0)
Cash and cash equivalents at beginning of year		**983.2**	1,283.2
Cash and cash equivalents at end of year	33(e)	**928.3**	983.2

Financial Statements

Company Balance Sheet

at 31 July 2012

	Note	2012 £ million	2011 £ million
Fixed assets			
Intangible assets	17	**0.1**	0.2
Property, plant and equipment	18	**1.7**	2.4
Investments in subsidiaries	27	**287.0**	287.0
Interest free loan to subsidiary		**251.1**	313.2
		539.9	602.8
Current assets			
Cash at bank		**0.4**	1.1
Amounts owed by subsidiaries		**300.9**	445.9
Other investments		**4.8**	4.7
Corporation tax receivable		**8.5**	4.7
Deferred tax assets	19	**2.1**	2.7
Other debtors		**9.1**	5.6
		325.8	464.7
Creditors: Amounts falling due within one year			
Amounts owed to subsidiaries		**–**	1.8
Accruals and deferred income		**7.1**	7.7
Provisions	20	**8.9**	6.7
Bank loans and overdrafts		**–**	135.0
Other creditors		**1.3**	7.0
		17.3	158.2
Net current assets		**308.5**	306.5
Total assets less current liabilities		**848.4**	909.3
Creditors: Amounts falling due after more than one year:			
Debt securities in issue		**204.5**	198.1
Net assets		**643.9**	711.2
Capital and reserves			
Share capital	24	**37.6**	37.6
Share premium account		**283.4**	283.0
Profit and loss account	25	**340.2**	412.2
Other reserves	25	**(17.3)**	(21.6)
Total equity shareholders' funds		**643.9**	711.2

Approved and authorised for issue by the Board of Directors on 25 September 2012 and signed on its behalf by:

P.S.S. Macpherson
Chairman

P. Prebensen
Chief Executive

The Notes

1. Significant accounting policies

(a) Reporting entity

Close Brothers Group plc ("the company"), a public limited company incorporated and domiciled in the UK, together with its subsidiaries (collectively, the "group"), operates through three divisions: Banking, Securities and Asset Management, and is primarily located within the UK.

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 Section 408 of the Companies Act 2006 not to present its company income statement and related notes.

(b) Compliance with International Financial Reporting Standards

The consolidated financial statements ("the consolidated accounts") have been prepared and approved by the directors in accordance with all relevant IFRSs as issued by the International Accounting Standards Board ("IASB"), and interpretations issued by the IFRS Interpretations Committee ("IFRIC"), endorsed by the European Union ("EU").

At the balance sheet date the group adopted the following standards, amendments and interpretations which had become effective during the year. The adoption of these did not have a material impact on the financial statements of the group.

- IFRS 7 "Disclosures – Transfers of Financial Assets" – Requires additional disclosures in respect of risk exposures arising from transferred financial assets;
- IAS 24 "Related Party Disclosures" – Amendments widen the scope of the definition of related parties;
- IFRIC 14 "Prepayments of a Minimum Funding Requirement"; and
- IFRS Annual Improvements 2010.

The following standards, amendments and interpretations have been issued by the IASB and IFRIC with effective dates, subject to EU endorsement in some cases, which do not impact on these financial statements.

- IAS 12 "Income taxes" – Effective for annual periods beginning on or after 1 January 2012;
- IAS 1 "Presentation of items in other comprehensive income" – Effective for annual periods beginning on or after 1 January 2013;
- IAS 19 "Employee benefits" – Effective for annual periods beginning on or after 1 January 2013;
- IFRS 7 "Offsetting financial assets and financial liabilities" – Effective for annual periods beginning on or after 1 January 2013;
- IFRS 13 "Fair value measurement" – Effective for annual periods beginning on or after 1 January 2013;
- IFRS 10 "Consolidated financial statements" – Effective for annual periods beginning on or after 1 January 2014;
- IFRS 11 "Joint arrangements" – Effective for annual periods beginning on or after 1 January 2014;
- IFRS 12 "Disclosure of interests in other entities" – Effective for annual periods beginning on or after 1 January 2014;
- IAS 27 "Separate financial statements" – Effective for annual periods beginning on or after 1 January 2014;
- IAS 28 "Investments in associates" – Effective for annual periods beginning on or after 1 January 2014;
- IAS 32 "Offsetting financial assets and financial liabilities" – Effective for annual periods beginning on or after 1 January 2014; and
- IFRS 9 "Financial Instruments" – Effective for annual periods beginning on or after 1 January 2015.

The impact on the group's financial statements of these future standards, amendments and interpretations is still under review, but the group does not currently expect any of these changes to have a material impact on the results or the net assets of the group.

(c) Basis of preparation

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

(d) Consolidation

Subsidiaries

Subsidiaries are all entities over which the group has the power to directly or indirectly govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which the group effectively obtains control. They are de-consolidated from the date that control ceases. Special purpose entities ("SPEs") are consolidated when the substance of the relationship between the group and its entity indicates control by the group.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Under the acquisition method of accounting, with some limited exceptions, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. The non-controlling interest is measured either at fair value or at the non-controlling interest's proportion of the net assets acquired. Acquisition related costs are accounted for as expenses when incurred, unless directly related to the issue of debt or equity securities. Any excess of the cost of acquisition over net assets is capitalised as goodwill. All intra group balances, transactions, income and expenses are eliminated.

Financial Statements
The Notes

1. Significant accounting policies continued

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 the group hold 20% or more of an entity's voting rights, 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 increases for the group's share of any profit and decreases for the group's share of any losses or distributions received. The carrying amount is also reviewed annually for impairment.

(e) Assets held for sale and discontinued operations

Assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell. Assets and liabilities classified as held for sale are shown separately on the face of the consolidated balance sheet.

The results of discontinued operations are shown as a single amount on the face of the consolidated income statement comprising the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised either on measurement to fair value less costs to sell or on the disposal of the discontinued operation. A discontinued operation is a cash generating unit ("CGUs") or a group of CGUs that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

(f) Foreign currency translation

For the company and those subsidiaries whose balance sheets are denominated in sterling which is the company's functional and presentation currency, 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 consolidated income statement.

The balance sheets of subsidiaries and associates denominated in foreign currencies are translated into sterling at the closing rates. The income statements for these subsidiaries and associates are translated at the average rates and exchange differences arising are taken to equity. Such exchange differences are reclassified to the consolidated income statement in the period in which the subsidiary or associate is disposed of.

(g) Revenue recognition

Interest

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 consolidated income statement using the effective interest rate method.

The effective interest rate 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.

Fees and commissions

Where fees that have not been included within the effective interest rate 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 consolidated 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 "accruals and deferred 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.

Dividends

Dividend income is recognised when the right to receive payment is established.

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) 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 consolidated income statement. The separate reporting of these items helps give an indication of the group's underlying performance.

(i) Financial assets and liabilities (excluding derivatives)
Classification
The group classifies its financial assets into the following measurement categories: (i) financial assets held at fair value through profit or loss; (ii) loans and receivables; (iii) held to maturity; and (iv) available for sale. Financial liabilities are classified as either held at fair value through profit or loss, or at amortised cost using the effective interest method. In 2012, interest accrued on certain financial instruments was reclassified from other assets and other liabilities to be shown together with the respective financial instruments.

Management determines the classification of its financial assets and liabilities at initial recognition.

Financial assets and liabilities held at fair value through profit or loss
This category has two sub-categories: financial assets and liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial asset or liability is classified as trading if acquired principally for the purpose of selling in the short term, which for the group relates to the securities trading businesses.

Financial assets and liabilities may be designated at fair value through profit or loss when:
- The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis;
- A group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis; or
- The assets or liabilities include embedded derivatives and such derivatives are required to be recognised separately.

Financial assets and liabilities held at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value taken directly to the consolidated income statement.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investment will be recovered, other than because of credit deterioration. Loans and receivables are subsequently carried at amortised cost using the effective interest method and recorded net of provisions for impairment losses.

Held to maturity
Held to maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. Held to maturity financial assets are subsequently carried at amortised cost using the effective interest method.

Available for sale
Available for sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates or equity prices. Available for sale financial assets are subsequently carried at fair value, with gains and losses arising from changes in fair value taken to a separate component of equity until the asset is sold, or is impaired, when the cumulative gain or loss is transferred to the consolidated income statement.

The fair values of quoted financial assets or financial liabilities in active markets are based on current prices. If the market for a financial asset or financial liability is not active, or they relate to unlisted securities, the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Derecognition
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the group has retained control, the assets continue to be recognised to the extent of the group's continuing involvement. Financial liabilities are derecognised when they are extinguished.

(j) Impairment of financial assets
The group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as held to maturity, available for sale or loans and receivables is impaired. A financial asset or group of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

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1. Significant accounting policies continued

Financial assets at amortised cost

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables or as held to maturity investments has been incurred, the group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition.

Impairment losses are assessed individually for financial assets that are individually significant and individually or collectively for assets that are not individually significant. In making collective assessment of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics.

For loans and receivables, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the original effective interest rate. As the loan 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 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.

Financial assets carried at fair value

When a decline in the fair value of a financial asset classified as available for sale has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss is removed from equity and recognised in the consolidated income statement. The loss is measured as the difference between the amortised cost of the financial asset and its current fair value. Impairment losses on available for sale equity instruments are not reversed through the consolidated income statement, but those on available for sale debt instruments are reversed, if there is an increase in fair value that is objectively related to a subsequent event.

(k) Settlement accounts

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

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

Loans to money brokers against stock advanced is the cash collateral provided to these institutions for stock borrowing by the group's market-making activities, and is carried at amortised cost. 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 is recorded at the amount payable. Interest is paid on the loans payable.

(m) 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 operating leases and hire purchase contracts are charged to the consolidated income statement in equal annual amounts over the period of the leases.

(n) Sale and repurchase agreements and other secured lending and borrowings

Securities may be sold subject to a commitment to repurchase them. Such securities are retained on the consolidated balance sheet when substantially all the risks and rewards of ownership remain with the group. The transactions are treated as collateralised borrowing and the counterparty liability is included within loans and overdrafts from banks. Similar secured borrowing transactions including securities lending transactions and collateralised short-term notes are treated and presented in the same way. These secured financing transactions are initially recognised at fair value, and subsequently valued at amortised cost, using the effective interest method.

(o) Securitisation transactions

Where the group securitises its own financial assets, this is achieved via the sale of these assets to an SPE, which in turn issues securities to investors. All financial assets continue to be held on the group's consolidated balance sheet and debt securities in issue are recognised for the proceeds of the funding transaction.

(p) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount presented on the consolidated balance sheet if, and only if, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously.

(q) Derivatives and hedge accounting

In general, derivatives are used to minimise the impact of interest, currency rate and equity price changes to the group's financial instruments. They are carried on the consolidated 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, certain derivatives are designated as a hedge and the group formally documents the relationship between these derivatives 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 consolidated 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 consolidated 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 consolidated income statement in the period when the hedged item affects income.

Some contracts ("hybrid contracts") contain both a derivative ("embedded derivative") and a non-derivative ("host contract"). Where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract and the host contract itself is not carried at fair value through profit or loss, the embedded derivative is bifurcated and reported at fair value and gains and losses are recognised in the consolidated income statement.

(r) Intangible assets

Computer software and intangible assets on acquisition (excluding goodwill) are stated at cost less accumulated amortisation and provisions for impairment. Amortisation is calculated to write off their cost on a straight-line basis over the estimated useful lives as follows:

Computer software	20% to 33%
Intangible assets on acquisition	7% to 20%

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is assessed annually for impairment and carried at cost less any accumulated impairment.

(s) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and provisions for impairment. Depreciation is calculated to write off their cost on a straight-line basis over their estimated useful lives as follows:

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

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

(t) Share capital

Share issue costs

Incremental costs directly attributable to the issue of new shares or options including those issued on the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are paid or, if earlier, approved by shareholders.

Treasury shares

Where the company or any member of the group purchases the company's share capital, the consideration paid is deducted from shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

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1. Significant accounting policies continued

(u) Employee benefits

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

Under the defined contribution scheme the group pays fixed contributions into a fund separate from the group's assets. Contributions are charged in the consolidated income statement when they become payable.

Under the defined benefit scheme eligible employees' retirement receipts are defined by factors such as salary, length of service and age. The liabilities of the group's defined benefit scheme, which was closed to new entrants in 1996 and to further accrual in 2012, 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 consolidated 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 obligations less the fair value of plan assets and any unrecognised actuarial gains and losses, is carried on the consolidated balance sheet.

Under the revised IAS 19 "Employee benefits" which will be effective for our 2014 financial year, actuarial gains and losses (remeasurements) can no longer be deferred using the corridor method and must be recognised immediately in other comprehensive income.

(v) Share-based payments to employees

The group operates five share-based award schemes, an annual discretionary performance arrangement (Deferred Annual bonus ("DAB")) and four long-term incentive schemes ("Incentive Schemes"); the Share Matching Plan ("SMP"), the 2009 Long Term Incentive Plan which replaced the 2004 Long Term Incentive Plan ("LTIP"), the 1995 Executive Share Option Scheme ("ESOS") and the Inland Revenue approved Save As You Earn ("SAYE") scheme.

