Close Brothers

Close Brothers Group plc
Annual Report 2011

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.

Front cover: View from Close Asset Management's offices, 10 Exchange Square, London.

Corporate Overview
Financial Highlights
for the year ended 31 July 2011

£131.2m
(2010: £116.5m)
Adjusted[1] operating profit from continuing operations

64.8p
(2010: 58.2p)
Adjusted[2] earnings per share from continuing operations

£78.5m
(2010: £101.0m)
Operating profit before tax from continuing operations

29.6p
(2010: 47.4p)
Basic earnings per share from continuing operations

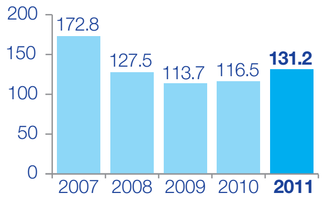
£14.6m
(2010: £65.9m)
Profit attributable to shareholders from continuing and discontinued operations

10.1p
(2010: 46.0p)
Basic earnings per share from continuing and discontinued operations

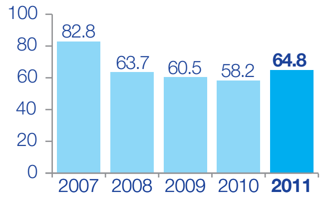
40.0p
(2010: 39.0p)
Ordinary dividend per share[3]

13.1%
(2010: 13.9%)
Core tier 1 capital ratio

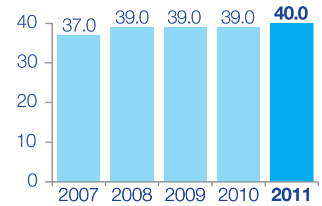
Adjusted operating profit from continuing operations
£ million



Adjusted basic earnings per share from continuing operations
pence



Ordinary dividend per share
pence



[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.

Corporate Overview
Chairman's and Chief Executive's Statement

Close Brothers has performed well in the 2011 financial year and our businesses remain well positioned. We have seen significant growth in the Banking division as we continue to benefit from our strong financial position to take advantage of opportunities presented by the current market environment; Securities has had a solid performance notwithstanding recent challenging market conditions; and the Asset Management division has made significant progress on its strategic refocusing and the building out of its Private Clients business including several acquisitions. We continue to have the financial strength and capital resources to support our businesses and execute our strategic plans, focused on growing and developing our core businesses.

We have made significant progress in repositioning the group to focus on those businesses where we see the highest long-term potential and during the year, we have completed several disposals which have streamlined and simplified the group. In the Asset Management division, this includes the disposals of our businesses in the UK offshore and Cayman Islands as well as the property funds business, announced earlier this year. In line with this strategy we also recently announced an agreement to sell our 49.9% investment in Mako to the management team. Exiting these non-core activities does not affect the group's capital position and allows us to reallocate cash and resources to those businesses which we believe have the best potential to deliver sustainable and growing profits in the future.

Financial Performance

The underlying performance of our businesses has been good overall, and adjusted operating profit from continuing operations increased 13% to £131.2 million (2010: £116.5 million). This was principally driven by the strong performance of the Banking division, where adjusted operating profit increased 34% as a result of 18% loan book growth and a reduction in the bad debt ratio. Securities had a solid performance although adjusted operating profit reduced 8% relative to a strong prior year. The Asset Management division continues to restructure and invest in its transformation and as a result delivered an adjusted operating loss of £8.6 million (2010: loss of £1.5 million).

Overall, adjusted earnings per share from continuing operations increased 11% to 64.8p (2010: 58.2p).

As part of the group's overall restructuring and exit from non-core activities, we have recorded exceptional charges of £46.9 million (2010: £15.0 million) and a loss from discontinued operations of £28.1 million (2010: loss of £2.0 million). Exceptional charges include a £36.0 million impairment of the value of our investment in Mako, reflecting the expected present value of our recent sale agreement; and a further £15.4 million of exceptional charges related to the restructuring of the Asset Management division. The loss from discontinued operations includes the operating result

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

and loss on disposal of the group's UK offshore and Cayman Islands operations, which were sold during the period.

Profit before tax from continuing operations, after exceptional items, was £78.5 million (2010: £101.0 million) which translates into basic earnings per share from continuing operations of 29.6p (2010: 47.4p). After exceptional items and including the loss from discontinued operations, profit attributable to shareholders was £14.6 million (2010: £65.9 million) and basic earnings per share was 10.1p (2010: 46.0p).

During the year we have continued to increase the efficiency of our balance sheet whilst strengthening the diversity and maturity of our funding. This includes raising over £1 billion of new wholesale funding, as well as increasing the amount and maturity of our retail and corporate deposits.

The group's core tier 1 capital ratio remains strong at 13.1% (2010: 13.9%) with a total capital ratio of 14.9% (2010: 15.8%). These capital ratios remain comfortably ahead of minimum regulatory requirements and give us sufficient flexibility to execute our current plans.

The board is recommending an increase of 1.0p in the final dividend per share to 26.5p (2010: 25.5p), resulting in a 3% increase in the total dividend per share for the year to 40.0p (2010: 39.0p). This reflects the group's confidence in the performance and prospects of its core businesses.

Strategy

The group remains focused on executing the strategy set out at the full year results in 2010. This involves developing our three core business areas: the Banking division, which is a leader in specialised finance in the UK; Securities, which is a leader in UK market-making via Winterflood; and Asset Management, which is investing to become a leader in UK wealth and asset management.

In the **Banking** division, our focus is on driving sustainable growth whilst maintaining a predominantly secured, high margin, specialist lending model.

During the period, we achieved organic loan book growth of 18% to £3.4 billion (31 July 2010: £2.9 billion), whilst maintaining strong margins. This growth was driven by good levels of new business across our lending businesses, supported by ongoing high levels of repeat business.

The operating environment for the division remains favourable and we continue to see opportunities to increase lending to both individual and SME borrowers. We continue to benefit from our enhanced sales capacity, with an over 20% increase in front line sales staff in the last two years, as well as broader distribution. This includes additional dealer relationships in motor finance; the addition of new branches in motor and property finance and increased leverage of the broker network in asset finance. We continue to see good opportunities for growth in our core markets and our priority remains to continue to grow in these areas.

At the same time we are selectively exploring opportunities for growth in adjacent product areas that are consistent with our existing lending model and conservative risk appetite. In Commercial, we have continued to build our presence in larger ticket invoice finance following our acquisition of a loan book last year. We are also expanding our asset finance business into complementary asset classes. In Retail, the motor finance business continues to see significant growth through the Key Accounts team, which deals directly with larger dealerships and franchises.

We continue to invest in the infrastructure of the division to support current and future growth through enhancing the strength of its central functions, including the integration of IT, human resources and procurement functions. At the same time we are streamlining our processes to improve the efficiency of our operations and increase the operating leverage of the business over time.

As we continue to grow our business we remain acutely focused on maintaining a prudent risk profile, and we continue to apply strict criteria to lending decisions. During the year we commenced the development of a new credit risk management information system which will further

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

"We have a strong financial position, continue to see good prospects for our businesses and are well placed to continue delivering solid results."

enhance our ability to monitor and analyse credit risk across our lending businesses. In addition to the underwriting expertise and experience of our people, this new system will help us monitor the credit metrics that underpin our lending decisions throughout the economic cycle.

In the **Securities** division, our focus is on maintaining and building on our leading market positions, whilst continuing to explore opportunities for growth.

Winterflood has maintained its position as a leading market-maker to the UK retail broker community, making markets in over 3,000 UK equities and providing dealing services in over 10,000 securities.

Winterflood has demonstrated the resilience of its business model and ability to manage a wide range of trading conditions in a volatile period for the financial markets. The business had a particularly strong performance in the second and third quarters, which were characterised by high levels of AIM trading; however retail trading activity slowed considerably towards the end of the financial year. Overall, average bargains per day increased 2% to a new high of 48,000, whilst income per bargain reduced 7% reflecting the more challenging trading conditions towards the end of the year. Adjusted operating profit reduced 11% to £43.2 million (2010: £48.7 million) compared to a strong prior year.

Although market activity slowed in the fourth quarter, the business has continued to generate consistent profitability recording only one (2010: four) loss day for the year.

Winterflood continues to pursue selected opportunities to leverage its existing business model outside its core markets. During the year, Winterflood has established a new company which has applied for broker dealer status in the US, which will allow it to access order flow in UK and European shares directly from US institutions and broker dealers. It has also expanded its service offering in the UK to include outsourced execution and custody services through a new business unit, Winterflood Business Services.

Seydler remains well positioned in the German market and increased profits in the year to £9.0 million (2010: £4.9 million), benefiting from a particularly good performance from its equity and debt capital markets businesses.

On 16 September 2011 we announced the phased sale of our 49.9% investment in Mako to the management team for a total consideration of US$40 million, with a potential further US$7.5 million deferred contingent consideration. The sale of the first tranche is expected to complete in the next few months. The sale reflects our focus on developing our core businesses where we have full control. Given the nature of its business, Mako has a more volatile earnings profile and contributed £2.6 million (2010: £5.7 million) of associate income in our 2011 financial year.