The costs of the DAB 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 consolidated 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 for market based performance conditions are determined using a stochastic (Monte Carlo simulation) pricing model for the SMP and LTIP and the Black-Scholes pricing model for the other schemes. 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. For non-market based performance conditions, 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 consolidated 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 earnings. Further information on the group's schemes is provided in note 32 and in the Report of the Board on Directors' Remuneration.

(w) Provisions and contingent liabilities

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

(x) Taxes, including deferred taxes

Current tax is the expected tax payable on the taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated 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.

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 "Income taxes".

(y) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises cash and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash.

(z) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee which is considered the group's chief operating decision maker. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated on consolidation. Income and expenses directly associated with each segment are included in determining business segment performance.

2. Critical accounting estimates and judgements

The reported results of the group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the directors, in preparing the group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. The group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. The actual outcome may be materially different from that anticipated. The judgements and assumptions involved in the group's accounting policies that are considered by the board to be the most important to the portrayal of its financial condition are as follows:

(a) 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 and its impact can be reliably estimated.

Individual impairment losses are determined as the difference between the carrying value and the present value of estimated future cash flows, discounted at the loans' original effective interest rate. Impairment losses determined on a portfolio basis are calculated using 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.

Estimating the amount and timing of future recoveries involves significant judgement, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral. All impairment losses are reviewed at least annually.

(b) Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Some of the group's financial instruments are carried at fair value, with changes in fair value either reported within the consolidated income statement or within equity until the instrument is sold or becomes impaired. An analysis of financial instruments carried at fair value by valuation hierarchy and particulars of valuation techniques used is included in note 34 and the accounting policy set out in note 1(i).

The fair values of quoted financial instruments in active markets are based on current prices. If the market for a financial instrument, and for unlisted securities, is not active, the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

(c) Effective interest rate

The effective interest rate 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. Models are reviewed at least annually and are reviewed to assess expected lives of groups of assets based upon actual repayment profiles.

(d) 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 CGUs 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.

(e) Share-based awards

The cost of the group's long-term equity based incentive schemes are determined using commonly accepted valuation techniques. Fair values for market-based performance conditions use models which 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. For non-market based performance conditions, 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 vest. Details of the above variables can be found in note 32.

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3. Segmental analysis

The Executive Committee, which is considered to be the group's chief operating decision maker, manages the group by class of business as determined by the products and services offered and presents the segmental analysis on that basis. The group's activities are organised in three primary operating divisions: Banking, Securities and Asset Management. A description of the activities, including products and services offered by these divisions is given in the Corporate Overview. The Group segment includes the group's central functions which comprise Group Executive, Finance, Investor Relations, Legal, Human Resources, Audit, Compliance, Corporate Development, Company Secretariat and Risk. Group administrative expenses include staff costs, legal and professional fees and property costs attributable to the central functions which support and assist the development of the divisions. Income within Group is typically immaterial and will include interest on cash balances at Group. In the segmental reporting information which follows, Group consists of the central functions described above as well as various non-trading head office companies and consolidation adjustments, in order that the information presented reconciles to the overall group consolidated income statement and balance sheet.

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 taking into account commercial demands. More than 90% of all the group's activities, revenue and assets are located in the UK.

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Continuing operations £ million	Discontinued operations £ million	Total £ million
Summary Income Statement for the year ended 31 July 2012							
Net interest income/(expense)	**271.5**	**(0.7)**	**(0.4)**	**0.5**	**270.9**	**–**	**270.9**
Other income/(expense)	**90.0**	**102.1**	**70.0**	**(1.3)**	**260.8**	**–**	**260.8**
Operating income/(expense) before exceptional items	**361.5**	**101.4**	**69.6**	**(0.8)**	**531.7**	**–**	**531.7**
Administrative expenses	**(153.4)**	**(74.7)**	**(73.0)**	**(19.4)**	**(320.5)**	**–**	**(320.5)**
Depreciation and amortisation	**(15.5)**	**(2.2)**	**(0.9)**	**(0.8)**	**(19.4)**	**–**	**(19.4)**
Impairment losses on loans and advances	**(57.6)**	**–**	**–**	**–**	**(57.6)**	**–**	**(57.6)**
Total operating expenses before exceptional items	**(226.5)**	**(76.9)**	**(73.9)**	**(20.2)**	**(397.5)**	**–**	**(397.5)**
Adjusted operating profit/(loss)[1]	**135.0**	**24.5**	**(4.3)**	**(21.0)**	**134.2**	**–**	**134.2**
Exceptional items	**–**	**5.6**	**–**	**–**	**5.6**	**–**	**5.6**
Goodwill impairment	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Amortisation of intangible assets on acquisition	**(0.6)**	**–**	**(4.3)**	**–**	**(4.9)**	**–**	**(4.9)**
Loss on disposal of discontinued operations	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Operating profit/(loss) before tax	**134.4**	**30.1**	**(8.6)**	**(21.0)**	**134.9**	**–**	**134.9**
Tax	**(36.1)**	**(4.9)**	**4.4**	**3.1**	**(33.5)**	**–**	**(33.5)**
Non-controlling interests	**(1.5)**	**–**	**–**	**(0.2)**	**(1.7)**	**–**	**(1.7)**
Profit/(loss) after tax and non-controlling interests	**96.8**	**25.2**	**(4.2)**	**(18.1)**	**99.7**	**–**	**99.7**
External operating income/(expense)	**374.1**	**101.4**	**71.4**	**(15.2)**	**531.7**	**–**	**531.7**
Inter segment operating (expense)/income	**(12.6)**	**–**	**(1.8)**	**14.4**	**–**	**–**	**–**
Segment operating income/(expense)	**361.5**	**101.4**	**69.6**	**(0.8)**	**531.7**	**–**	**531.7**

1 Adjusted operating profit/(loss) is stated before exceptional items, goodwill impairment, amortisation of intangible assets on acquisition and tax.

The following table provides further detail on group wide operating income:

	2012 £ million	2011 £ million
Banking		
Retail	**144.9**	128.8
Commercial	**161.1**	140.6
Property	**48.0**	42.9
Treasury and other non-lending income	**7.5**	13.7
Securities		
Market-making and related activities	**101.4**	158.7
Asset Management[1]		
Advice and other services	**30.6**	17.5
Investment management	**37.9**	40.9
Other income	**1.1**	5.4
Group	**(0.8)**	–
Operating income before exceptional items (continuing operations)	**531.7**	548.5
Discontinued operations	**–**	31.5
Operating income before exceptional items	**531.7**	580.0

1 Prior year income numbers have been re-presented to reflect key management's focus on the managed and advised private client business.

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Summary Balance Sheet at 31 July 2012					
Assets					
Cash and loans and advances to banks	**789.7**	**14.8**	**11.9**	**0.4**	**816.8**
Settlement balances, long trading positions and loans to money brokers[1]	**–**	**598.5**	**–**	**–**	**598.5**
Loans and advances to customers	**4,125.9**	**–**	**–**	**–**	**4,125.9**
Non-trading debt securities	**353.0**	**–**	**–**	**–**	**353.0**
Investment in associate	**–**	**21.8**	**–**	**–**	**21.8**
Intangible assets	**44.2**	**28.6**	**66.8**	**0.1**	**139.7**
Other assets	**233.4**	**16.8**	**30.0**	**19.9**	**300.1**
Intercompany balances	**–**	**–**	**–**	**–**	**–**
Total assets	**5,546.2**	**680.5**	**108.7**	**20.4**	**6,355.8**
Liabilities					
Settlement balances, short trading positions and loans from money brokers	**–**	**501.7**	**–**	**–**	**501.7**
Deposits by banks	**88.0**	**–**	**–**	**–**	**88.0**
Deposits by customers	**3,443.1**	**5.0**	**–**	**–**	**3,448.1**
Borrowings	**1,115.7**	**2.1**	**–**	**204.5**	**1,322.3**
Other liabilities	**136.8**	**33.7**	**42.2**	**13.2**	**225.9**
Intercompany balances	**267.3**	**49.2**	**33.9**	**(350.4)**	**–**
Total liabilities	**5,050.9**	**591.7**	**76.1**	**(132.7)**	**5,586.0**
Equity	**495.3**	**88.8**	**32.6**	**153.1**	**769.8**
Total liabilities and equity	**5,546.2**	**680.5**	**108.7**	**20.4**	**6,355.8**
Other segmental information for the year ended 31 July 2012					
Property, plant, equipment and intangible asset expenditure	**46.8**	**0.8**	**4.5**	**–**	**52.1**
Employees (average number)	**1,565**	**288**	**558**	**67**	**2,478**

1 £39.6 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" in the Consolidated Balance Sheet.

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3. Segmental analysis continued

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Continuing operations £ million	Discontinued operations £ million	Total £ million
Summary Income Statement for the year ended 31 July 2011							
Net interest income/(expense)	230.2	(0.4)	0.8	0.3	230.9	5.6	236.5
Other income/(expense)	95.8	159.1	63.0	(0.3)	317.6	25.9	343.5
Operating income before exceptional items	326.0	158.7	63.8	–	548.5	31.5	580.0
Administrative expenses	(142.2)	(101.8)	(72.0)	(20.6)	(336.6)	(28.4)	(365.0)
Depreciation and amortisation	(12.3)	(2.1)	(0.4)	(0.7)	(15.5)	(1.1)	(16.6)
Impairment losses on loans and advances	(65.2)	–	–	–	(65.2)	–	(65.2)
Total operating expenses before exceptional items	(219.7)	(103.9)	(72.4)	(21.3)	(417.3)	(29.5)	(446.8)
Adjusted operating profit/(loss)[1]	106.3	54.8	(8.6)	(21.3)	131.2	2.0	133.2
Exceptional items	–	(36.0)	(15.4)	4.5	(46.9)	–	(46.9)
Goodwill impairment	–	–	(3.7)	–	(3.7)	(4.5)	(8.2)
Amortisation of intangible assets on acquisition	(0.6)	–	(1.5)	–	(2.1)	–	(2.1)
Loss on disposal of discontinued operations	–	–	–	–	–	(24.9)	(24.9)
Operating profit/(loss) before tax	105.7	18.8	(29.2)	(16.8)	78.5	(27.4)	51.1
Tax	(28.6)	(15.2)	5.2	3.5	(35.1)	(0.2)	(35.3)
Non-controlling interests	(0.7)	–	–	–	(0.7)	(0.5)	(1.2)
Profit/(loss) after tax and non-controlling interests	76.4	3.6	(24.0)	(13.3)	42.7	(28.1)	14.6
External operating income/(expense)	347.6	158.7	65.0	(15.3)	556.0	24.0	580.0
Inter segment operating (expense)/income	(21.6)	–	(1.2)	15.3	(7.5)	7.5	–
Segment operating income	326.0	158.7	63.8	–	548.5	31.5	580.0

1 Adjusted operating profit/(loss) is stated before exceptional items, goodwill impairment, amortisation of intangible assets on acquisition, loss on disposal of discontinued operations and tax.

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Summary Balance Sheet at 31 July 2011					
Assets					
Cash and loans and advances to banks	668.4	24.7	15.1	1.1	709.3
Settlement balances, long trading positions and loans to money brokers[1]	–	706.9	–	–	706.9
Loans and advances to customers	3,435.3	–	–	–	3,435.3
Non-trading debt securities	810.2	–	–	–	810.2
Investment in associate	–	33.4	–	–	33.4
Intangible assets	41.1	26.3	65.5	0.2	133.1
Other assets	219.0	20.4	27.5	13.5	280.4
Intercompany balances	1.3	(23.8)	8.2	14.3	–
Total assets	5,175.3	787.9	116.3	29.1	6,108.6
Liabilities					
Settlement balances, short trading positions and loans from money brokers	–	585.4	–	–	585.4
Deposits by banks	192.8	–	–	–	192.8
Deposits by customers	3,167.4	3.1	–	–	3,170.5
Borrowings	790.4	0.5	1.7	333.1	1,125.7
Other liabilities	171.5	66.8	51.3	16.3	305.9
Intercompany balances	405.7	35.3	25.2	(466.2)	–
Total liabilities	4,727.8	691.1	78.2	(116.8)	5,380.3
Equity	447.5	96.8	38.1	145.9	728.3
Total liabilities and equity	5,175.3	787.9	116.3	29.1	6,108.6
Other segmental information for the year ended 31 July 2011					
Property, plant, equipment and intangible asset expenditure	35.4	3.1	63.0	0.2	101.7
Employees (average number)	1,563	276	736	72	2,647

1 £42.6 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" in the Consolidated Balance Sheet.

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4. Operating profit before tax

	2012 £ million	2011 £ million
Interest income		
Cash and balances with central banks	**3.1**	2.7
Loans and advances to banks	**0.2**	0.3
Loans and advances to customers	**395.5**	336.1
Other interest income	**13.4**	21.4
	412.2	360.5
Interest expense		
Deposits from banks	**2.0**	8.3
Deposits by customers	**75.1**	72.5
Borrowings	**61.7**	42.0
Other interest expense	**2.5**	6.8
	141.3	129.6
Net interest income	**270.9**	230.9

	2012 £ million	2011 £ million
Fee and commission income		
Banking	**77.2**	83.5
Asset Management	**74.4**	68.8
Securities	**15.4**	23.6
	167.0	175.9
Fee and commission expense	**(21.1)**	(19.2)
Net fee and commission income	**145.9**	156.7

Fee income and expense (other than amounts calculated using the effective interest rate method) on financial instruments that are not at fair value through profit or loss were £77.2 million (2011: £79.0 million) and £13.3 million (2011: £7.5 million) respectively.

Fee income and expense arising from trust and other fiduciary activities amounted to £74.4 million (2011: £67.2 million) and £6.8 million (2011: £9.6 million) respectively.

	2012 £ million	2011 £ million
Administrative expenses		
Staff costs:		
Wages and salaries	**167.7**	184.9
Social security costs	**21.5**	20.8
Share-based awards	**3.5**	4.5
Pension costs	**5.2**	6.6
	197.9	216.8
Depreciation and amortisation	**19.4**	15.5
Other administrative expenses	**122.6**	119.8
	339.9	352.1

Operating lease rentals payable, of which £1.1 million (2011: £1.0 million) relate to plant and machinery, amounted to £10.3 million (2011: £8.5 million).

5. Exceptional items

	2012 £ million	2011 £ million
Disposal of Mako	**5.6**	(36.0)
Investment gains	**–**	4.5
Restructuring costs	**–**	(15.4)
	5.6	(46.9)

On 16 September 2011, the group announced the phased sale of its 49.9% investment in Mako to the Mako management team. As an adjusting post balance sheet event at 31 July 2011 the £36.0 million impairment reflects the present value of the expected proceeds of the sale agreement and future dividends, based on historical levels of profitability, discounted using a discount rate of 15%. The first phase of the sale completed on 31 October 2011 reducing the holding to 33.3%. The second phase of the sale completed on 30 April 2012 reducing the holding to 27.3%. The £5.6 million exceptional income in the year to 31 July 2012 principally reflects realised foreign exchange gains on the partial disposal. For further details on our Investment in associate, see note 28.

In the year to 31 July 2011 investment gains relates to the group's redemption of its investment in Pelagus Capital Fund Inc. and restructuring costs relate to the transformation of the Asset Management division including acquisition and disposal related expenses and severance payments.

The tax impact of the exceptional items is £nil (2011: credit of £1.2 million).

6. Information regarding the auditor

	2012 £ million	2011 £ million
Fees payable		
Audit of the company's annual accounts	**0.2**	0.1
Audit of the company's subsidiaries pursuant to legislation	**1.1**	1.1
Other services pursuant to legislation	**0.1**	0.1
Tax services	**0.2**	0.3
Other services	**0.3**	1.1
	1.9	2.7

The auditor of the group is Deloitte LLP.

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7. Tax expense

	2012 £ million	2011 £ million
Tax charged/(credited) to the income statement		
Current tax:		
UK corporation tax	**34.9**	38.7
Foreign tax	**0.5**	3.0
Adjustments in respect of previous years	**(0.5)**	(4.7)
	34.9	37.0
Deferred tax:		
Deferred tax credit for the current year	**(1.5)**	(5.5)
Adjustments in respect of previous years	**0.1**	3.6
Tax charge	**33.5**	35.1
Tax on items not charged/(credited) to the income statement		
Current tax relating to:		
Financial instruments classified as available for sale	**3.3**	0.4
Share-based transactions	**(0.3)**	(0.7)
Deferred tax relating to:		
Cash flow hedging	**(0.6)**	0.6
Financial instruments classified as available for sale	**(0.2)**	–
Share-based transactions	**0.3**	(0.3)
	2.5	–
Reconciliation to tax expense		
UK corporation tax for the year at 25.3% (2011: 27.3%) on operating profit	**34.2**	21.5
Impairment of goodwill, associate and investment assets	**0.3**	10.9
Gain on sale of subsidiary and associate	**(1.1)**	–
Effect of different tax rates in other jurisdictions	**(0.8)**	(0.9)
Share of associate consolidated at profit after tax	**(1.8)**	(0.7)
Disallowable items and other permanent differences	**0.9**	2.7
Deferred tax impact of reduced UK corporation tax rate	**2.2**	2.7
Prior year tax provision	**(0.4)**	(1.1)
	33.5	35.1

The effective tax rate for the year is 24.8% (2011: 44.7%) which is slightly below the UK corporation tax rate of 25.3% (2011: 27.3%). The effective tax rate is reduced by inclusion of the share of profit of associate in the Consolidated Income Statement on an after tax basis, net lower tax rates applied to profit arising outside the UK and a non-taxable gain on the sale of a subsidiary and an associate. These effects are mostly offset by increases in the effective tax rate from a reduction in the deferred tax asset due to a reduction in the standard UK corporation tax rate applicable for future periods and disallowable expenditure.

8. Discontinued operations

There were no discontinued operations in the 2012 financial year.

On 1 June 2011, the group completed the sale of its UK offshore trust, fund administration, asset management and banking business, which was a part of the Asset Management division, to Kleinwort Benson Channel Islands Holdings Limited for cash consideration of £26.2 million. The loss on disposal was £25.8 million.

On 1 June 2011, the group completed the sale of its Cayman Islands trust, fiduciary services, fund administration and banking business, which was a part of the Asset Management division, to Intertrust Group Holding SA for cash consideration of US$30.0 million (approximately £18.3 million). The profit on disposal was £0.9 million.

The UK offshore business and the Cayman Islands business fulfilled the requirements of IFRS 5 to be classified as "Discontinued operations" in the Consolidated Income Statement, the results of which are set out below:

	2012 £ million	2011 £ million
Results of discontinued operations		
Operating income	**–**	31.5
Operating expenses	**–**	(29.5)
Goodwill impairment	**–**	(4.5)
Operating loss before tax	**–**	(2.5)
Tax	**–**	(0.2)
Loss after tax	**–**	(2.7)
Loss on disposal of discontinued operations, net of tax	**–**	(24.9)
Loss for the period from discontinued operations	**–**	(27.6)

	2012 £ million	2011 £ million
Cash flow from discontinued operations		
Net cash flow from operating activities	**–**	4.0
Net cash flow from investing activities	**–**	(1.9)
Net cash flow from financing activities	**–**	(0.4)

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9. Acquisitions

2012 acquisitions

On 31 October 2011, the group acquired 100% of Scott-Moncrieff Wealth Management Limited, a Scottish Independent Financial Adviser ("IFA") with £278 million of client assets, for cash consideration of £4.1 million for the equity of the business and £0.6 million for cash on the balance sheet.

This acquisition is not regarded as material in the context of the group's financial statements and therefore the information that would be required for material acquisitions by IFRS 3 has not been disclosed.

2011 acquisitions

On 10 September 2010 the group acquired 100% of Chartwell Group Limited, an IFA with £705 million of client assets, for consideration of £16.9 million, including £2.3 million for the settlement of third party debt, recognising goodwill of £11.7 million and intangibles of £7.9 million.

On 18 February 2011 the group acquired 100% of Allenbridge Group plc, a London based execution only retail broker with £440 million of client assets, for consideration of £5.4 million, including £0.8 million for the settlement of third party debt, recognising goodwill of £1.9 million and intangibles of £4.1 million.

On 31 May 2011 the group acquired 100% of Cavanagh Group plc, an IFA with £1.5 billion of client assets, for consideration of £27.1 million, including £20.0 million in cash and £7.1 million equity, recognising goodwill of £12.4 million and intangibles of £20.2 million. The £7.1 million equity consideration was satisfied by the issue of 836,898 shares determined on the basis of the closing price of the company shares on 31 March 2011 of 845p per share.

None of these acquisitions is considered to be individually material. Details of the net assets acquired are set out in aggregate below:

	On acquisition £ million	Fair value adjustments £ million	Adjusted fair value £ million
Assets			
Cash and cash equivalents	3.3	–	3.3
Intangible assets	13.8	18.4	32.2
Property, plant and equipment	0.4	–	0.4
Deferred tax assets	0.2	–	0.2
Prepayments and accrued income	0.4	–	0.4
Other assets	2.4	–	2.4
Total assets	20.5	18.4	38.9
Liabilities			
Bank loans and overdrafts	(1.8)	–	(1.8)
Deferred tax on intangible assets	(0.5)	(7.5)	(8.0)
Current tax liabilities	(0.1)	–	(0.1)
Other liabilities	(8.0)	(0.7)	(8.7)
Total liabilities	(10.4)	(8.2)	(18.6)
Net assets acquired	10.1	10.2	20.3
Purchase consideration			
Cash paid			39.2
Equity instruments (836,898 ordinary shares)			7.1
			46.3
Fair value of net assets acquired			20.3
Goodwill arising on acquisition			26.0

Prior year acquisition related costs of £1.2 million are included within restructuring costs in exceptional items, see note 5.

The principal factors contributing to the recognition of goodwill on these acquisitions are synergies expected to arise from the integration with the group. The primary reason for the acquisitions is to accelerate the group's strategy to create a leading UK wealth and asset management business.

The operating results of these acquisitions have been included from the dates acquired and, since acquisition, contributed £7.9 million to operating income and £0.8 million, including £0.2 million of exceptional expenses, to operating profit before tax in the 2011 financial year.

10. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders and the number of basic weighted average shares. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the effects of all dilutive share options and awards.

	2012	2011
Earnings per share		
Continuing operations[1]		
Basic	**68.6p**	29.6p
Diluted	**67.5p**	29.0p
Adjusted basic[2]	**67.3p**	64.8p
Adjusted diluted[2]	**66.3p**	63.6p
Continuing and discontinued operations		
Basic	**68.6p**	10.1p
Diluted	**67.5p**	9.9p

1 Excludes the effect of the UK offshore and Cayman Islands businesses which were disposed of in June 2011 and have been classified as discontinued operations.
2 Excludes discontinued operations, exceptional items, goodwill impairment, amortisation of intangible assets on acquisition and their tax effects.

	2012 £ million	2011 £ million
Profit attributable to shareholders	**99.7**	14.6
Loss for the period from discontinued operations including non-controlling interests	**–**	(28.1)
Profit attributable to shareholders on continuing operations	**99.7**	42.7
Adjustments:		
Exceptional items	**(5.6)**	46.9
Goodwill impairment	**–**	3.7
Amortisation of intangible assets on acquisition	**4.9**	2.1
Tax effect of adjustments	**(1.1)**	(1.7)
Adjusted profit attributable to shareholders on continuing operations	**97.9**	93.7

	2012 million	2011 million
Average number of shares		
Basic weighted	**145.4**	144.5
Effect of dilutive share options and awards	**2.2**	2.9
Diluted weighted	**147.6**	147.4

The basic earnings per share from discontinued operations is nil (2011: loss of 19.4p) and the diluted earnings per share from discontinued operations is nil (2011: loss of 19.1p).

Adjusted basic earnings per share on a continuing and discontinued operations basis was 67.3p (2011: 65.7p), based on adjusted profit attributable to shareholders on continuing and discontinued operations of £97.9 million (2011: £95.0 million).

11. Dividends

	2012 £ million	2011 £ million
For each ordinary share		
Final dividend for previous financial year paid in November 2011: 26.5p (2010: 25.5p)	**38.1**	36.4
Interim dividend for current financial year paid in April 2012: 14.0p (2011: 13.5p)	**20.2**	19.3
	58.3	55.7

A final dividend relating to the year ended 31 July 2012 of 27.5p, amounting to an estimated £39.7 million, is proposed. This final dividend, which is due to be paid on 27 November 2012, is not reflected in these financial statements.

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12. Loans and advances to banks

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Total £ million
At 31 July 2012	**95.8**	**3.2**	**3.5**	**7.5**	**110.0**
At 31 July 2011	109.9	3.4	1.5	–	114.8

13. Loans and advances to customers

	On demand £ 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	Impairment provisions £ million	Total £ million
At 31 July 2012	**25.4**	**1,146.1**	**1,352.6**	**777.9**	**861.3**	**32.9**	**(70.3)**	**4,125.9**
At 31 July 2011	32.7	1,060.7	1,143.7	620.8	658.3	12.8	(93.7)	3,435.3

	2012 £ million	2011 £ million
Impairment provisions on loans and advances to customers		
At 1 August	**93.7**	87.1
Charge for the year	**57.6**	65.2
Amounts written off net of recoveries	**(81.0)**	(58.6)
Impairment provisions at 31 July	**70.3**	93.7
Loans and advances to customers comprise		
Hire purchase agreement receivables	**1,725.6**	1,380.2
Finance lease receivables	**362.7**	288.0
Other loans and advances	**2,037.6**	1,767.1
	4,125.9	3,435.3

At 31 July 2012, gross impaired loans were £233.6 million (31 July 2011: £314.1 million) and equate to 6% (31 July 2011: 9%) of the gross loan book before impairment provisions. The majority of the group's lending is secured and therefore the gross impaired loans quoted do not reflect the expected loss.