In the **Asset Management** division, we are building a leading wealth and asset management business in the UK, focused on affluent and high net worth individuals as well as smaller institutions. We will provide an integrated range of advisory, execution only and investment management services.

The division is undergoing a significant transformation and during the year we disposed of a number of non-core businesses including the property funds business and the fund administration, trust, banking and asset management businesses in the UK offshore and Cayman Islands. These disposals realised around £45 million of proceeds which are being reinvested in the division and allow us to focus existing resources on our core businesses.

At the same time, we have seen significant opportunity to make focused acquisitions in order to build scale in clients and assets, extend our existing distribution capacity and provide additional expertise.

During the year we acquired £2.6 billion of Assets under Management ("AuM") via three acquisitions:
- Chartwell, an IFA based in Bristol with £705 million of advised and execution only client assets;
- Allenbridge, an execution only business with £440 million of client assets; and
- Cavanagh, an IFA with £1.5 billion of client assets.

These acquisitions have increased our Private Clients AuM to £6.5 billion at 31 July 2011 (31 July 2010: £3.3 billion), which represents 68% (31 July 2010: 48%) of total AuM. They also provided us with additional distribution capacity through increasing our adviser force from 50 to over 120 and adding a number of new regional offices including in Scotland and in the South East and South West of England. We continue to selectively review additional acquisition opportunities and in total, we plan to acquire a further £1 to 2 billion of client assets during the course of the 2012 financial year.

During the year we have made significant progress in defining our client propositions for advisory, execution only and investment management services, and we are well advanced in developing a client portal and technology platform to meet the needs of both execution only and advised clients. The execution only application is currently undergoing live user testing and we expect to commence the commercial rollout of both the execution only and advice applications towards the end of the calendar year. Overall, we continue to expect to invest a total of £18 to 20 million in the development of the client propositions and technology platform in the three financial years to July 2012, of which £15 million has been incurred to date.

We are leveraging our existing investment management capability to offer a set of consistent investment propositions for a wide range of client types and sizes. During the period we launched a range of in-house managed risk-graded funds, which now account for around £1 billion of our Private Client AuM. These will be supplemented by a range of multi-manager and passive investment funds due to be launched in October this year.

We are now entering the final stage of the division's transformation. This will include the substantial completion of our acquisition programme; integration of acquisitions already made; concluding the development of and rolling out our execution only and advisory technology platform and applications; the introduction of a common advice proposition for new clients; and the migration of relevant existing clients into the new propositions. These are the building blocks for a high growth, profitable business in the long term.

Board Changes

Geoffrey Howe was appointed as an independent non-executive director of Close Brothers Group plc with effect from 4 January 2011. He is currently chairman of Nationwide Building Society and Jardine Lloyd Thompson Group plc.

Outlook

The group remains focused on developing and growing its core businesses in Banking, Securities and Asset Management.

The **Banking** division continues to see good opportunities for growth across its businesses.

The **Securities** division is currently experiencing difficult market conditions but remains well positioned.

The **Asset Management** division is now entering the final stage of its transformation with the aim of becoming a leading UK wealth and asset manager and expects to deliver a small loss for the 2012 financial year.

Economic and market conditions are uncertain, but we have a strong financial position, continue to see good prospects for our businesses and are well placed to continue delivering solid results.

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.

£548.5m
(2010: £495.3m)
Adjusted[1] operating income from continuing operations

£6.1bn
(2010: £6.3bn)
Total assets

£131.2m
(2010: £116.5m)
Adjusted[1] operating profit from continuing operations

£3.4bn
(2010: £2.9bn)
Loan book

£728.3m
(2010: £754.4m)
Total equity

£9.6bn
(2010: £6.9bn)
Assets under Management

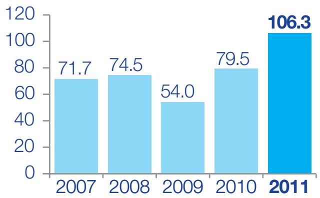
[1]Stated before exceptional items, goodwill impairment and amortisation of intangible assets on acquisition.

Banking

Adjusted[1] operating profit was £106.3 million. The loan book increased 18% to £3.4 billion. The division employs over 1,600 people.

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.

Banking adjusted operating profit
£ million

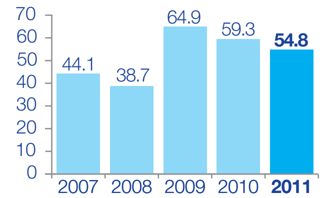


Securities

Adjusted[1] operating profit for the division was £54.8 million. The division employs over 280 people.

In the Securities division, Winterflood is a leading market-maker in the UK providing trading services to retail brokers and institutions and Seydler is a Frankfurt based broker dealer and order book specialist.

Securities adjusted operating profit
£ million

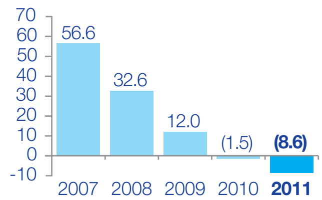


Asset Management

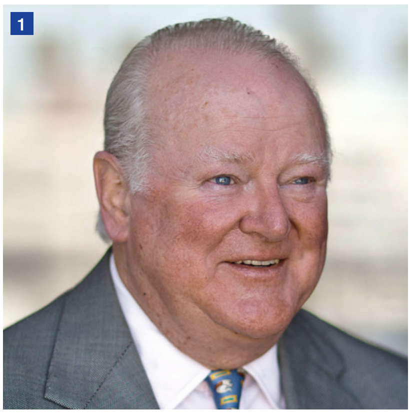
Adjusted[1] operating loss was £8.6 million. Closing Assets under Management were £9.6 billion. The division employs over 580 people.

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

Asset Management adjusted operating profit
£ million



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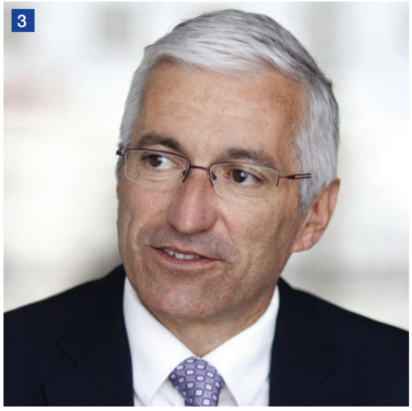
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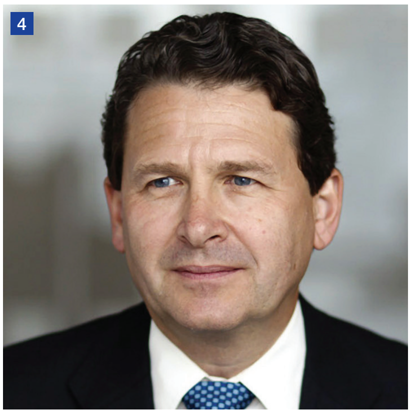
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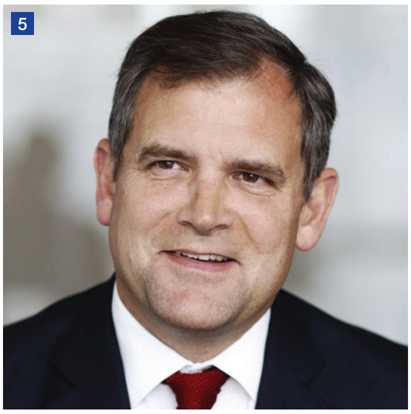
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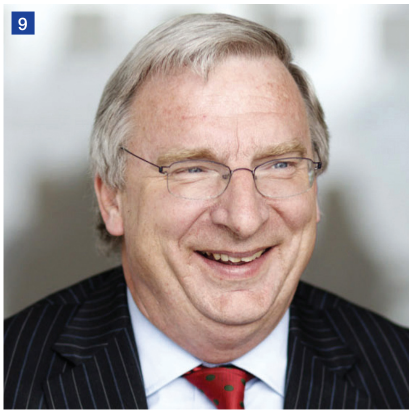
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1. Strone Macpherson
Chairman
Appointed a director in March 2003, senior independent director in September 2004, deputy chairman in November 2006 and chairman in June 2008. He is chairman of the Nomination and Governance Committee. He is chairman of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

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

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

4. Stephen Hodges
Managing Director and Banking Chief Executive
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. He was appointed managing director in November 2002.

5. Bruce Carnegie-Brown
Senior Independent Director
Appointed a director in June 2006 and senior independent director in June 2008. He is chairman of the Remuneration Committee. He is 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.

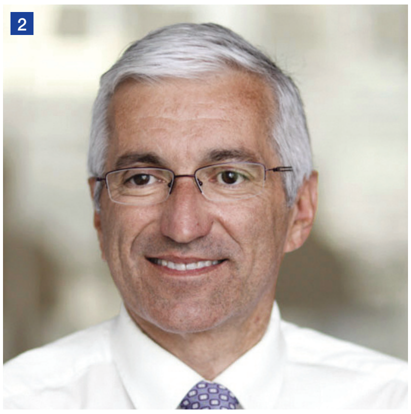
6. Ray Greenshields
Non-executive Director
Appointed a director in November 2008 and chairman of the group's Risk Committee in December 2010. He is senior adviser to Standard Life Assurance, a member of Standard Life Assurance With Profits Committee and chairman of Octopus VCT 3 plc. Previously he was chairman of Bestinvest Group, 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.