The following table shows a reconciliation between gross investment in finance lease and hire purchase agreement receivables to present value of minimum lease and hire purchase payments:

	2012 £ million	2011 £ million
Gross investment in finance leases and hire purchase agreement receivables due:		
Within one year	**939.2**	762.4
Between one and five years	**1,522.3**	1,230.3
After more than five years	**12.4**	4.2
	2,473.9	1,996.9
Unearned finance income	**(369.3)**	(305.5)
Present value of minimum lease and hire purchase agreement payments	**2,104.6**	1,691.4
Of which due:		
Within one year	**774.8**	626.2
Between one and five years	**1,318.3**	1,061.3
After more than five years	**11.5**	3.9
	2,104.6	1,691.4

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £3,520.0 million (2011: £2,810.2 million). The average effective interest rate on finance leases approximates to 11.6% (2011: 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.

14. Debt securities

	Held for trading £ million	Available for sale £ million	Loans and receivables £ million	Total £ million
Long trading positions in debt securities	**53.4**	**–**	**–**	**53.4**
Certificates of deposit	**–**	**–**	**130.3**	**130.3**
Floating rate notes	**–**	**122.6**	**–**	**122.6**
Gilts	**–**	**100.1**	**–**	**100.1**
At 31 July 2012	**53.4**	**222.7**	**130.3**	**406.4**

	Held for trading £ million	Available for sale £ million	Loans and receivables £ million	Total £ million
Long trading positions in debt securities	42.6	–	–	42.6
Certificates of deposit	–	–	284.5	284.5
Floating rate notes	–	296.9	–	296.9
Gilts	–	228.8	–	228.8
At 31 July 2011	42.6	525.7	284.5	852.8

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

	2012		2011	
	Book value £ million	**Fair value £ million**	Book value £ million	Fair value £ million
Certificates of deposit classified as loans and receivables	**130.3**	**130.3**	284.5	284.6

Movements on the book value of gilts and floating rate notes comprise:

	Gilts	Floating rate notes		
	Available for sale £ million	Available for sale £ million	Held to maturity £ million	Total £ million
At 1 August 2010	285.6	615.4	9.0	910.0
Additions	45.0	–	–	45.0
Disposals	(45.0)	(274.0)	(9.0)	(328.0)
Redemptions at maturity	(50.2)	(55.0)	–	(105.2)
Currency translation differences	–	4.6	–	4.6
Changes in fair value of financial instruments classified as available for sale	(6.6)	5.9	–	(0.7)
At 31 July 2011	228.8	296.9	–	525.7
Additions	–	–	–	–
Disposals	–	(12.6)	–	(12.6)
Redemptions at maturity	(125.0)	(163.4)	–	(288.4)
Currency translation differences	–	(8.9)	–	(8.9)
Changes in fair value of financial instruments classified as available for sale	(3.7)	10.6	–	6.9
At 31 July 2012	**100.1**	**122.6**	**–**	**222.7**

At 31 July 2012, £48.7 million (31 July 2011: £166.1 million) of floating rate notes ("FRNs") were due to mature within one year and £19.2 million (31 July 2011: £20.9 million) have been issued by corporates with the remainder issued by banks and building societies.

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15. Equity shares

	2012 £ million	2011 £ million
Equity shares classified as held for trading	**34.4**	37.9
Other equity shares	**18.5**	19.2
	52.9	57.1

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

	Available for sale £ million	Fair value through profit or loss £ million	Total £ million
At 1 August 2010	22.7	5.7	28.4
Additions	–	0.5	0.5
Disposals	(10.9)	(4.5)	(15.4)
Currency translation differences	0.6	–	0.6
Changes in fair value of:			
Equity shares classified as available for sale	2.0	–	2.0
Unlisted equity shares held at fair value	–	3.1	3.1
At 31 July 2011	14.4	4.8	19.2
Additions	–	0.3	0.3
Disposals	–	(0.2)	(0.2)
Currency translation differences	(0.5)	–	(0.5)
Changes in fair value of:			
Equity shares classified as available for sale	(0.6)	–	(0.6)
Unlisted equity shares held at fair value	–	0.3	0.3
At 31 July 2012	**13.3**	**5.2**	**18.5**

16. Derivative financial instruments

The group's total derivative asset and liability position as reported on the Consolidated Balance Sheet is as follows:

	2012			2011		
	Notional value £ million	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	**114.6**	**4.3**	**1.2**	158.2	6.0	1.2
Interest rate contracts	**3,537.0**	**19.2**	**12.8**	2,540.6	11.0	10.9
Equity derivatives	**425.2**	**27.1**	**30.2**	596.9	28.2	33.2
	4,076.8	**50.6**	**44.2**	3,295.7	45.2	45.3

Equity derivatives relate to the asset acquisition in July 2011 of the retail structured term deposit book of Dunbar Bank plc, a member of the Zurich Financial Services Group.

Notional amounts of interest rate contracts totalling £2,515.3 million (2011: £1,470.7 million) and exchange rate contracts totalling £39.3 million (2011: £43.0 million) have a residual maturity of more than one year. The notional amounts of equity and associated embedded derivatives with a residual maturity of more than one year total £300.8 million (2011: £454.8 million). The group enters into derivative contracts with a number of financial institutions as a principal only to minimise the impact of interest and currency rate changes to its financial instruments.

Included in the derivatives above are the following IAS 39 cash flow hedges and IAS 39 fair value hedges:

	2012			2011		
	Notional value £ million	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Cash flow hedges						
Interest rate contracts	**1,256.8**	**0.4**	**7.5**	959.0	0.1	4.2
Fair value hedges						
Interest rate contracts	**1,038.4**	**16.9**	**4.1**	1,216.9	10.2	6.2

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 seven (2011: six) years; there was immaterial ineffectiveness. The cash flow hedge amounts that were removed from equity and included in the Consolidated Income Statement for the years ended 31 July 2012 and 2011 were immaterial. The amount recognised in equity for cash flow hedges during the year was a £2.3 million debit (2011: £0.6 million credit).

The fair value hedges hedge the interest rate risk in recognised financial instruments; the loss on the hedged items was £3.8 million (2011: loss of £1.1 million) which was largely offset by the £3.7 million gain (2011: £1.3 million gain) on the hedging instrument.

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17. Intangible assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Group total £ million	Company software £ million
Cost					
At 1 August 2010	171.2	26.5	7.0	204.7	0.2
Additions	–	7.2	–	7.2	0.1
Acquisitions	26.0	–	32.2	58.2	–
Disposals	(35.7)	(8.4)	–	(44.1)	(0.1)
Foreign exchange	0.3	–	–	0.3	–
At 31 July 2011	161.8	25.3	39.2	226.3	0.2
Additions	–	13.9	–	13.9	–
Acquisitions	2.3	–	3.3	5.6	–
Disposals	(7.6)	(0.5)	(0.1)	(8.2)	–
Foreign exchange	(0.5)	–	–	(0.5)	–
At 31 July 2012	**156.0**	**38.7**	**42.4**	**237.1**	**0.2**
Amortisation and impairment					
At 1 August 2010	75.6	20.7	0.9	97.2	–
Amortisation charge for the year	–	1.9	2.1	4.0	–
Disposals	(6.5)	(5.2)	–	(11.7)	–
Impairment charge	3.7	–	–	3.7	–
At 31 July 2011	72.8	17.4	3.0	93.2	–
Amortisation charge for the year	–	4.3	4.9	9.2	0.1
Disposals	(4.8)	(0.2)	–	(5.0)	–
Impairment charge	–	–	–	–	–
At 31 July 2012	**68.0**	**21.5**	**7.9**	**97.4**	**0.1**
Net book value at 31 July 2012	**88.0**	**17.2**	**34.5**	**139.7**	**0.1**
Net book value at 31 July 2011	89.0	7.9	36.2	133.1	0.2
Net book value at 1 August 2010	95.6	5.8	6.1	107.5	0.2

Intangible assets on acquisition relates to broker and customer relationships. The increase of £3.3 million in 2012 primarily relates to the acquisition of Scott-Moncrieff Wealth Management Limited (2011: £32.2 million relates to the acquisitions of Chartwell Group Limited, Allenbridge Group plc and Cavanagh Group plc).

In the 2012 financial year, £4.9 million (2011: £2.1 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £4.3 million (2011: £1.9 million) of the amortisation charge is included in administrative expenses in the Consolidated Income Statement.

Impairment tests for goodwill

At 31 July 2012, goodwill has been allocated to ten individual CGUs, which are all at a lower level than the three operating divisions. Seven of these CGUs are within the Banking division; two are within the Securities division and the remaining one is within the Asset Management 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 2011 £ million	Acquisitions £ million	Disposals £ million	Impairment £ million	Foreign exchange £ million	**31 July 2012 £ million**
Winterflood Securities	23.3	–	–	–	–	**23.3**
Close Asset Management	31.2	2.3	–	–	–	**33.5**
Close Asset Finance	7.4	–	–	–	–	**7.4**
Other	27.1	–	(2.8)	–	(0.5)	**23.8**
	89.0	2.3	(2.8)	–	(0.5)	**88.0**

Goodwill impairment reviews are carried out at least annually by assessing the net recoverable value of the group's CGUs, which is the higher of fair value less costs to sell and value in use. A value in use calculation typically uses discounted cash flow projections 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 was calculated using an annual growth rate of 2%, except where a lower rate is considered more appropriate when considering the future prospects and performance of the individual CGU. The resulting cash flows were then discounted using the group's post-tax estimated weighted average cost of capital of 9.0% (11.6% pre-tax) as a base and adjusted for each division. A pre-tax rate of 14.0% was used for Banking, 13.2% for Asset Management and 11.2% for the Securities division, respectively. The cash flows used in these value in use calculations are sensitive to the impact of changes in the assumptions for profit before tax, discount rates, and long-term growth rates. 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.

As a result of the transformation undertaken within the Asset Management division, an impairment charge of £3.7 million was recognised in the Asset Management division for the year ended 31 July 2011.

18. 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 1 August 2010	7.7	52.8	43.6	1.8	105.9
Additions	0.9	8.4	26.8	0.2	36.3
Disposals	(2.0)	(12.8)	(10.0)	(0.5)	(25.3)
At 31 July 2011	6.6	48.4	60.4	1.5	116.9
Additions	2.5	5.8	29.4	0.5	38.2
Disposals	(0.6)	(11.7)	(12.8)	(1.0)	(26.1)
At 31 July 2012	**8.5**	**42.5**	**77.0**	**1.0**	**129.0**
Depreciation					
At 1 August 2010	3.6	39.6	15.4	1.1	59.7
Charge for the year	0.4	5.7	7.2	0.3	13.6
Disposals	(1.6)	(10.2)	(6.2)	(0.6)	(18.6)
At 31 July 2011	2.4	35.1	16.4	0.8	54.7
Charge for the year	1.0	4.8	9.0	0.3	15.1
Disposals	–	(8.1)	(7.2)	(0.5)	(15.8)
At 31 July 2012	**3.4**	**31.8**	**18.2**	**0.6**	**54.0**
Net book value at 31 July 2012	**5.1**	**10.7**	**58.8**	**0.4**	**75.0**
Net book value at 31 July 2011	4.2	13.3	44.0	0.7	62.2
Net book value at 1 August 2010	4.1	13.2	28.2	0.7	46.2

	2012 £ million	2011 £ million
Future minimum lease rentals receivable under non-cancellable operating leases		
Within one year	**13.3**	8.3
Between one and five years	**23.7**	15.1
After more than five years	**0.9**	0.3
	37.9	23.7

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18. Property, plant and equipment continued

	Land and buildings £ million	Fixtures, fittings and equipment £ million	Motor vehicles £ million	Total £ million
Company				
Cost				
At 1 August 2010	2.5	2.0	0.1	4.6
Additions	0.1	0.1	–	0.2
Disposals	–	(0.8)	–	(0.8)
At 31 July 2011	2.6	1.3	0.1	4.0
Additions	–	–	–	–
Disposals	–	–	(0.1)	(0.1)
At 31 July 2012	**2.6**	**1.3**	**–**	**3.9**
Depreciation				
At 1 August 2010	0.5	0.9	–	1.4
Charge for the year	0.3	0.3	0.1	0.7
Disposals	–	(0.5)	–	(0.5)
At 31 July 2011	0.8	0.7	0.1	1.6
Charge for the year	0.4	0.3	–	0.7
Disposals	–	–	(0.1)	(0.1)
At 31 July 2012	**1.2**	**1.0**	**–**	**2.2**
Net book value at 31 July 2012	**1.4**	**0.3**	**–**	**1.7**
Net book value at 31 July 2011	1.8	0.6	–	2.4
Net book value at 1 August 2010	2.0	1.1	0.1	3.2

The net book value of land and buildings comprises:

	Group		Company	
	2012 £ million	2011 £ million	**2012 £ million**	2011 £ million
Long leasehold	**1.0**	1.4	**–**	–
Short leasehold	**4.1**	2.8	**1.4**	1.8
	5.1	4.2	**1.4**	1.8

19. Deferred tax assets

	Group		Company	
	2012 £ million	2011 £ million	**2012 £ million**	2011 £ million
Capital allowances	**26.0**	25.3	**0.3**	0.3
Employee benefits	**7.1**	10.2	**1.8**	2.4
Unrealised capital gains	**(1.7)**	(1.9)	**–**	–
Other	**(3.4)**	(6.9)	**–**	–
	28.0	26.7	**2.1**	2.7

Movement in the year:

	Group £ million	Company £ million
At 1 August 2010	32.8	3.3
Credit/(expense) to the income statement	1.9	(0.6)
Acquisition of intangible assets	(8.0)	–
Equity movements	(0.3)	–
Other movements	0.3	–
At 31 July 2011	26.7	2.7
Credit/(expense) to the income statement	1.4	(0.9)
Acquisition of intangible assets	(0.6)	–
Equity movements	0.5	0.3
Other movements	–	–
At 31 July 2012	**28.0**	**2.1**

As the group has been and is expected to continue to be consistently profitable, it is appropriate to recognise the full deferred tax asset.

20. Other assets and other liabilities

	2012 £ million	2011 £ million
Prepayments, accrued income and other assets		
Prepayments and accrued income	**81.1**	90.5
Trade debtors	**18.6**	13.6
Other	**28.3**	23.0
	128.0	127.1
Accruals, deferred income and other liabilities		
Accruals and deferred income	**83.2**	119.6
Creditors	**51.8**	90.4
Provisions	**21.6**	23.2
Other	**25.1**	27.4
	181.7	260.6

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20. Other assets and other liabilities continued
Provisions movement in the year:

	Claims £ million	Property £ million	Restructuring £ million	Other £ million	Total £ million
Group					
At 1 August 2010	2.8	6.6	–	4.6	14.0
Additions	1.4	7.6	4.6	2.9	16.5
Utilised	–	(0.5)	–	(1.6)	(2.1)
Released	(2.5)	(1.9)	–	(0.8)	(5.2)
At 31 July 2011	1.7	11.8	4.6	5.1	23.2
Additions	0.5	3.7	–	5.1	9.3
Utilised	(1.0)	(1.8)	(3.7)	(2.8)	(9.3)
Released	(0.3)	(1.3)	–	–	(1.6)
At 31 July 2012	**0.9**	**12.4**	**0.9**	**7.4**	**21.6**

	Property £ million	Other £ million	Total £ million
Company			
At 1 August 2010	3.7	3.7	7.4
Additions	–	1.5	1.5
Utilised	–	(1.6)	(1.6)
Released	(0.6)	–	(0.6)
At 31 July 2011	3.1	3.6	6.7
Additions	0.1	3.1	3.2
Utilised	–	(1.0)	(1.0)
Released	–	–	–
At 31 July 2012	**3.2**	**5.7**	**8.9**

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. Property provisions are in respect of leaseholds where rents payable exceed the value to the group, in respect of potential dilapidations and onerous leases. These property provisions will be utilised and released over the remaining lives of the leases which range from one to 11 years. Restructuring provisions relates to employee severance and other cost reduction measures in the Asset Management division which will be completed next year.

21. Settlement balances and short positions

	2012 £ million	2011 £ million
Settlement balances	**389.6**	477.8
Short positions held for trading:		
Debt securities	**56.7**	30.4
Equity shares	**19.2**	13.6
	75.9	44.0
	465.5	521.8

22. Financial liabilities

	On demand £ 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
Deposits by banks	**47.6**	**31.2**	**9.2**	**–**	**–**	**–**	**88.0**
Deposits by customers	**190.7**	**1,071.5**	**1,006.8**	**956.1**	**222.2**	**0.8**	**3,448.1**
Loans and overdrafts from banks	**13.0**	**0.1**	**175.5**	**16.4**	**–**	**–**	**205.0**
Debt securities in issue	**–**	**6.6**	**350.0**	**485.0**	**198.4**	**–**	**1,040.0**
At 31 July 2012	**251.3**	**1,109.4**	**1,541.5**	**1,457.5**	**420.6**	**0.8**	**4,781.1**

	On demand £ 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
Deposits by banks	54.2	25.9	110.9	1.8	–	–	192.8
Deposits by customers	385.3	825.9	942.4	558.7	455.4	2.8	3,170.5
Loans and overdrafts from banks	31.0	241.9	61.4	149.4	18.9	–	502.6
Debt securities in issue	–	–	350.0	–	–	198.1	548.1
At 31 July 2011	470.5	1,093.7	1,464.7	709.9	474.3	200.9	4,414.0

Of the debt securities in issue, £198.4 million mature on 10 February 2017 and £835.0 million relate to the insurance premium and motor loan receivables securitisations as discussed in note 34.

The group has a repurchase agreement whereby FRNs have been lent in exchange for cash which has been included within loans and overdrafts from banks. Residual maturities of the repurchase agreement are as follows:

	On demand £ 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 2012	**–**	**–**	**62.4**	**16.4**	**–**	**–**	**78.8**
At 31 July 2011	–	56.8	61.0	69.1	18.2	–	205.1

23. Subordinated loan capital

	Prepayment date	Initial interest rate	**2012 £ million**	2011 £ million
Final maturity date				
2020	2015	7.39%	**30.8**	30.0
2026	2021	7.42%	**15.5**	15.0
2026	2021	7.62%	**31.0**	30.0
			77.3	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.

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24. Share capital

	2012		2011	
	million	**£ million**	million	£ million
Group and company				
Authorised				
Ordinary shares of 25p each	**200.0**	**50.0**	200.0	50.0
Allotted, issued and fully paid				
At 1 August 2011	**150.5**	**37.6**	149.7	37.4
Exercise of options/issues	**0.1**	**–**	0.8	0.2
At 31 July 2012	**150.6**	**37.6**	150.5	37.6

25. Company reserves

	Profit and loss account £ million	Other reserves £ million
At 1 August 2010	477.2	(29.4)
Loss attributable to shareholders	(8.7)	–
Dividends paid	(55.7)	–
Shares purchased	–	(0.3)
Shares released	–	6.4
Other movements	(0.6)	1.7
At 31 July 2011	412.2	(21.6)
Loss attributable to shareholders	(12.8)	–
Dividends paid	(58.3)	–
Shares purchased	–	(10.3)
Shares released	–	8.3
Other movements	(0.9)	6.3
At 31 July 2012	**340.2**	**(17.3)**

Movements in the group reserves are now presented in the Consolidated Statement of Changes in Equity.

26. Capital management

The group's policy is to be well capitalised and its approach to capital management is driven by strategic and organisational requirements, while also taking into account the regulatory and commercial environments in which it operates.

The 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. The aim of the capital adequacy regime 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. The group's Pillar 1 information is presented in the following table. Under Pillar 2, the group completes an annual self assessment of risks known as the "Internal Capital Adequacy Assessment Process" ("ICAAP"). The ICAAP is reviewed by the FSA which culminates in the FSA setting "Individual Capital Guidance" on the level of capital the group and its regulated subsidiaries are required to hold. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on that firm's capital, risk exposures and risk assessment process. The group's Pillar 3 disclosures can be found on the group's website www.closebrothers.com/investor-relations/reports-results-presentations/pillar-3-disclosures.

The group maintains a strong capital base to support the development of the business and to ensure the group meets the Pillar 1 capital requirements at all times. As a result, the group maintains capital adequacy ratios comfortably above minimum regulatory requirements. Accordingly, the group's individual regulated 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 2012 and 2011. A full analysis of the composition of regulatory capital and Pillar 1 risk weighted assets is shown in the following table, including a reconciliation between equity and core tier 1 capital after deductions.

The group's capital ratios remained strong with a core tier 1 capital ratio of 12.8% (31 July 2011: 13.1%) and a total capital ratio of 14.5% (31 July 2011: 14.9%). The decrease in the capital ratios was principally due to an increase in risk weighted assets as a result of growth in the loan book which was partly offset by a reduction in debt securities and notional risk weighted assets for operational risk reflecting lower trading activity in Securities.

Regulatory capital (core tier 1 capital and total capital) increased during the year due to an increase in retained earnings and other reserves. The composition of capital remained stable with 88.3% (31 July 2011: 88.0%) of the total capital consisting of core tier 1 capital.

	2012 £ million	2011 £ million
Core tier 1 capital		
Called up share capital	**37.6**	37.6
Share premium account	**283.4**	283.0
Retained earnings and other reserves	**483.5**	448.9
Non-controlling interests	**3.7**	1.9
Deductions from core tier 1 capital		
Intangible assets	**(139.7)**	(133.1)
Goodwill in associate	**(8.1)**	(12.2)
Investment in own shares	**(39.6)**	(37.6)
Core tier 1 capital after deductions	**620.8**	588.5
Tier 2 capital		
Subordinated debt	**75.0**	75.0
Unrealised gains on available for sale equity shares	**7.3**	7.0
Tier 2 capital	**82.3**	82.0
Deductions from total of tier 1 and tier 2 capital		
Participation in a non-financial undertaking	**–**	(1.3)
Other regulatory adjustments	**(0.2)**	(0.1)
Total regulatory capital	**702.9**	669.1
Risk weighted assets (notional)		
Credit and counterparty risk	**3,973.4**	3,513.7
Operational risk[1]	**745.3**	831.6
Market risk[1]	**141.0**	147.7
	4,859.7	4,493.0
Core tier 1 capital ratio	**12.8%**	13.1%
Total capital ratio	**14.5%**	14.9%

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

The following table shows a reconciliation between equity and core tier 1 capital after deductions:

	2012 £ million	2011 £ million
Equity	**769.8**	728.3
Regulatory deductions from equity:		
Intangible assets	**(139.7)**	(133.1)
Goodwill in associate	**(8.1)**	(12.2)
Other reserves not recognised for core tier 1 capital:		
Cash flow hedging reserve	**5.3**	3.0
Available for sale movements reserve	**(6.5)**	2.5
Core tier 1 capital after deductions	**620.8**	588.5

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27. Investments in subsidiaries

The group's principal subsidiaries at 31 July 2012 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[1]	Group holding company	100	England
Close Brothers Limited	Treasury, property and insurance premium financing, and bank holding company	100	England
Winterflood Securities Limited	Market-making	100	England

1 Direct subsidiary of the company.

Full information on all related undertakings will be included in the Companies House Annual Return.

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

28. Investment in associate

	2012 £ million	2011 £ million
At 1 August	**33.4**	73.7
Share of profit before tax	**9.8**	3.7
Share of tax	**(2.6)**	(1.1)
Share of profit after tax	**7.2**	2.6
Dividends paid	**(8.7)**	(2.5)
Impairment	**–**	(36.0)
Disposals	**(11.3)**	(0.3)
Foreign exchange revaluation	**1.2**	(4.1)
	(11.6)	(40.3)
At 31 July	**21.8**	33.4

At 31 July 2012, the group had one (2011: one) associate investment, Mako. Mako owes £nil (2011: £nil) to the group. The group's share of the aggregated revenue of its associate in the year to 31 July 2012 amounted to £25.4 million (2011: £18.0 million). The group's share of the aggregated assets and liabilities of its associate at 31 July 2012 amounted to £31.0 million (2011: £36.5 million) and £17.3 million (2011: £15.3 million) respectively.

Mako's year end is 31 December which is different to that of the group, therefore the 31 July 2012 unaudited management accounts of Mako have formed the basis of the financial information used in determining the group's share of the profits.

On 16 September 2011, the group announced the phased sale of its 49.9% investment in Mako. At 31 July 2012, the holding has been reduced to 27.3%. See note 5 for further details.

29. Contingent liabilities and commitments

Contingent liabilities

Financial Services Compensation Scheme ("FSCS")

A principal subsidiary of the group, CBL, by virtue of being a FSA regulated deposit taker, contributes to the 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. The FSCS raises levies on UK licensed deposit taking institutions to meet such claims based on their share of UK deposits on 31 December of the year preceding the scheme year (which runs from 1 April to 31 March). The group has accrued £0.4 million (2011: £0.9 million) for its share of levies that will be raised by the FSCS, in respect of the levy years to 31 March 2012.

Compensation has previously been paid out by the FSCS funded by loan facilities provided by HM Treasury to FSCS in support of FSCS's obligations to the depositors of banks declared in default. In April 2012, the FSCS agreed revised terms on the loan facilities including a 70bps increase in the interest rate payable to 12 month LIBOR plus 100 basis points. The facilities are expected to be paid wholly from recoveries from the failed deposit takers, except for an estimated shortfall of £0.8 billion which the FSCS has announced it intends to collect in three equal instalments of approximately £270 million beginning in 2013/2014, in addition to the ongoing interest charges on the outstanding loans.

The ultimate FSCS levy to the industry as a result of the collapse of certain financial services firms cannot currently be determined as it is dependent on various uncertain factors including the potential recoveries of assets by the FSCS. The group's share of the ultimate FSCS levy will also depend on the level of protected deposits and the population of FSCS members at the time.

Other

The company has given guarantees in respect of subsidiaries' bank facilities of £83.1 million (2011: £83.1 million) and subsidiaries' property leases of £5.0 million (2011: £8.2 million). In addition, the company has given guarantees in respect of the subordinated loan capital set out in note 23.

	2012 £ million	2011 £ million
Commitments		
Memorandum items		
Undrawn facilities, credit lines and other commitments to lend:		
Within one year	**814.5**	739.7
After more than one year	**3.1**	–
	817.6	739.7

Other commitments

The group is committed to purchase non-controlling interests in certain subsidiaries at agreed fair valuations. While not material, these non-controlling 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 £0.8 million (2011: £5.0 million) and contracted commitments to invest in private equity funds of £2.6 million (2011: £2.6 million).