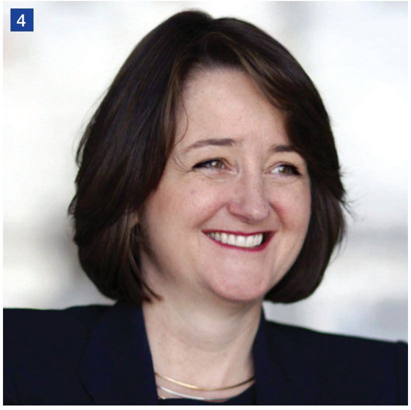
7. Douglas Paterson
Non-executive Director
Appointed a director in July 2004 and is chairman of the Audit Committee. Within the Goldman Sachs Group he is a director of Goldman Sachs International Bank, Montague Place Custody Services and of Rothesay Life Limited and is a non-executive officer of Generation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

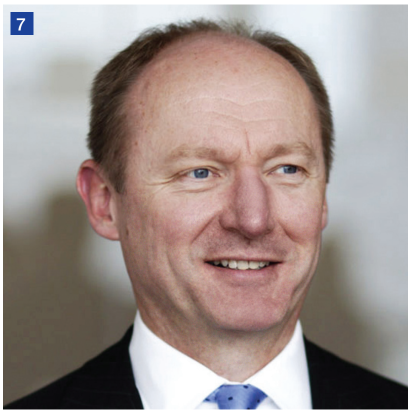
8. Jamie Cayzer-Colvin
Non-executive Director
Appointed a director in January 2008. He is a director of Caledonia Investments plc and a non-executive director of Polar Capital Holdings plc and India Capital Growth Fund. Previously he was with Whitbread and GEC and a former director of Rathbone Brothers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

9. Geoffrey Howe
Non-executive Director
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 managing partner of Clifford Chance.

Corporate Overview
Executive Committee




1. Preben Prebensen
Chief Executive

2. Jonathan Howell
Finance Director

3. Stephen Hodges
Managing Director and Banking Chief Executive

4. Elizabeth Lee
General Counsel and Company Secretary

5. Tazim Essani
Group Head of Corporate Development

6. Julian Palfreyman
Winterflood Chief Executive

7. Martin Andrew
Asset Management Chief Executive

8. Rebekah Etherington
Group Head of Human Resources

Business Review
Overview

Close Brothers Group plc ("Close Brothers") has performed well overall for the 2011 financial year with adjusted operating profit increasing 13% to £131.2 million (2010: £116.5 million). The Banking division in particular had a strong result with a 34% increase in adjusted operating profit to £106.3 million (2010: £79.5 million). The Securities division delivered a solid performance overall although adjusted operating profit declined 8% to £54.8 million (2010: £59.3 million) compared to a strong prior year. The Asset Management division remains in a period of restructuring and investment and as a result delivered an adjusted operating loss as expected of £8.6 million (2010: loss of £1.5 million).

Group Income Statement

	2011 £ million	2010 £ million	Change %
Continuing operations[1]			
Adjusted operating income	**548.5**	495.3	11
Adjusted operating expenses	**(352.1)**	(315.4)	12
Impairment losses on loans and advances	**(65.2)**	(63.4)	3
Adjusted operating profit	**131.2**	116.5	13
Exceptional items	**(46.9)**	(15.0)	
Goodwill impairment	**(3.7)**	–	
Amortisation of intangible assets on acquisition	**(2.1)**	(0.5)	
Operating profit before tax	**78.5**	101.0	(22)
Tax	**(35.1)**	(32.8)	7
Non-controlling interests	**(0.7)**	(0.3)	
Profit attributable to shareholders: continuing operations	**42.7**	67.9	(37)
Loss from discontinued operations	**(27.6)**	(1.7)	
Non-controlling interests: discontinued operations	**(0.5)**	(0.3)	
Profit attributable to shareholders: continuing and discontinued operations	**14.6**	65.9	(78)
Adjusted earnings per share: continuing operations	**64.8p**	58.2p	11
Basic earnings per share: continuing operations	**29.6p**	47.4p	(38)
Basic earnings per share: continuing and discontinued operations	**10.1p**	46.0p	(78)
Ordinary dividend per share[2]	**40.0p**	39.0p	3

[1]Results from continuing operations for 2011 and 2010 exclude the UK offshore and Cayman Islands businesses, the sales of which completed during the period and which have been classified as discontinued operations under IFRS 5.
[2]Represents the final dividend proposed for the respective years together with the interim dividend declared and paid in those years.

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

Business Review
Overview continued

Operational Performance from Continuing Operations
Overall, adjusted operating income increased 11%, or £53.2 million, to £548.5 million (2010: £495.3 million) due to strong income growth in the Banking division. Whilst income also increased in the Asset Management division, this was offset by lower income in Securities.

Adjusted operating expenses increased 12% to £352.1 million (2010: £315.4 million) predominantly reflecting investment in sales and operations as well as higher variable costs in the Banking division. Expenses in the Asset Management division increased as a result of acquisitions and investment related to its strategic refocusing, whilst in the Securities division they remained broadly stable. Group expenses from central functions were stable at £21.3 million (2010: £21.3 million).

The bad debt ratio reduced to 2.1% (2010: 2.4%), driven by Commercial as it benefited from an improvement in the credit quality of its lending overall. As a result, impairment losses on loans and advances were only slightly higher at £65.2 million (2010: £63.4 million) despite very strong growth in the loan book.

Exceptional Items and Discontinued Operations
During the year the group has made significant progress on its strategic refocusing, in particular in the Asset Management division. As part of this, the group has made several disposals of non-core businesses including the sale of its UK offshore and Cayman Islands operations, completed a number of acquisitions in the Asset Management division and, after the year end, agreed the sale of its investment in Mako.

As a result of these actions, the group recorded a net exceptional charge of £46.9 million (2010: £15.0 million) in the year. This included a £36.0 million impairment of the group's investment in Mako following the recently announced sale agreement and £15.4 million related to the restructuring and repositioning of the Asset Management division including costs related to acquisitions and disposals, severance payments and other restructuring costs. This was partly offset by a £4.5 million gain from the sale of the group's investment in Pelagus, Mako's fixed income fund. The prior year period included an exceptional charge of £15.0 million related to an impairment on investment assets.

The group also incurred a goodwill impairment charge of £3.7 million (2010: £nil) in the Institutional business in Asset Management and a charge for amortisation of intangible assets on acquisition of £2.1 million (2010: £0.5 million).

Operating profit before tax on continuing operations, which is reported after exceptional items, goodwill impairment and amortisation of intangible assets on acquisition, was £78.5 million (2010: £101.0 million).

The tax charge on operating profit before tax was £35.1 million (2010: £32.8 million) which corresponds to an effective tax rate of 45% (2010: 32%). This includes a 17% impact of £46.4 million of non tax-deductible exceptional items and goodwill impairment. Excluding these, the underlying tax rate was 28% (2010: 28%). This is slightly higher than the average UK corporation tax rate for the year of 27.3% (2010: 28.0%).

Basic earnings per share from continuing operations, after exceptional items, was 29.6p (2010: 47.4p).

Discontinued operations include the group's businesses in the UK offshore and Cayman Islands, which were sold during the year. The overall loss from discontinued operations after tax and non-controlling interests was £28.1 million (2010: loss of £2.0 million), including £2.0 million adjusted operating profit from the businesses.

Profit attributable to shareholders from continuing and discontinued operations declined to £14.6 million (2010: £65.9 million) and basic earnings per share from continuing and discontinued operations reduced to 10.1p (2010: 46.0p).

Dividend
The board is recommending an increase of 1.0p in the final dividend to 26.5p (2010: 25.5p), resulting in a 3% increase in the total dividend for the year to 40.0p (2010: 39.0p). The final dividend will be paid on 22 November 2011 to shareholders on the register at 14 October 2011.

Balance Sheet
The group's balance sheet has remained strong in the year and total assets at 31 July 2011 were £6,108.6 million (31 July 2010: £6,259.6 million). The group has continued to focus on improving balance sheet efficiency and as a result total assets and liabilities reduced slightly. This reflects the group's continued efforts to manage down its lower yielding portfolio of debt securities, whilst delivering strong loan book growth in the period.

Cash and loans and advances to banks increased £98.1 million to £709.3 million (31 July 2010: £611.2 million). This reflects an increased holding of higher quality liquid assets in the form of cash on deposit at the Bank of England which increased to £594.4 million (31 July 2010: £452.6 million).

Settlement balances, long and short trading positions and loans to and from money brokers relate to the group's market-making activities in the Securities division. The net position was broadly stable at £121.5 million (31 July 2010: £115.5 million). On the asset side of the balance sheet, these were £706.9 million (31 July 2010: £713.3 million) and on the liability side, they were £585.4 million (31 July 2010: £597.8 million), both broadly in line with the prior year.