Future minimum lease rentals payable under non-cancellable operating leases:

	2012		2011	
	Premises £ million	**Other £ million**	Premises £ million	Other £ million
Within one year	**10.8**	**1.9**	10.8	1.3
Between one and five years	**33.6**	**2.8**	33.3	1.9
After more than five years	**10.3**	**–**	14.2	–
	54.7	**4.7**	58.3	3.2

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30. Related party transactions

Transactions with key management

For the purposes of related party disclosures 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 46 to 57.

	2012 £ million	2011 £ million
Directors' emoluments		
Salaries and fees	**1.3**	1.2
Benefits and allowances	**0.3**	0.2
Performance related awards in respect of the current year:		
Cash	**1.0**	1.0
Deferred	**2.5**	2.5
	5.1	4.9
Share-based awards	**1.2**	1.9
Company pension contributions	**0.1**	0.1
	6.4	6.9

During the year directors' gains upon exercise of options, expensed to the income statement in previous years, totalled £1.8 million (2011: £1.8 million).

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 2012 attributable, in aggregate, to key management were £1.3 million (2011: £1.3 million).

Transactions with associate

Mako 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 2012 were £9.2 million (2011: £6.7 million).

31. Pensions

The group operates defined contribution pension schemes and a defined benefit pension scheme for eligible employees. Assets of all schemes are held separately from those of the group. The charge to the income statement from continuing operations for the group pension schemes was £5.2 million (2011: £6.6 million) and is included within administrative expenses.

Defined benefit pension scheme

The group's only defined benefit pension scheme ("the scheme") was closed to new entrants in August 1996 and closed to future accrual during 2012. At 31 July 2012 this scheme had no (2011: 11) active members, 75 (2011: 67) deferred members and 27 (2011: 25) pensioners and dependents. 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 2009, when the agreed company contribution rate was increased from 29.5% to 31.5% of pensionable salaries per annum with effect from 1 April 2010. In addition, the group agreed to contribute an additional £8.4 million towards the current funding deficit, with £2.8 million paid in each of the 2010, 2011 and 2012 financial years. A valuation at 31 July 2012 will be completed by 31 October 2013 from which future contributions will be determined.

The valuation was based upon the following main actuarial assumptions:

	2012 %	2011 %
Inflation rate (Retail Price Index)	**2.7**	3.6
Rate of increase in salaries[1]	**–**	4.8
Discount rate for scheme liabilities	**4.8**	5.5
Expected return on the scheme's assets:		
Equities	**6.9**	7.9
Bonds	**2.7**	4.2
Cash	**1.9**	3.6
Mortality assumptions[2]:		
Existing pensioners from age 65, life expectancy (years):		
Men	**23.8**	23.7
Women	**25.4**	25.2
Non-retired members currently aged 50, life expectancy from age 65 (years):		
Men	**26.0**	25.8
Women	**27.6**	27.4

1 The scheme closed to future accruals in 2012.
2 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.

In the prior year it was identified that the normal retirement age of scheme members was not effectively equalised at 65. As a result, the scheme liabilities were remeasured to a normal retirement age of 60 resulting in an increase of £5.8 million and an actuarial loss for the year to 31 July 2011.

Expected return on equities are determined by reference to Towers Watson's Global Investment Committee's ten year outlook as at 30 June 2012 as adjusted for the inflation assumption disclosed above. Expected return on fixed interest gilts of 2.0% is based on the 15 year FTSE fixed interest gilt yield at 31 July 2012. Expected return on index-linked gilts of 2.6% is based on the over five year FTSE index-linked gilts yield adjusted for the inflation assumption disclosed above. The expected return on corporate bonds of 3.4% is based on the iBoxx over 15 year AA corporate bond index yields of 3.9% reduced by 0.5% for default risk. Expected return on cash is determined by reference to Towers Watson's Global Investment Committee's ten year outlook at 30 June 2012 as adjusted for the inflation assumption disclosed above.

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31. Pensions continued

The surplus/(deficit) of the scheme disclosed below has been accounted for as an asset/(liability) of the group. Cumulative unrecognised actuarial losses as shown below are charged to the income statement over the members' expected average remaining working lives in line with the group's accounting policy disclosed in note 1(u).

	2012 £ million	2011 £ million	2010 £ million	2009 £ million	2008 £ million
Fair value of scheme assets:					
Equities	**28.1**	25.4	19.7	15.9	15.2
Bonds	**7.0**	6.6	6.1	5.0	4.4
Cash	**–**	3.3	3.5	2.7	3.3
Total fair value of scheme assets	**35.1**	35.3	29.3	23.6	22.9
Present value of scheme liabilities	**(34.7)**	(39.9)	(30.9)	(26.8)	(24.4)
Unrecognised actuarial loss	**8.1**	8.8	3.2	1.6	–
Surplus/(deficit)	**8.5**	4.2	1.6	(1.6)	(1.5)

Unrecognised actuarial gains in the year amount to £1.8 million (2011: loss of £6.0 million). During the year actuarial losses of £1.1 million (2011: £0.4 million) were recognised.

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

	2012 £ million	2011 £ million
Carrying amount at 1 August	**(39.9)**	(30.9)
Current service cost	**–**	(0.3)
Interest expense	**(2.1)**	(1.6)
Contributions by members	**(0.1)**	(0.1)
Benefits paid	**4.8**	0.5
Actuarial gain/(loss)	**2.6**	(7.5)
Carrying amount at 31 July	**(34.7)**	(39.9)

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

	2012 £ million	2011 £ million
Carrying amount at 1 August	**35.3**	29.3
Expected return on scheme assets	**2.3**	1.9
Contributions by members	**0.1**	0.1
Contributions by employer	**3.0**	3.2
Benefits paid	**(4.8)**	(0.5)
Actuarial (loss)/gain	**(0.8)**	1.3
Carrying amount at 31 July	**35.1**	35.3

The actual return on scheme assets was an increase of £1.5 million (2011: increase of £3.3 million).

History experience of actuarial gains and losses:

	2012 £ million	2011 £ million	2010 £ million	2009 £ million	2008 £ million
Experience (losses)/gains on scheme assets	**(0.8)**	1.3	1.5	(2.5)	(3.6)
Experience gains/(losses) on scheme liabilities	**0.6**	(1.8)	–	1.5	(0.6)
Impact of changes in assumptions on scheme liabilities	**2.0**	(5.7)	(3.1)	(3.3)	1.6
Total actuarial gains/(losses) on scheme liabilities	**2.6**	(7.5)	(3.1)	(1.8)	1.0

32. Share-based awards

The following share-based awards have been granted under the group's share schemes. The general terms and conditions for these share-based awards are described in the Report of the Board on Directors' Remuneration on pages 46 to 57.

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

	ESOS		SAYE		LTIP[1]		DAB[2]		SMP	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
At 1 August 2010	1,511,447	699.2p	1,306,960	482.5p	2,814,003	–	1,200,801	–	–	–
Granted	–	–	312,454	590.0p	792,049	–	236,163	–	586,683	–
Exercised	(245,148)	583.9p	(94,039)	552.3p	(275,141)	–	(340,523)	–	–	–
Forfeited	–	–	(55,803)	585.1p	–	–	–	–	–	–
Lapsed	(377,088)	917.7p	(91,741)	536.2p	(567,627)	–	(25,233)	–	–	–
At 31 July 2011	889,211	638.4p	1,377,831	492.8p	2,763,284	–	1,071,208	–	586,683	–
Granted	–	–	536,975	547.0p	867,421	–	424,422	–	559,518	–
Exercised	(243,574)	514.1p	(505,723)	435.3p	(272,487)	–	(395,008)	–	–	–
Forfeited	–	–	(91,773)	580.9p	–	–	–	–	–	–
Lapsed	(81,965)	691.1p	(131,747)	537.0p	(679,740)	–	(36,180)	–	–	–
At 31 July 2012	**563,672**	**684.4p**	**1,185,563**	**530.1p**	**2,678,478**	**–**	**1,064,442**	**–**	**1,146,201**	**–**
Exercisable at:										
31 July 2012	**563,672**	**684.4p**	**–**	**–**	**30,746**	**–**	**353,524**	**–**	**–**	**–**
31 July 2011	889,211	638.4p	–	–	1,821	–	378,042	–	–	–

1 The 2009 LTIP scheme replaced the 2004 LTIP during the 2010 financial year. The balances included under LTIP in this note includes grants from both schemes.
2 The DAB scheme replaced the Deferred Share Awards scheme during the 2010 financial year. The balances included under DAB in this note includes grants from both schemes. The DAB also includes Matching and Restricted awards granted to new employees on commencement of employment with the group.

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

	2012	2011
ESOS	**752.3p**	825.6p
SAYE	**652.1p**	825.8p
LTIP	**691.5p**	796.4p
DAB	**734.4p**	785.8p
SMP	**–**	–

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32. Share-based awards continued

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

	2012 Options outstanding		2011 Options outstanding	
	Number outstanding	**Weighted average remaining contractual life Years**	Number outstanding	Weighted average remaining contractual life Years
ESOS				
Between £4 and £5	**11,564**	**0.2**	159,103	1.2
Between £5 and £6	**–**	**–**	25,784	0.2
Between £6 and £7	**219,758**	**2.2**	304,964	3.2
Between £7 and £8	**332,350**	**1.2**	399,360	2.2
Above £10	**–**	**–**	–	–
SAYE				
Between £4 and £5	**329,622**	**1.8**	870,311	1.7
Between £5 and £6	**694,893**	**2.9**	281,902	3.2
Between £6 and £7	**161,048**	**1.5**	219,905	2.5
Between £8 and £9	**–**	**–**	5,713	0.8
LTIP				
Nil	**2,678,478**	**2.2**	2,763,284	2.2
DAB				
Nil	**1,064,442**	**3.2**	1,071,208	4.3
SMP				
Nil	**1,146,201**	**2.7**	586,683	3.2
Total	**6,638,356**	**2.4**	6,688,217	2.6

In order to satisfy a number of the above awards the company has purchased company shares into Treasury and the Close Brothers Group Employee Share Trust has purchased company shares. At the year end 3.5 million (2011: 4.5 million) and 2.8 million (2011: 1.7 million) of these shares were held respectively and in total £39.6 million (2011: £37.6 million) was recognised within the share-based awards reserve.

For the share-based awards granted during the year, the weighted average fair value of those options at 31 July 2012 was 477p (2011: 583p). 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 2014 to 31 May 2015	684.8p	547.0p	34.0%	3	5.9%	0.8%
1 December 2016 to 31 May 2017	684.8p	547.0p	38.0%	5	5.9%	0.8%
LTIP						
4 October 2014 to 3 October 2015	684.6p	–	33.0%	3	5.9%	0.8%
DAB						
4 April 2012 to 3 October 2015	684.6p	–	–	–	–	–
SMP						
4 October 2014 to 3 October 2015	684.6p	–	33.0%	3	5.9%	0.8%

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

33. Consolidated cash flow statement reconciliation

	2012 £ million	2011 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit on ordinary activities before tax on continuing operations	**134.9**	78.5
Operating loss on ordinary activities before tax on discontinued operations	**–**	(27.4)
Tax paid	**(46.2)**	(33.3)
Decrease/(increase) in:		
Interest receivable and prepaid expenses	**9.4**	(4.8)
Net settlement balances and trading positions	**45.5**	(47.6)
Net money broker loans against stock advanced	**(20.8)**	41.6
(Decrease)/increase in:		
Interest payable and accrued expenses	**(36.4)**	(4.2)
Impairment on investment in Mako	**–**	36.0
Depreciation, amortisation and goodwill impairment	**24.3**	21.3
Net cash inflow from trading activities	**110.7**	60.1
(Increase)/decrease in:		
Loans and advances to banks not repayable on demand	**(8.2)**	(10.5)
Loans and advances to customers	**(690.6)**	(539.2)
Floating rate notes held to maturity	**–**	9.0
Floating rate notes classified as available for sale	**176.0**	329.0
Debt securities held for liquidity	**614.0**	370.4
Other assets less other liabilities	**(13.7)**	32.1
(Decrease)/increase in:		
Deposits by banks	**(104.8)**	155.3
Deposits by customers	**277.6**	338.4
Loans and overdrafts from banks	**(297.6)**	(676.7)
Net cash inflow from operating activities	**63.4**	67.9
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries		
Cash consideration in respect of current year purchases	**(4.1)**	(39.2)
Loan stock redemptions and deferred consideration paid in respect of prior year purchases	**(1.0)**	(3.1)
Net movement in cash balances	**–**	3.3
	(5.1)	(39.0)
(c) Analysis of net cash inflow/(outflow) in respect of the sale of subsidiaries and associate		
Cash consideration received	**12.6**	44.5
Cash and cash equivalents disposed of	**–**	(275.5)
	12.6	(231.0)
(d) Analysis of changes in financing activities		
Share capital (including premium) and subordinated loan capital[1]:		
Opening balance	**395.6**	388.3
Shares issued for cash	**0.4**	0.2
Shares issued on acquisition	**–**	7.1
Closing balance	**396.0**	395.6
(e) Analysis of cash and cash equivalents[2]		
Cash and balances at central banks	**703.3**	590.8
Loans and advances to banks repayable on demand	**94.7**	107.9
Certificates of deposit	**130.3**	284.5
	928.3	983.2

1 Excludes accrued interest.
2 Excludes Bank of England cash reserve account and amounts held as collateral.

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34. Financial risk management

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

The group's financial risk management objectives are summarised within Risk and Control Framework in Corporate Governance on page 37. 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.

(a) Classification

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

	Held for trading £ million	Designated as at fair value through profit or loss £ million	Available for sale £ million	Loans and receivables £ million	Other financial instruments amortised cost £ million	Derivatives held for hedging £ million	Total £ million
At 31 July 2012							
Assets							
Cash and balances at central banks	–	–	–	706.8	–	–	706.8
Settlement balances	–	–	–	442.0	–	–	442.0
Loans and advances to banks	–	–	–	110.0	–	–	110.0
Loans and advances to customers	–	–	–	4,125.9	–	–	4,125.9
Debt securities	53.4	–	222.7	130.3	–	–	406.4
Equity shares	34.4	5.2	13.3	–	–	–	52.9
Loans to money brokers against stock advanced	–	–	–	68.7	–	–	68.7
Derivative financial instruments	–	33.3	–	–	–	17.3	50.6
	87.8	38.5	236.0	5,583.7	–	17.3	5,963.3
Liabilities							
Settlement balances and short positions	75.9	–	–	–	389.6	–	465.5
Deposits by banks	–	–	–	–	88.0	–	88.0
Deposits by customers	–	–	–	–	3,448.1	–	3,448.1
Loans and overdrafts from banks	–	–	–	–	205.0	–	205.0
Debt securities in issue	–	–	–	–	1,040.0	–	1,040.0
Loans from money brokers against stock advanced	–	–	–	–	36.2	–	36.2
Subordinated loan capital	–	–	–	–	77.3	–	77.3
Derivative financial instruments	–	32.6	–	–	–	11.6	44.2
	75.9	32.6	–	–	5,284.2	11.6	5,404.3

	Held for trading £ million	Designated as at fair value through profit or loss £ million	Available for sale £ million	Loans and receivables £ million	Other financial instruments amortised cost £ million	Derivatives held for hedging £ million	Total £ million
At 31 July 2011							
Assets							
Cash and balances at central banks	–	–	–	594.5	–	–	594.5
Settlement balances	–	–	–	551.1	–	–	551.1
Loans and advances to banks	–	–	–	114.8	–	–	114.8
Loans and advances to customers	–	–	–	3,435.3	–	–	3,435.3
Debt securities	42.6	–	525.7	284.5	–	–	852.8
Equity shares	37.9	4.8	14.4	–	–	–	57.1
Loans to money brokers against stock advanced	–	–	–	75.3	–	–	75.3
Derivative financial instruments	0.3	34.6	–	–	–	10.3	45.2
	80.8	39.4	540.1	5,055.5	–	10.3	5,726.1
Liabilities							
Settlement balances and short positions	44.0	–	–	–	477.8	–	521.8
Deposits by banks	–	–	–	–	192.8	–	192.8
Deposits by customers	–	–	–	–	3,170.5	–	3,170.5
Loans and overdrafts from banks	–	–	–	–	502.6	–	502.6
Debt securities in issue	–	–	–	–	548.1	–	548.1
Loans from money brokers against stock advanced	–	–	–	–	63.6	–	63.6
Subordinated loan capital	–	–	–	–	75.0	–	75.0
Derivative financial instruments	–	34.9	–	–	–	10.4	45.3
	44.0	34.9	–	–	5,030.4	10.4	5,119.7

(b) Valuation

The group holds financial instruments that are measured at fair value subsequent to initial recognition. Each instrument has been categorised within one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. These levels are based on the degree to which the fair value is observable and are defined as follows:

Valuation hierarchy

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities where prices are readily available and represent actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient frequency to provide ongoing pricing information.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly derived from prices; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data ("unobservable inputs").

Investments classified as Level 1 predominantly comprise UK government securities and listed equity shares.

Investments classified as Level 2 predominantly comprise investment grade corporate bonds, less liquid listed equities and over the counter derivatives.

Investments classified as Level 3 predominantly comprise investments in private equity funds and unlisted equity shares. Level 3 equity shares represent investments made in unlisted property funds, private equity limited partnership interests and an entity providing settlement and related services. For fund investments, the most recent net asset value as calculated and reported by the fund manager is the basis of the valuations. Private equity limited partnership interests are valued using semi-annual valuations of the individual portfolio holdings held by each partnership, in accordance with the International Private Equity and Venture Capital Guidelines. Under these guidelines, new investments are generally valued at cost for the first year. Thereafter valuations are typically based on a multiple of the sustainable earnings before interest and tax of each holding, such multiple derived by reference to a comparable quoted company, sector or recent transaction, and discounted to account for differences in size, product mix, growth prospects, level of gearing and marketability. In addition, the group applies a discount to these valuations to reflect the relative infrequency of the private equity valuations, and the illiquid nature of the portfolio. The discount is based on an average of the discounts to net asset value observed in a population of comparable quoted private equity funds.

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34. Financial risk management continued

The group believes that there is no reasonably possible change to the inputs used in the valuation of these positions which would have a material effect on the group's income statement.

The tables below show the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 July 2012 and 2011.

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2012				
Assets				
Debt securities:				
Long trading positions in debt securities held for trading	**47.4**	**6.0**	**–**	**53.4**
Floating rate notes classified as available for sale	**–**	**122.6**	**–**	**122.6**
Gilts classified as available for sale	**100.1**	**–**	**–**	**100.1**
Derivative financial instruments	**0.3**	**50.3**	**–**	**50.6**
Equity shares:				
Held for trading	**34.4**	**–**	**–**	**34.4**
Fair value through profit or loss	**–**	**–**	**5.2**	**5.2**
Available for sale	**0.3**	**–**	**13.0**	**13.3**
	182.5	**178.9**	**18.2**	**379.6**
Liabilities				
Derivative financial instruments	**–**	**44.2**	**–**	**44.2**
Short positions held for trading:				
Debt securities	**53.3**	**3.4**	**–**	**56.7**
Equity shares	**19.2**	**–**	**–**	**19.2**
	72.5	**47.6**	**–**	**120.1**

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2011				
Assets				
Debt securities:				
Long trading positions in debt securities held for trading	38.1	4.5	–	42.6
Floating rate notes classified as available for sale	–	296.9	–	296.9
Gilts classified as available for sale	228.8	–	–	228.8
Derivative financial instruments	0.3	44.9	–	45.2
Equity shares:				
Held for trading	37.9	–	–	37.9
Fair value through profit or loss	–	–	4.8	4.8
Available for sale	1.5	8.1	4.8	14.4
	306.6	354.4	9.6	670.6
Liabilities				
Derivative financial instruments	–	45.3	–	45.3
Short positions held for trading:				
Debt securities	27.8	2.6	–	30.4
Equity shares	13.6	–	–	13.6
	41.4	47.9	–	89.3

There were no significant transfers between Level 1 and 2 in 2012 and 2011.

Movements in financial assets categorised as Level 3 during the year were:

	Equity shares	
	Available for sale £ million	Fair value through profit/(loss) £ million
At 1 August 2010	11.2	5.7
Total gains recognised in the consolidated income statement	–	3.1
Total gains recognised in other comprehensive income	2.8	–
Purchases and issues	–	0.5
Sales and settlements	(9.2)	(4.5)
At 31 July 2011	4.8	4.8
Total gains recognised in the consolidated income statement	–	0.3
Total gains recognised in other comprehensive income	0.1	–
Purchases and issues	–	0.3
Sales and settlements	–	(0.2)
Transfers in[1]	8.1	–
At 31 July 2012	**13.0**	**5.2**

1 At 31 July 2012 the group determined that £8.1 million of available for sale assets categorised as Level 2 at 31 July 2011 met the criteria for categorisation as Level 3 based on the information available to determine the value of the assets.

The gains recognised in the Consolidated Income Statement relating to instruments held at the year end amounted to £0.3 million (2011: loss of £0.5 million).

(c) Credit risk

Credit risk is the risk of a reduction in earnings and/or value, as a result of the failure of a counterparty or associated party with whom the group has contracted to meet its obligations in a timely manner and arises mainly from the lending and treasury activities of the Banking division.

The group's lending activities are generally short-term in nature with low average loan size. In addition the group applies consistent and prudent lending criteria mitigating credit risk. The credit quality of counterparties with whom the group deposits or whose debt securities are held is monitored within approved limits.

Loans and advances are spread across asset classes, short-term and with a low average loan size in order to control concentration risk in the loan book and associated collateral.

The Banking division monitors the credit quality of the counterparties with whom the group places deposits, enters into derivative contracts or whose debt securities are held against established limits. Whilst these amounts may be material, the counterparties are all regulated institutions with high credit ratings assigned by international credit rating agencies and fall within the large exposure limits set by the regulatory requirements.

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.

Credit and counterparty risk, and the measures taken to mitigate or manage these risks, are disclosed within the Principal Risks and Uncertainties section of the Business Review on pages 24 to 27.

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34. Financial risk management continued

Maximum exposure to credit risk

The table below presents the group's maximum exposure to credit risk, before taking account of any collateral and credit risk mitigation, arising from its on balance sheet and off balance sheet financial instruments at 31 July 2012. For off balance sheet instruments, the maximum exposure to credit risk represents the contractual nominal amounts.

	2012 £ million	2011 £ million
On balance sheet		
Cash and balances at central banks	**706.8**	594.5
Settlement balances	**442.0**	551.1
Loans and advances to banks	**110.0**	114.8
Loans and advances to customers	**4,125.9**	3,435.3
Debt securities	**406.4**	852.8
Loans to money brokers against stock advanced	**68.7**	75.3
Derivative financial instruments	**50.6**	45.2
	5,910.4	5,669.0
Off balance sheet		
Undrawn commitments	**817.6**	739.7
Total maximum exposure to credit risk	**6,728.0**	6,408.7

Sovereign and banking sector exposure

The group has limited exposure outside the UK. However, given increased market and regulatory focus on such exposures, particularly in relation to Greece, Ireland, Italy, Portugal and Spain, the group considers it appropriate to provide the following disclosure.

The group has no direct exposures to debt issued by sovereigns or financial institutions in any of the countries listed above. In the prior year it had exposure of £94.6 million through a holding of FRNs issued by Irish banks. These FRNs matured during the year to 31 July 2012 and were repaid in full.

The group has loans and advances to customers in Ireland and Spain. These relate to loans in the group's Retail and Commercial businesses and are issued with the same approach to lending as applied within the UK.

	2012 £ million	2011 £ million
Loans and advances to customers		
Ireland	**103.9**	75.7
Spain	**2.2**	3.4
	106.1	79.1

The group has no other material exposure to these economies.

Assets pledged and received as collateral

The group pledges assets for repurchase agreements and securities borrowing agreements which are generally conducted under terms that are usual and customary to standard securitised borrowing contracts.

The group has securitised without recourse and restrictions £1,038.2 million (31 July 2011: £495.0 million) of its insurance premium and motor loan receivables in return for debt securities in issue of £835.0 million (31 July 2011: £350.0 million). As the group has retained exposure to substantially all the credit risk and rewards of the residual benefit of the underlying assets it continues to recognise these assets in loans and advances to customers in its consolidated balance sheet.

The group has entered into a repurchase agreement whereby FRNs to the value of £98.2 million (31 July 2011: £249.5 million) have been lent in exchange for cash of £78.8 million (31 July 2011: £205.1 million) which has been included within loans and overdrafts from banks. These FRNs remain on the group's consolidated balance sheet as the group retains the risks and rewards of ownership.

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 19 of the Business Review. Consistent and prudent lending criteria is applied across the whole loan book with emphasis on the quality of the security provided.

Loans to money brokers against stock advanced is 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.

Financial assets: Loans and advances to customers

Credit risk management and monitoring

Within the Banking division the overall credit risk appetite is set by the CBL board. The monitoring of credit policy is the responsibility of the Banking division's risk and compliance committees. All large loans are subject to approval by the Banking division's Credit Committees. Retail, Commercial and Property each use credit underwriting and monitoring measures appropriate to the diverse and specialised nature of their lending.

Retail is typically high volume lending with a small average loan size. Credit issues are identified early via predominantly automated tracking processes. Remedial actions are implemented promptly to restore customers to a performing status or recovery methods are applied to minimise potential loss.

Commercial is a combination of several niche lending businesses with a diverse mix of loans in terms of assets financed and average loan size. Credit quality is assessed either on an individual loan by loan basis or a collective portfolio basis. This approach allows remedial action to be implemented at the appropriate time to minimise potential loss.

Property is a portfolio of higher value, low volume lending. Loans are continually monitored to determine whether they are performing satisfactorily. Performing loans with elevated levels of credit risk may be placed on watch lists depending on the perceived severity of the credit risk.