Loans and advances to customers increased 18% to £3,435.3 million (31 July 2010: £2,912.6 million) reflecting strong growth across both Retail and Commercial within the Banking division. The group's loan assets are predominantly secured on high quality collateral and short-term, with an average maturity of 13 months (31 July 2010: 12 months) at the balance sheet date.

Divisional Adjusted Operating Profit (Continuing Operations)

	2011		2010		Change
	£ million	**%**	£ million	%	%
Banking	**106.3**	**70**	79.5	58	34
Securities	**54.8**	**36**	59.3	43	(8)
Asset Management	**(8.6)**	**(6)**	(1.5)	(1)	
Total divisions	**152.5**	**100**	137.3	100	11
Group	**(21.3)**		(20.8)		2
Adjusted operating profit	**131.2**		116.5		13

Group Balance Sheet

	31 July 2011 £ million	31 July 2010 £ million
Assets		
Cash and loans and advances to banks	**709.3**	611.2
Settlement balances, long trading positions and loans to money brokers[1]	**706.9**	713.3
Loans and advances to customers	**3,435.3**	2,912.6
Non-trading debt securities	**810.2**	1,582.1
Intangible assets	**133.1**	107.5
Other assets	**313.8**	332.9
Total assets	**6,108.6**	6,259.6
Liabilities		
Settlement balances, short trading positions and loans from money brokers	**585.4**	597.8
Deposits by banks	**192.8**	48.1
Deposits by customers	**3,170.5**	3,115.5
Borrowings	**1,125.7**	1,472.0
Other liabilities	**305.9**	271.8
Total liabilities	**5,380.3**	5,505.2
Equity	**728.3**	754.4
Total liabilities and equity	**6,108.6**	6,259.6

[1]Includes £42.6 million (31 July 2010: £54.1 million) long trading positions in debt securities.

Business Review
Overview continued

Non-trading debt securities relate to the group's holding of treasury assets and comprise floating rate notes ("FRNs"), certificates of deposits ("CDs") and gilts and government guaranteed debt ("GGDs"). These reduced significantly over the year to £810.2 million (31 July 2010: £1,582.1 million) as the group continues to actively manage down its holding of lower yielding assets.

Within debt securities, FRNs reduced to £296.9 million (31 July 2010: £624.4 million) principally reflecting £274.0 million of sales and £55.0 million of maturities in the year. The remaining portfolio at 31 July 2011 consisted of UK and international bank FRNs with an average residual maturity of 15 months and are recorded on the balance sheet net of an aggregate negative mark to market adjustment against equity of £11.8 million (31 July 2010: £17.6 million). CDs declined to £284.5 million (31 July 2010: £672.1 million) as those that matured were reinvested in the loan book whilst GGDs declined to £228.8 million (31 July 2010: £285.6 million) reflecting maturities in the year.

The group does not hold sovereign debt issued by Greece, Ireland, Italy, Portugal, or Spain and its exposure to financial institutions in these countries is limited to FRNs with a face value of £94.6 million issued by Allied Irish Bank and Bank of Ireland with an average maturity of eight months.

Intangible assets at 31 July 2011 were £133.1 million (31 July 2010: £107.5 million), an increase of £25.6 million. This principally reflects the addition of £58.2 million goodwill and intangible assets associated with the acquisitions of Chartwell, Allenbridge and Cavanagh in the Asset Management division, partly offset by a reduction in goodwill of £27.7 million related to the sales of the UK offshore and Cayman Islands businesses.

Deposits by customers increased marginally to £3,170.5 million (31 July 2010: £3,115.5 million) due to £399.7 million of organic growth in both retail and corporate deposits and the acquisition of a £300.5 million retail structured deposit book from Dunbar Bank. This was largely offset by a reduction of £645.2 million customer deposits from the sale of the UK offshore and Cayman Islands businesses. Of these, £131.0 million remained on deposit with Close Brothers at the balance sheet date and were included in deposits by banks, which accordingly increased to £192.8 million (31 July 2010: £48.1 million).

Total borrowings were £1,125.7 million (31 July 2010: £1,472.0 million) and include loans and overdrafts from banks, a group bond, a securitisation on the premium finance loan book, and subordinated loan capital. The reduction in the year reflects the increased efficiency of the group's management of its balance sheet and lower draw down on available funding.

Total equity at 31 July 2011 was £728.3 million (31 July 2010: £754.4 million). This was a decrease on the prior year as dividend payments of £55.7 million more than offset the profit attributable to shareholders of £14.6 million, a £6.4 million increase attributable to shares released from the Employee Share Ownership Trust ("ESOT") and treasury, and £7.1 million related to shares issued as a result of the Cavanagh acquisition.

Shares held in treasury declined to 4.5 million (31 July 2010: 4.8 million) at 31 July 2011 as a result of the exercise of options and share awards in the year. Shares held in the ESOT at 31 July 2011 reduced to 1.7 million (31 July 2010: 2.3 million).

Funding and Liquidity

The focus of the group's Treasury function is on efficient funding of the loan book whilst maintaining an appropriate level of liquidity. During the year, the group has maintained a strong funding position whilst increasing the diversity of its funding sources and strengthening its maturity profile. The group is confident that its current funding position and access to a diverse range of funding sources provide the flexibility necessary to meet current cash flow requirements and pursue longer-term growth opportunities.

At 31 July 2011, the group had total available funding of £5,402.0 million (31 July 2010: £5,555.2 million) including drawn and undrawn facilities; a group bond; customer deposits; and equity. The overall level of funding significantly exceeded loans, corresponding to 1.6 times (31 July 2010: 1.9 times) the loan book of £3,435.3 million (31 July 2010: £2,912.6 million).

During the year the group has further diversified its wholesale funding sources, raising £1.0 billion through a securitisation on the premium finance loan book, a two and a half year term syndicated facility and a repurchase agreement secured on the FRN portfolio, all of which replaced funding that matured in the first half of the year. After the balance sheet date, the group has agreed £250 million of wholesale funding through a two year committed securitisation of its motor finance loan book.

The group's total customer deposits increased slightly overall to £3,170.5 million at 31 July 2011 (31 July 2010: £3,115.5 million), notwithstanding a reduction of £645.2 million related to the sale of the group's UK offshore and Cayman Islands businesses. The group has raised a net £399.7 million of new deposits during the year, including both additional term retail deposits and longer maturity corporate deposits. In July the group also completed the acquisition of a £300.5 million book of longer-term retail structured deposits, further diversifying its retail deposit base.

The group is committed to maintaining a prudent maturity profile, and overall has increased its term funding during the year. At 31 July 2011 term funding with a residual maturity over one year had increased to £2,460.6 million (31 July 2010: £1,557.6 million) and covered 72% (31 July 2010: 53%) of the loan book. This included a substantial increase in term deposits to £1,016.9 million (31 July 2010: £244.6 million). The group's term funding had a weighted average maturity,

Malcolm Hook, Treasurer

excluding equity, of 36 months (31 July 2010: 48 months) which significantly exceeds the average maturity of the loan book of 13 months (31 July 2010: 12 months).

The group has a robust liquidity framework with policies in place to ensure it meets short and long-term cash flow needs as well as satisfying any external regulatory requirements. Whilst increasing its balance sheet efficiency during the year, the group has maintained a sound level of liquidity which is appropriate in relation to the group's cash flow needs and the current market environment.

At 31 July 2011, the group had £1,404.6 million (31 July 2010: £2,034.7 million) of treasury assets, of which £1,107.7 million (31 July 2010: £1,410.3 million) were classified as liquid assets. The group's short-term liquidity needs are principally met through deposits with the Bank of England, which at 31 July 2011 amounted to £594.4 million (31 July 2010: £452.6 million). The group also held £228.8 million (31 July 2010: £285.6 million) of GGDs and £284.5 million (31 July 2010: £672.1 million) of CDs. The reduction in CDs during the year reflects the redeployment of funds from maturing CDs into the higher yielding loan book.

The group's treasury assets also include its portfolio of FRNs, which is actively being managed down in favour of higher yielding loan book assets, and accordingly reduced £327.5 million to £296.9 million (31 July 2010: £624.4 million).

Group Funding Overview

	31 July 2011 £ million	31 July 2010 £ million	Change £ million
Drawn and undrawn facilities[1]	**1,305.1**	1,487.5	(182.4)
Group bond	**198.1**	197.8	0.3
Deposits by customers	**3,170.5**	3,115.5	55.0
Equity	**728.3**	754.4	(26.1)
Total available funding	**5,402.0**	5,555.2	(153.2)

[1]Includes £410.2 million (31 July 2010: £227.0 million) of undrawn facilities and excludes £32.7 million (31 July 2010: £13.7 million) of non-facility overdrafts included in borrowings.

Group Funding Maturity Profile

	Less than one year £ million	One to two years £ million	Greater than two years £ million	Total £ million
Drawn and undrawn facilities[1]	787.8	424.1	93.2	1,305.1
Group bond	–	–	198.1	198.1
Deposits by customers	2,153.6	558.7	458.2	3,170.5
Equity	–	–	728.3	728.3
Total available funding at 31 July 2011	**2,941.4**	**982.8**	**1,477.8**	**5,402.0**
Total available funding at 31 July 2010	3,997.6	431.4	1,126.2	5,555.2

[1]Includes £410.2 million (31 July 2010: £227.0 million) of undrawn facilities and excludes £32.7 million (31 July 2010: £13.7 million) of non-facility overdrafts included in borrowings.

Business Review
Overview continued

The credit ratings for Close Brothers Group plc, issued by Fitch Ratings ("Fitch") and Moody's Investors Services ("Moody's") have been reaffirmed at A/F1 and A3/P2 respectively in the year. Close Brothers Limited ("CBL"), the group's regulated banking subsidiary, has credit ratings of A/F1 by Fitch and A2/P1 by Moody's. In the year, the outlooks for both Close Brothers Group plc and CBL were upgraded to stable by Fitch whilst Moody's remained unchanged with negative outlooks.

Capital

The group has maintained a strong capital position, with a core tier 1 capital ratio at 31 July 2011 of 13.1% (31 July 2010: 13.9%) and a total capital ratio of 14.9% (31 July 2010: 15.8%). During the year the group has continued as planned to employ capital into loan book growth and acquisitions in the Asset Management division.

Core tier 1 capital slightly decreased in the year to £588.5 million (31 July 2010: £603.3 million). This reflects a reduction in retained earnings, which was partly offset by an overall reduction in deductions for intangible assets and goodwill in associates.

The group's risk weighted assets increased £154.3 million, or 4%, to £4,493.0 million (31 July 2010: £4,338.7 million). This reflects strong growth in the loan book, which was partly offset by lower holdings of debt securities and a lower assessment of the group's operational risk.

CBL increased its core tier 1 capital ratio to 11.4% at 31 July 2011 (31 July 2010: 10.8%) which gives it the flexibility to support future growth.

The group does not currently expect to be materially impacted by the proposed changes under the Basel III regime, given that its capital ratios are already comfortably above the proposed new regulatory minimum and it does not have complex trading book exposures. The group continues to monitor any changes to capital requirements by UK and International regulators.

The group's policy is to maintain a strong capital ratio to support the development of its businesses and ensure it meets regulatory requirements at all times. As the group continues selectively to pursue growth in the Banking division and completes its acquisition programme in the Asset Management division, the capital ratio may continue to moderate. The group will continue to manage its capital position prudently to ensure it maintains a sound capital position and retains the flexibility to execute current growth plans and pursue any future growth opportunities.

Key Financial Ratios ("KFRs")

The group's return on opening equity improved to 13% (2010: 12%) reflecting higher profitability in the Banking division. The expense/income ratio was unchanged at 64% (2010: 64%) although the operating margin increased slightly benefiting from lower bad debts in the Banking division. The compensation ratio was stable at 40% (2010: 40%).

Treasury Assets

	31 July 2011 £ million	31 July 2010 £ million	Change £ million
Gilts and government guaranteed debt[1]	**228.8**	285.6	(56.8)
Bank of England deposits	**594.4**	452.6	141.8
Certificates of deposit	**284.5**	672.1	(387.6)
Liquid assets	**1,107.7**	1,410.3	(302.6)
Floating rate notes	**296.9**	624.4	(327.5)
Treasury assets	**1,404.6**	2,034.7	(630.1)

[1]Includes £228.8 million (31 July 2010: £260.4 million) gilts and £nil (31 July 2010: £25.2 million) government guaranteed debt.

Group Capital Position

	31 July 2011 £ million	31 July 2010 £ million
Core tier 1 capital	**588.5**	603.3
Total regulatory capital	**669.1**	683.8
Risk weighted assets	**4,493.0**	4,338.7
Core tier 1 capital ratio	**13.1%**	13.9%
Total capital ratio	**14.9%**	15.8%

Group Key Financial Ratios

	2011	2010
Operating margin[1]	**24%**	23%
Expense/income ratio[2]	**64%**	64%
Compensation ratio[3]	**40%**	40%
Return on opening equity[4]	**13%**	12%

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

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

Business Review
Banking

34% increase in adjusted operating profit to £106.3 million

18% loan book growth to £3.4 billion

Bad debt ratio improved to 2.1%

Return on opening equity increased to 21%

The Banking division delivered a strong performance during the year with good growth across its lending businesses. Adjusted operating profit increased 34% to £106.3 million (2010: £79.5 million) reflecting strong loan book growth, maintained strong margins and an improved bad debt ratio.

Adjusted operating income increased 20% to £326.0 million (2010: £272.0 million) reflecting an increase in net interest and fees on the loan book of 22% to £312.3 million (2010: £255.6 million). This growth was driven by a 20% increase in the average loan book over the year to £3,174.0 million (2010: £2,638.8 million) with a maintained strong net interest margin of 9.8% (2010: 9.7%). Treasury and other non-lending income declined to £13.7 million (2010: £16.4 million) as a result of the managed reduction in the group's treasury asset portfolio.

Total operating expenses increased £25.4 million, or 20%, to £154.5 million (2010: £129.1 million). Over half of this increase related to investment in front-line sales capacity and strengthening of central functions to sustain and support the growth of its business. This included new sales heads, particularly in asset finance and motor finance; and an increase in resources in finance, IT, credit, legal and compliance. The remaining cost increase was driven by higher variable costs, such as compensation, reflecting strong business performance in the year.

The bad debt ratio reduced to 2.1% (2010: 2.4%), driven by Commercial as it benefited from an improved quality of its loan book overall, whilst Retail remained at low levels and Property was impacted by an impairment on a legacy loan in the first quarter. As a result, the charge for impairment losses on loans and advances was only slightly higher at £65.2 million (2010: £63.4 million) despite strong loan book growth.

As a result of the lower bad debt ratio, the operating margin increased to 33% (2010: 29%) and the return on opening equity improved to 21% (2010: 20%).

In the year to 31 July 2011, the loan book increased 18%, or £522.7 million, to £3,435.3 million (31 July 2010: £2,912.6 million) reflecting continued strong demand across all lending businesses.

The Retail loan book increased 23% to £1,481.5 million (31 July 2010: £1,201.9 million) corresponding to a 22% increase in the average loan book. This was achieved whilst maintaining strong margins, resulting in a 23% increase in income to £128.8 million (2010: £104.9 million). Loan book growth in premium finance was largely through increased new business volumes from existing brokers in personal insurance. Motor finance has extended its branch and dealer network, and achieved high new business volumes in both its core used car financing and its recently established Key Accounts business, which deals directly with larger dealerships and franchises.

The Commercial loan book increased 20% to £1,390.7 million (31 July 2010: £1,162.9 million) with strong growth in both invoice finance and asset finance. The average loan book increased 25% leading to an increase in income of 23% to £140.6 million (2010: £114.2 million). Asset finance has seen strong demand across both existing and new asset classes. Invoice finance loan book growth was driven by increased lending to both existing clients and new customers.

The Property loan book increased 3% in the year to £563.1 million (31 July 2010: £547.8 million) principally reflecting strong growth in short-term lending. The core, residential development financing business continues to focus on improving the quality of the loan book by selectively lending to high quality customers, whilst managing down its older originated loans. The average loan book increased 7% and income increased 18% to £42.9 million (2010: £36.5 million) largely reflecting higher fees generated from repayments and new committed loans.

Mary McNamara, Commercial and Bob Golden, Retail

Sharon Bishop, Banking division Chief Operating Officer

Mike Morgan, Banking division Finance and Frank Pennal, Property

Key Figures

	2011 £ million	2010 £ million	Change %
Adjusted operating income	**326.0**	272.0	20
Net interest and fees on loan book	**312.3**	255.6	22
Retail	**128.8**	104.9	23
Commercial	**140.6**	114.2	23
Property	**42.9**	36.5	18
Treasury and other non-lending income	**13.7**	16.4	(16)
Adjusted operating expenses	**(154.5)**	(129.1)	20
Impairment losses on loans and advances	**(65.2)**	(63.4)	3
Adjusted operating profit	**106.3**	79.5	34
Net interest margin[1]	**9.8%**	9.7%	
Bad debt ratio[2]	**2.1%**	2.4%	
Closing loan book	**3,435.3**	2,912.6	18

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

Loan Book Analysis

	31 July 2011 £ million	31 July 2010 £ million	Change %
Retail	**1,481.5**	1,201.9	23
Premium finance	**610.7**	553.6	10
Motor finance	**870.8**	648.3	34
Commercial	**1,390.7**	1,162.9	20
Invoice finance	**311.5**	262.1	19
Asset finance	**1,079.2**	900.8	20
Property	**563.1**	547.8	3
Closing loan book	**3,435.3**	2,912.6	18

Banking Key Financial Ratios

	2011	2010
Operating margin	**33%**	29%
Expense/income ratio	**47%**	47%
Compensation ratio	**27%**	26%
Return on opening equity	**21%**	20%
Return on net loan book[1]	**3.3%**	3.0%

[1]Banking division adjusted operating profit before tax on average net loans and advances to customers.