Credit risk reporting

Loans and advances to customers within the Banking division, as disclosed in note 13, are analysed between the following categories for credit risk reporting:

(i) Neither past due nor impaired

These loans and advances to customers reflect the application of consistent and conservative lending criteria on inception and the quality and level of security held. The contractual repayments are monitored to ensure that classification as neither past due nor impaired remains appropriate. It also demonstrates the short term nature of the lending, with £2.2 billion (2011: £1.8 billion) having a contractual maturity of less than 12 months.

The following table shows the ageing of loans and advances to customers split by credit assessment method which are neither past due nor impaired.

	2012 Loans and advances to customers			2011 Loans and advances to customers		
	Individually assessed £ million	**Collectively assessed £ million**	**Total £ million**	Individually assessed £ million	Collectively assessed £ million	Total £ million
Within one month	**302.7**	**232.3**	**535.0**	257.2	214.3	471.5
Between one and three months	**226.9**	**321.0**	**547.9**	201.4	295.1	496.5
Between three months and one year	**368.7**	**731.9**	**1,100.6**	232.7	649.0	881.7
Over one year	**361.7**	**1,179.1**	**1,540.8**	184.5	980.1	1,164.6
	1,260.0	**2,464.3**	**3,724.3**	875.8	2,138.5	3,014.3

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34. Financial risk management continued

(ii) Past due but not impaired

Loans and advances to customers are classified as past due but not impaired when the customer has failed to make a payment when contractually due but there is no evidence of impairment. This includes loans which are individually assessed for impairment but where the value of security is sufficient to meet the required repayments. This also includes loans to customers which are past due for technical reasons such as delays in payment processing or rescheduling of payment terms.

The following table shows the ageing of loans and advances to customers split by credit assessment method which are past due but for which no impairment provision has been raised.

	2012 Loans and advances to customers			2011 Loans and advances to customers		
	Individually assessed £ million	**Collectively assessed £ million**	**Total £ million**	Individually assessed £ million	Collectively assessed £ million	Total £ million
Within one month	**72.9**	**20.6**	**93.5**	38.3	17.1	55.4
Between one and three months	**35.4**	**4.3**	**39.7**	57.5	3.2	60.7
Between three months and one year	**39.7**	**15.4**	**55.1**	36.2	10.8	47.0
Over one year	**16.3**	**33.7**	**50.0**	12.4	25.1	37.5
	164.3	**74.0**	**238.3**	144.4	56.2	200.6

(iii) Impaired

The factors considered in determining whether assets are impaired are outlined in the accounting policies in note 1(j). Impaired loans and advances to customers are analysed according to whether the impairment provisions are individually or collectively assessed.

Individually assessed provisions are determined on a case by case basis, taking into account the financial condition of the customer and an estimate of potential recovery from the realisation of security. Typically this methodology is applied by the Property business and by the invoice finance business within Commercial.

Collectively assessed provisions are considered on a portfolio basis, to reflect the homogeneous nature of the assets. A percentage of the portfolio is impaired by evaluating the ageing of missed payments combined with the historical recovery rates for that particular portfolio. Typically this methodology is applied by the Retail businesses and the asset finance business within Commercial.

The gross impaired loans are quoted without taking account of any collateral or security held, which could reduce the potential loss. The application of conservative loan to value ratios on inception and the emphasis on the quality of the security provided, is reflected in the low provision to gross impaired balance ratio ("coverage ratio") of 30% (2011: 30%).

The following table shows gross impaired loans and advances to customers and the provision thereon split by assessment method.

	2012 Loans and advances to customers			2011 Loans and advances to customers		
	Individually assessed £ million	**Collectively assessed £ million**	**Total £ million**	Individually assessed £ million	Collectively assessed £ million	Total £ million
Gross impaired loans	**147.8**	**85.8**	**233.6**	199.6	114.5	314.1
Provisions	**(46.6)**	**(23.7)**	**(70.3)**	(65.5)	(28.2)	(93.7)
Net impaired loans	**101.2**	**62.1**	**163.3**	134.1	86.3	220.4

The amount of interest income accrued on impaired loans and advances to customers was £21.5 million (31 July 2011: £29.5 million).

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

Financial assets: Settlement balances

Credit risk management and monitoring

The credit risk presented by settlement balances in the Securities division is limited as such balances represent delivery versus payment transactions where delivery of securities occurs simultaneously with payment. The credit risk is therefore limited to the change in market price of a security between trade date and settlement date and not the absolute value of the trade. The Securities businesses are market-makers and they trade on a principal only basis. The Securities businesses trade only with regulated counterparties including stockbrokers, wealth managers, institutions and hedge funds who are either approved by the FSA or equivalent regulator in the respective country.

Credit risk reporting

Settlement balances are classified as neither past due nor impaired when the respective trades have not yet reached their settlement date. Settlement balances are classified as past due but not impaired when trades fail to be settled on their contractual settlement date. The credit risk presented by settlement balances which are past due is mitigated by the delivery versus payment mechanism, as well as by the Securities businesses trading only with regulated counterparties. Counterparty exposure and settlement failure monitoring controls are in place as part of an overall risk management framework and settlement balances past due are actively managed.

	2012			2011		
	Neither past due nor impaired £ million	**Past due but not impaired £ million**	**Total £ million**	Neither past due nor impaired £ million	Past due but not impaired £ million	Total £ million
Within one month	**419.2**	**17.9**	**437.1**	517.1	28.2	545.3
Between one and three months	**–**	**2.3**	**2.3**	–	3.5	3.5
Between three months and one year	**–**	**1.2**	**1.2**	–	1.9	1.9
Over one year	**–**	**1.4**	**1.4**	–	0.4	0.4
Settlement balances	**419.2**	**22.8**	**442.0**	517.1	34.0	551.1

(d) Market risk

Market risk is the risk that a change in the value of an underlying market variable, such as interest or foreign exchange rates, will give rise to an adverse movement in the value of the group's assets and arises primarily in the 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 16.

The sensitivities below are based upon reasonably possible changes in interest rate scenarios, including parallel shifts in the yield curve. At 31 July 2012 changes in interest rates compared to actual rates would increase/(decrease) the group's annual net interest income by the following amounts:

	2012 £ million	2011 £ million
1.0% increase (2011: 1.0% increase)	**2.5**	2.7
0.5% decrease (2011: 0.5% decrease)	**(1.3)**	(1.4)

At 31 July 2012 changes in interest rates compared to actual rates would increase/(decrease) the group's equity by the following amounts:

	2012 £ million	2011 £ million
1.0% increase (2011: 1.0% increase)	**8.6**	8.0
0.5% decrease (2011: 0.5% decrease)	**(4.3)**	(4.0)

Foreign currency risk

The group has a number of currency investments in subsidiaries and an associate and has chosen not to hedge these exposures. These investments are predominantly in US dollars and euros. Foreign exchange differences which arise from the translation of these operations are recognised directly in equity.

At 31 July 2012 changes in exchange rates would decrease the group's equity by the following amounts:

	2012 £ million	2011 £ million
20% strengthening of sterling against the US dollar (2011: 20% strengthening)	**(3.7)**	(6.6)
20% strengthening of sterling against the euro (2011: 20% strengthening)	**(4.4)**	(10.7)

The group has additional material currency assets and liabilities primarily as a result of treasury operations in the Banking division. These assets and liabilities are matched by currency, using exchange rate derivative contracts where necessary. Details of these contracts are disclosed in note 16. 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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34. Financial risk management continued

Market price risks

Trading financial instruments: Equity shares and debt securities

The group's trading activities relate to Winterflood and Seydler. The following table shows the group's trading book exposure to market price risk.

	Highest exposure £ million	Lowest exposure £ million	Average exposure £ million	Exposure at 31 July £ million
For the year ended 31 July 2012				
Equity shares				
Long	**50.6**	**30.5**	**37.8**	**34.4**
Short	**25.0**	**6.7**	**13.8**	**19.2**
			24.0	**15.2**
Debt securities				
Long	**85.7**	**32.4**	**46.5**	**53.4**
Short	**87.9**	**27.9**	**49.4**	**56.7**
			(2.9)	**(3.3)**

	Highest exposure £ million	Lowest exposure £ million	Average exposure £ million	Exposure at 31 July £ million
For the year ended 31 July 2011				
Equity shares				
Long	53.8	31.6	42.3	37.9
Short	32.6	10.7	20.0	13.6
			22.3	24.3
Debt securities				
Long	98.6	33.5	58.9	42.6
Short	99.2	28.8	55.5	30.4
			3.4	12.2

With respect to the long and short positions on debt securities £0.1 million and £8.0 million (2011: £2.8 million and £3.5 million) were due to mature within one year respectively.

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.

Based upon the trading book exposure given above, a hypothetical fall of 10% in market prices would result in a £1.5 million decrease (2011: £2.4 million decrease) in the group's income and net assets on the equity trading book and a £0.3 million increase (2011: £1.2 million decrease) on the debt securities trading book. However, the group's trading activity is mainly market-making where positions are managed throughout the day on a continuous basis. Accordingly the sensitivity referred to above is purely hypothetical.

Non-trading financial instruments

Net gains and losses on non-trading financial instruments are disclosed in notes 14 and 15.

(e) Liquidity risk

Liquidity risk is the risk that liabilities cannot be met when they fall due or can only be met at an uneconomic price and arises mainly in the Banking division.

The group has a prudent liquidity position with total available funding at 31 July 2012 of £5.9 billion (2011: £5.4 billion). This funding is significantly in excess of its loans and advances to customers at 31 July 2012 of £4.1 billion (2011: £3.4 billion). The group has a large portfolio of high quality liquid assets including cash placed on deposit with the Bank of England and gilts. The group measures liquidity risk with a variety of measures including regular stress testing and cash flow monitoring, and reporting to both the group and divisional boards.

The following table analyses the contractual maturities of the group's on-balance sheet 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 2012							
Settlement balances	**–**	**389.6**	**–**	**–**	**–**	**–**	**389.6**
Deposits by banks	**47.5**	**31.3**	**1.4**	**8.0**	**–**	**–**	**88.2**
Deposits by customers	**190.6**	**1,075.4**	**356.8**	**702.0**	**1,199.8**	**0.9**	**3,525.5**
Loans and overdrafts from banks	**13.0**	**1.0**	**19.2**	**158.4**	**16.4**	**–**	**208.0**
Debt securities in issue	**–**	**10.8**	**4.2**	**363.6**	**737.8**	**–**	**1,116.4**
Loans from money brokers against stock advanced	**36.2**	**–**	**–**	**–**	**–**	**–**	**36.2**
Subordinated loan capital	**–**	**2.8**	**–**	**2.8**	**22.5**	**114.5**	**142.6**
Derivative financial instruments[1]	**–**	**7.7**	**3.6**	**7.9**	**35.2**	**–**	**54.4**
Total	**287.3**	**1,518.6**	**385.2**	**1,242.7**	**2,011.7**	**115.4**	**5,560.9**

	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 2011							
Settlement balances	1.5	476.3	–	–	–	–	477.8
Deposits by banks	54.2	26.0	12.4	99.1	1.9	–	193.6
Deposits by customers	375.1	831.8	378.3	621.7	1,063.2	3.8	3,273.9
Loans and overdrafts from banks	30.9	109.0	176.7	24.0	172.6	–	513.2
Debt securities in issue	–	8.5	1.9	358.2	52.0	213.0	633.6
Loans from money brokers against stock advanced	63.6	–	–	–	–	–	63.6
Subordinated loan capital	–	2.8	–	2.8	22.5	120.1	148.2
Derivative financial instruments[1]	–	43.4	7.5	10.8	52.2	0.1	114.0
Total	525.3	1,497.8	576.8	1,116.6	1,364.4	337.0	5,417.9

1 Includes currency swaps shown net. On a gross basis in less than three months this is £101.1 million (31 July 2011: £116.1 million) and in more than one year but not more than five years this is £72.5 million (31 July 2011: £95.5 million).

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Financial calendar (provisional)

Event	Date
Annual General Meeting	November 2012
First quarter Interim Management Statement	November 2012
Final dividend payment	November 2012
Pre-close trading statement	January 2013
Half year end	31 January 2013
Interim results	March 2013
Third quarter Interim Management Statement	May 2013
Pre-close trading statement	July 2013
Financial year end	31 July 2013
Preliminary results	September 2013

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

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Certain statements included or incorporated by reference within this report may constitute “forward-looking statements” in respect of the group’s operations, performance, prospects and/or financial condition. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions and actual results or events may differ materially from those expressed or implied by those statements. Accordingly, no assurance can be given that any particular expectation will be met and reliance should not be placed on any forward-looking statement. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. No responsibility or obligation is accepted to update or revise any forward-looking statement resulting from new information, future events or otherwise. Nothing in this report should be construed as a profit forecast. This report does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase any shares or other securities in the company, nor shall it or any part of it or the fact of its distribution form the basis of, or be relied on in connection with, any contract or commitment or investment decisions relating thereto, nor does it constitute a recommendation regarding the shares and other securities of the company. Past performance cannot be relied upon as a guide to future performance and persons needing advice should consult an independent financial adviser. Statements in this report reflect the knowledge and information available at the time of its preparation. Liability arising from anything in this report shall be governed by English Law. Nothing in this report shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.

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Designed by Emperor Design Consultants Limited.

Typeset by RR Donnelley.

Photography by Piranha Photography Limited.

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