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

Business Review
Securities

Adjusted operating profit down 8% to £54.8 million

Winterflood average bargains per trading day up 2% to 48,000

Seydler adjusted operating profit increased to £9.0 million

Associate income from Mako reduced to £2.6 million

The Securities division has benefited from strong markets for much of the year and although conditions slowed significantly in the fourth quarter, the division delivered a solid performance. Overall, adjusted operating profit was £54.8 million (2010: £59.3 million), down 8% relative to a strong prior year. Whilst Winterflood delivered a resilient performance, Seydler had a strong result, particularly benefiting from increased capital markets activity, although Mako's contribution was significantly below the prior year.

Adjusted operating income declined 2% to £158.7 million (2010: £162.2 million) principally reflecting lower income from Winterflood, and as a result the expense/income ratio increased slightly to 67% (2010: 66%) and the operating margin reduced to 33% (2010: 34%).

After the year end the group has agreed the sale of its 49.9% investment in Mako via a series of purchases over several years. The first of these is expected to complete in the next few months and will reduce the group's investment to 33.3%.

Winterflood's performance benefited from strong retail investor demand, particularly in the second and third quarters of the year which were characterised by high levels of retail trading on AIM. However conditions weakened at the end of the financial year as volatile markets reduced risk appetites amongst retail investors. Overall, Winterflood delivered adjusted operating income of £124.5 million (2010: £131.6 million), a 5% decline. The total number of bargains traded in the year increased 2% to 12.0 million (2010: 11.8 million), corresponding to a 2% increase in average bargains per trading day to 47,742 (2010: 46,730), whilst income per bargain reduced 7% to £10.39 (2010: £11.18), reflecting the more challenging trading conditions towards the end of the year.

Adjusted operating expenses declined 2% to £81.3 million (2010: £82.9 million) as variable costs reduced. Overall, adjusted operating profit decreased 11% to £43.2 million (2010: £48.7 million).

Despite variable market conditions in the year, Winterflood demonstrated its resilience with only one loss day (2010: four loss days) out of a total 251 (2010: 252) trading days.

Seydler delivered a strong result for the year as it benefited from increased capital markets activity in Germany. Adjusted operating income increased 27% to £31.6 million (2010: £24.9 million), with particularly good growth in equity and debt capital markets and institutional equity sales. The performance in its designated sponsoring and specialist floor equities businesses remained resilient. Adjusted operating expenses increased 13% to £22.6 million (2010: £20.0 million) reflecting higher activity levels and as a result adjusted operating profit increased 84% to £9.0 million (2010: £4.9 million). There was no material foreign exchange impact given a relatively stable euro exchange rate.

The group recorded £2.6 million (2010: £5.7 million) of after tax associate income from its 49.9% investment in Mako, a 54% decline on the prior year reflecting quiet markets with low volumes and low volatility for most of the year.

Securities Key Financial Ratios

	2011	2010
Operating margin	**33%**	34%
Expense/income ratio	**67%**	66%
Compensation ratio	**45%**	45%
Return on opening equity	**39%**	39%

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


Jerry Hansford, Winterflood


Philip Yarrow, Winterflood


Trading floor

Key Figures

	2011 £ million	2010 £ million	Change %
Adjusted operating income	**158.7**	162.2	(2)
Adjusted operating expenses	**(103.9)**	(102.9)	1
Adjusted operating profit	**54.8**	59.3	(8)
Winterflood	**43.2**	48.7	(11)
Seydler	**9.0**	4.9	84
Mako (associate income after tax)	**2.6**	5.7	(54)

Key Winterflood Figures

	2011 £ million	2010 £ million	Change %
Adjusted operating income	**124.5**	131.6	(5)
Adjusted operating expenses	**(81.3)**	(82.9)	(2)
Adjusted operating profit	**43.2**	48.7	(11)
Number of bargains (million)	**12.0**	11.8	2
Average bargains per trading day	**47,742**	46,730	2
Income per bargain	**£10.39**	£11.18	(7)

Key Seydler Figures

	2011 £ million	2010 £ million	Change %
Adjusted operating income	**31.6**	24.9	27
Adjusted operating expenses	**(22.6)**	(20.0)	13
Adjusted operating profit	**9.0**	4.9	84

Key Mako Figures

	2011 £ million	2010 £ million	Change %
Adjusted operating profit[1]	**3.8**	8.2	(54)
Tax on adjusted operating profit[1]	**(1.2)**	(2.5)	(52)
Profit after tax[1]	**2.6**	5.7	(54)

[1]Close Brothers share of result.

Business Review
Asset Management

AuM up 39% to £9.6 billion and Private Clients AuM up 96% to £6.5 billion

Private Clients net new funds 8% of opening AuM

19% increase in management fees on AuM

Non-recurring investment drives full year loss of £8.6 million

The Asset Management division has made significant progress on its restructuring and refocusing during the year. In June 2011, it completed the sale of its non-core UK offshore and Cayman Islands businesses, which have been classified as discontinued operations under IFRS 5 and are excluded from the Income Statement and Assets under Management ("AuM") in this Business Review section for 2011 and 2010. It has also completed several acquisitions which contributed to an increase in Private Clients AuM to £6.5 billion (31 July 2010: £3.3 billion). As expected, the division delivered a loss of £8.6 million (2010: loss of £1.5 million) for the year reflecting its investment in developing its new client propositions and technology platform.

Adjusted operating income increased 5% overall to £63.8 million (2010: £60.6 million), as higher management fees on AuM were partly offset by lower other income.

Management fees on AuM increased 19% to £57.3 million (2010: £48.1 million), reflecting a 24% increase in average AuM to £8.2 billion (2010: £6.6 billion) driven largely by acquisitions. The division's overall management fees/average AuM ("the revenue margin") reduced slightly to 70 bps (2010: 73 bps), reflecting the limited revenue contribution from acquisitions made late in the period. The group estimates that the underlying revenue margin on its Private Clients assets, including businesses acquired during the year, was around 93 bps.

The division recorded other income of £6.5 million (2010: £12.5 million). As in the prior year, this principally includes income from the group's residual interest in its former private equity operations.

Adjusted operating expenses increased 17% to £72.4 million (2010: £62.1 million). This includes £6.9 million in respect of the partial year cost base of businesses acquired during the period. Adjusted operating expenses also included £8 million (2010: £6 million) of costs in respect of non-recurring investment in the development of the division's client propositions and technology platform. The division continues to expect the total non-recurring investment in this initiative to amount to £18 to 20 million, of which £15 million has been incurred to date.

AuM increased 39%, or £2.7 billion, to £9.6 billion (31 July 2010: £6.9 billion), principally reflecting acquisitions of £2.6 billion in Private Clients, partly offset by the sale of the property funds business in Institutional. The group also benefited from positive market movements of £0.5 billion whilst net new funds were modestly positive overall.

The division's focus is on its Private Clients business, where AuM increased 96% to £6.5 billion (31 July 2010: £3.3 billion) and accounted for 68% (2010: 48%) of total AuM at the year end. This includes £2.6 billion of acquisitions made during the year: Chartwell, with £705 million of advised and execution only assets; Allenbridge, with £440 million of execution only assets; and Cavanagh, with £1.5 billion of advised client assets. Private Clients also achieved net new funds of £249 million, or 8% of opening AuM, through strong new business volumes predominantly from high net worth clients. Positive market movements accounted for a further £291 million increase.

Institutional AuM reduced 14% to £3.0 billion (31 July 2010: £3.6 billion), reflecting the sale of the group's property funds business, with £554 million of AuM. Positive market movements of £249 million were largely offset by net outflows of £203 million. As part of the refocusing of the division, in July 2011 the group agreed the sale of the property investment management business of OLIM, with £383 million of AuM at 31 July 2011, to the management team for a consideration of £3 million. The sale is expected to complete by the end of the calendar year and is not expected to have a material effect on the group's financial statements. In addition, the division expects around £1 billion of AuM currently managed on behalf of a third party institution to be redeemed during the first half of the 2012 financial year.

The aim of the division's investment management process is to deliver consistent long-term growth and risk adjusted returns, whilst managing downside volatility. In the last 12 months market movements increased Private Clients AuM by 9%, in line with the increase of 9% in the APCIMS Balanced Portfolio Index.

Nancy Curtin, Chief Investment Officer and Douglas Naismith, Institutional

Andrew Fay, Wealth Management

Paul Chambers, Asset Management division Finance

Key Figures (Continuing Operations)[1]

	2011 £ million	2010 £ million	Change %
Adjusted operating income	**63.8**	60.6	5
Management fees on AuM	**57.3**	48.1	19
Other income[2]	**6.5**	12.5	(48)
Adjusted operating expenses	**(72.4)**	(62.1)	17
Adjusted operating loss	**(8.6)**	(1.5)	
Management fees/average AuM (bps)	**70**	73	
Closing AuM	**9,558**	6,881	39

[1]Excludes the AuM and operating result for the UK offshore and Cayman Islands businesses, the sales of which completed during the financial year and which are classified as discontinued operations under IFRS 5.
[2]Includes income on investment assets, performance fees and other income.

Assets under Management

	Private Clients £ million	Institutional £ million	Total £ million
At 1 August 2010	3,324	3,557	6,881
New funds raised	526	496	1,022
Redemptions, realisations and withdrawals	(277)	(699)	(976)
Net new funds	249	(203)	46
Acquisitions	2,645	–	2,645
Disposals	–	(554)	(554)
Market movement	291	249	540
At 31 July 2011	**6,509**	**3,049**	**9,558**
Change	96%	(14)%	39%

Asset Management Key Financial Ratios

	2011	2010
Operating margin	**(13)%**	(2)%
Expense/income ratio	**113%**	102%
Compensation ratio	**65%**	59%
Return on opening equity	**(9)%**	(2)%
Private Clients net new funds/opening AuM	**8%**	9%

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

Business Review
Principal Risks and Uncertainties

The group seeks to achieve an appropriate balance between taking risk and generating sustainable returns for its shareholders. The assessment of the group's appetite for and management of those risks are therefore key components of the group's strategy and day-to-day activities. The group's approach to risk management is outlined in detail in the Governance section on pages 35 to 37. Note 34 on pages 102 to 111 provides further information, including qualitative and quantitative disclosures on the risks arising from the group's use of financial instruments.

Risk Appetite and Reputation

The group operates a conservative business model as demonstrated by its continued resilient performance. The key attributes of this model, common across the group's businesses, are simplicity, prudence, diversification, short tail risks and knowledgeable and experienced employees. The group has a proven record of generating strong profits and maintaining a stable balance sheet including during periods of stress. This does not, however, diminish the importance attached and attention given to risk management. The group's risk appetite 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.

The group considers the maintenance of its reputation paramount and fundamental to its ongoing success. The group's risk appetite and risk management framework are designed to protect that reputation. This is underpinned by a commitment to demonstrate a high level of integrity in the group's activities and to treat customers and business counterparties in a fair and open manner. Employees are required to establish, and are measured and rewarded against, individual performance objectives which include this commitment.

The principal risks and uncertainties facing the group at 31 July 2011 are listed below together with a description of the risk, how it impacts or could impact the group's businesses and the measures taken to mitigate and manage the particular risk or uncertainty. The list 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 risk and uncertainty	Group exposure	Risk mitigation and management
Economic environment Demand for the group's products and services are sensitive to global economic conditions particularly those within the UK. Underlying economic conditions influence the levels of competition the group's businesses face and their ability to trade profitably.	Underlying economic conditions could impact the group in a number of different ways. Specific examples of impact on performance include but are not limited to: • Lower demand for the group's products and services in the Banking and Asset Management divisions; • Reduced retail and/or institutional securities trading activity leading to lower trading volumes in the Securities division; • Failure of a material institution where group or client funds are deposited and/or invested; • High bad debt charges within the Banking division due to customers inability to repay loans and reductions in asset values held as security for those loans; and • Asset write downs as a result of lower present values of future cash flows due to reduced 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 be "there when it matters" and to build long-term relationships with its customers adding resilience to trading performance in difficult economic conditions. The group's activities are diversified both across its divisions and within the divisions themselves with the result that adverse conditions for one area of the business should not necessarily impact the whole group. The Banking business model is based on conservative loan to value ratios, relatively short-term loan duration and is predominantly secured on accessible and identifiable assets. The Securities division's primary activity is to be a market-maker in short-dated exchange traded products, thereby providing liquidity to the markets within conservative trading limits, rather than proprietary trading. The Asset Management model focuses on managing, protecting and enhancing the wealth of private and corporate clients.

Key risk and uncertainty	Group exposure	Risk mitigation and management
Credit risk 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.	The group's Banking division advances loans to a range of corporates, SMEs and individuals. Failure to recover the amounts lent or the interest and fees associated with those loans could result in a significant bad debt charge. The group places surplus funding with other financial institutions. At 31 July 2011 the group placed deposits at, and held CDs and FRNs issued by, financial institutions. The group also enters into derivative contracts in order to hedge interest rate and foreign currency exposures with counterparties creating an exposure throughout the life of those contracts. As part of the acquisition of the structured deposit book from Dunbar Bank plc, taken on as part of the group's strategy of diversifying its funding sources, the group acquired equity derivatives with counterparties that hedge the embedded derivatives in the structured deposits. As such, the group is at risk of financial loss if one of its financial counterparties defaults or fails.	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. Much of the Banking division'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 has enhanced its management of credit by creating a central team to oversee the management of risk at both the transaction and portfolio level. 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, 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 in the structured deposits. 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. The Asset Management division maintains and monitors an approved list of banks and custodians for client money and assets which it controls.

Business Review
Principal Risks and Uncertainties continued

Key risk and uncertainty	Group exposure	Risk mitigation and management
Funding and liquidity risks Funding: The risk of loss caused by the inability to raise funds at an acceptable price or to access markets in a timely manner. Liquidity: The risk that liabilities cannot be met when they fall due or can only be met at an uneconomic price.	The group requires access to funding in order to support its client lending in particular within the Banking division but also trading and growth initiatives within the Securities and Asset Management divisions. The vast majority of the funding requirements for the group relate to the Banking division. Following the credit crisis of 2008, access to credit markets has become more uncertain. Inability to source sufficient funding could constrain growth and in extreme circumstances require the Banking division to reduce lending levels. The group also requires liquidity to ensure that it is able to meet its obligations as they become due in all circumstances.	The group's total funding at 31 July 2011 remained significantly in excess of its customer loans and advances. The excess is invested in assets such as FRNs, short-term CDs and gilts or placed on deposit at the Bank of England. In addition the group has diversified sources of funding and is confident that it will be able to access sufficient funding to support its operations. The group manages its liquidity to ensure liabilities are met as they fall due. The Banking division has historically maintained longer maturity funding, aiming to "borrow long and lend short".
Regulation, legislation and tax The group operates in a highly regulated environment. Changes in regulation and legislation or the basis of tax, particularly in the UK, could materially impact the group's performance.	The impact on the group's businesses caused by changes in regulation, legislation or the tax system is potentially material. Significant changes to the regulatory and legislative environment are currently being introduced. These include: • Changes to the types and levels of liquidity banks are required to hold; • Amendments to the regulatory capital regime including changes to the level and type of capital required ("Basel III"); • Required enhancement to risk management and governance processes; and • Revisions to the Financial Services Authority remuneration code. Although many of the proposed changes are aimed primarily at larger institutions, the impact on the group's business model and earnings is potentially significant.	The group monitors regulatory and legal developments and engages in dialogue with regulatory authorities on a regular basis and continues to maintain a conservative model with a strong, well capitalised and funded balance sheet and believes it is 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 approach is taken to tax issues across the group.

Key risk and uncertainty	Group exposure	Risk mitigation and management
Operational risk The risk of loss or other material adverse impact resulting from inadequate or failed internal processes, people and systems or from external events.	In common with any financial services group, operational risk is inherent to the group. The group's success is closely aligned to the abilities and experience of its employees. The ability of the group to attract and retain key personnel is critical to the group's prospects in the medium and long-term. 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. The group is also exposed to process and control failures that could give rise to losses, including those from internal or external fraud.	The group has continued to improve its operational risk management framework to ensure that operational risks are assessed, mitigated and reported in a consistent and timely manner across the group. A new central human resources department leads enhancements to the performance management framework and reviews 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. 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 enable the businesses to respond in a timely manner to a disaster event. The group undertakes a regular review of its risk and control environment which facilitates an assessment of the ongoing effectiveness of its processes and controls, including those related to fraud prevention.
Strategic risk The risk of reduction in earnings or value from the pursuit of a defective or inappropriate strategy; an inability to successfully implement a determined strategy; or that changes to the operating environment occur that invalidate strategies.	The group devotes substantial management resources to the development and execution of strategic plans supported by substantial expenditure to generate growth in customer business. If these strategic plans are not delivered as anticipated, the group's earnings could grow more slowly or decline.	The group monitors 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 budgetary reviews.

Business Review
Principal Risks and Uncertainties continued

Key risk and uncertainty	Group exposure	Risk mitigation and management
Market risk 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.	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, arising from a range of currency services offered by the Banking division. In addition the group has a small number of overseas subsidiaries and currency denominated investments.	The securities businesses are market-makers and as a result typically have lower market risk exposure than businesses which trade speculatively. Position limits are set annually for each product, sector and individual stock with real time monitoring and oversight by senior management. The Banking division does not trade in money market instruments although they are held for liquidity purposes. The group's policy is to match fixed and variable interest rate liabilities and assets utilising interest rate swaps where necessary. Interest rate mismatch policies are established by the Banking division's risk and compliance committees with compliance monitored daily. Returns from the group's capital and reserves are necessarily subject to interest rate fluctuations and as a matter of policy are not hedged. 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 110.

Governance
Report of the Directors

The directors present their report and the audited financial statements for the year ended 31 July 2011.

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 2011 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	2 to 5
Board of Directors	8 and 9
Business Review	11 to 23
Principal Risks and Uncertainties	24 to 28
Corporate Governance	31 to 41
Corporate Responsibility	42 and 43
Report of the Board on Directors' Remuneration	44 to 55
Financial Statements	56 to 112

Results and Dividends

The consolidated results for the year are shown on page 57. The directors recommend a final dividend for the 2011 financial year of 26.5p (2010: 25.5p) on each ordinary share which, together with the interim dividend of 13.5p (2010: 13.5p), makes an ordinary distribution for the year of 40.0p (2010: 39.0p) per share. The final dividend, if approved by shareholders at the 2011 Annual General Meeting ("AGM"), will be paid on 22 November 2011 to shareholders on the register as at 14 October 2011.

Directors

The current directors of the Company at the date of this report appear on pages 8 and 9. All the directors held office throughout the year ended 31 July 2011 except Geoffrey Howe who was appointed on 4 January 2011.

Directors' interests

The directors' interests in the share capital of the Company at 31 July 2011 are set out on page 51.

Appointment and powers of directors

Details on the appointment and powers of directors are set out on page 34.

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 financial year ended 31 July 2011, and remain in force at the date of this report.

Share Capital

At 31 July 2011 the Company had 150.5 million ordinary shares in issue with a nominal value of 25.0p each. Details of changes in the Company's ordinary share capital during the year are given in note 24 on page 91 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 7,050 ordinary shares of 25.0p each in satisfaction of option exercises and issued 836,898 ordinary shares of 25.0p as part of the consideration for the acquisition of Cavanagh Group plc. 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 on pages 99 and 100 of the Financial Statements.

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

The existing authority given to the Company at the last AGM to make market purchases 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 make market purchases of up to 10% of its issued share capital at the forthcoming AGM in line with current investor sentiment.

Governance
Report of the Directors continued

Details of the resolution renewing the authority are included in the Notice of AGM.

During the year ended 31 July 2011, the Company made no market purchases of its own shares ("Treasury Shares").

The Company holds Treasury Shares for the purpose of satisfying option grants and share awards under the Company's employee share plans. During the year ended 31 July 2011, 335,899 Treasury Shares were transferred out to satisfy share option awards, for a total consideration of £1.9 million. The maximum number of Treasury Shares held at any time during the year was 4.8 million with a nominal value of £1.2 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 on pages 99 and 100 of the Financial Statements.

Substantial Shareholdings
Details on substantial shareholdings in the Company are set out on page 40.

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 £1.3 billion at 31 July 2011 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 35 to 37 and in note 34 on pages 102 to 111 to the Financial Statements.

Supplier Payment Policy
All banking, securities and investment transactions are settled in accordance with applicable terms and conditions of business agreed with the counterparty. Average creditor days for all other approved expenses was 19 (2010: 22).

Charitable and Political Donations
The group made charitable donations in the year amounting to £228,500 (2010: £281,000). Further details are set out in the Corporate Responsibility report on pages 42 and 43. No political donations were made during the year (2010: £nil).

Resolutions at the AGM
The Company's AGM will be held on 17 November 2011. 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, approval of a new Save As You Earn ("SAYE") scheme 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 re-appoint Deloitte LLP as the Company's auditor and to give the directors the authority to determine the auditors' 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
- He has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

By order of the board

Elizabeth Lee
Company Secretary

27 September 2011

Governance
Corporate Governance

As chairman of the Close Brothers Group plc board I am responsible for leading the board and promoting corporate governance best practice and the following report will explain and give you an understanding of how the group is governed. This year has been a period of development for the board. In line with the recommendations of the Walker report the board established a separate Risk Committee in December 2010 chaired by Ray Greenshields, who undertook a detailed and extensive induction programme in conjunction with his appointment as chairman of the committee. The committee has specific responsibility for providing oversight and advice to the board on group risk appetite, risk profile and alignment to risk appetite, the risk management framework, the alignment of reward structures to risk appetite and risk management culture. Further details on the work of the committee can be found on page 37.

We welcomed Geoffrey Howe as a new independent non-executive director and he brings with him extensive financial and legal services experience. Geoffrey participated in a comprehensive induction programme to familiarise himself with the group and we continued to develop our existing directors and their knowledge by introducing a structured training programme which included site visits to a number of our London and regional offices.

The board continued to monitor and assess the group's performance, benchmarking it against the competition and ensuring that the group has the proper allocation of resources and appropriate governance structure for its future expansion. There were a number of additional meetings over and above the normal scheduled meetings and the directors continued to make themselves available, often at short notice.

This report will demonstrate that Close Brothers is committed to high standards of corporate governance throughout the group.

Strone Macpherson
Chairman

27 September 2011

Governance
Corporate Governance continued

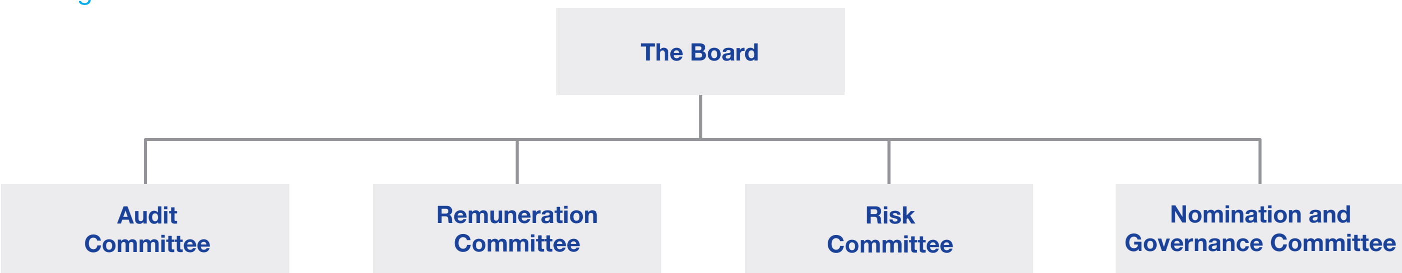
Compliance
In May 2010 the new UK Corporate Governance Code ("the Code") was issued by the Financial Reporting Council replacing the previous Combined Code on Corporate Governance for financial years beginning on or after 29 June 2010. The Code has been applied by the Company since the start of the current financial year on 1 August 2010.

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 listed 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 with effect from 4 January 2011, when Geoffrey Howe was appointed as an additional independent non-executive director. Prior to this date less than half the board of directors, excluding the chairman, were independent but the Company's governance regime was otherwise fully compliant.

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

Governance Framework
Board governance structure



Executive Committee
Responsible for developing strategy, setting business objectives and assisting the chief executive with management of the group

Board and committee meeting attendance 2010/2011
The attendance of directors at board meetings and committee meetings of which they are members 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			Nomination and Governance Committee			Remuneration Committee			Risk Committee[2]		
	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	2	**10**	5	–	**5**	4	–	**4**	4	2	**6**	7	–	**7**
Executive director															
Stephen Hodges	8	2	**10**												
Jonathan Howell	8	2	**10**												
Preben Prebensen	8	2	**10**												
Non-executive director															
Bruce Carnegie-Brown	8	2	**10**	5	–	**5**	4	–	**4**	4	2	**6**	7	–	**7**
Jamie Cayzer-Colvin	8	2	**10**												
Ray Greenshields	8	2	**10**	5	–	**5**	4	–	**4**	4	2	**6**	7	–	**7**
Geoffrey Howe[1]	4	2	**6**												
Strone Macpherson	8	2	**10**				4	–	**4**						
Douglas Paterson	8	1	**9**	5	–	**5**	4	–	**4**	4	1	**5**	7	–	**7**

[1]Geoffrey Howe joined the board on 4 January 2011. In the period from 4 January 2011 to 31 July 2011, a total of seven board meetings were held.
[2]The Risk Committee was established in December 2010.

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 decided 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 delegates some matters to its committees as set out in each committee's terms of reference which can be found at www.closebrothers.co.uk/boardcommittees.aspx. 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 reviewed at the appropriate point in the financial and regulatory cycle.

During the year, the board has, in particular, focused on:

- Internal Capital Adequacy Assessment Process ("ICAAP") and reverse stress testing;
- Budget for the 2011/2012 financial year;
- Capital management;
- Acquisitions and disposals;
- Appointment of a new director;
- Results of the employee survey;
- Director training and development;
- Board and committee evaluation; and
- Implications of the Bribery Act and the new regulatory regime.

Board size, composition and independence

The board currently comprises nine members: the chairman, three executive directors and five non-executive directors. Geoffrey Howe was appointed as a non-executive director in January 2011. We believe that this size of board is appropriate for the Company and provides a broad range of views, knowledge and experience whilst also allowing effective participation and challenge by all directors. The structure of the board ensures that no individual or group of individuals is able to dominate the decision making process. The Company is committed to ensuring that any vacancies arising are filled by the most qualified candidates and recognises the value of diversity in the composition of the board. When board positions become available as a result of retirement or resignation the Company will be focused on ensuring that a diverse pool of candidates is considered.

Details of the individual directors and their biographies are set out on pages 8 and 9.

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 regarded as independent, with the exception of Jamie Cayzer-Colvin who is a director of a substantial shareholder. The board's opinion was determined by considering for each non-executive director:

- Whether 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.

Meetings and attendance

The board has regular scheduled meetings. During the year ended 31 July 2011 there were eight scheduled board meetings and two ad hoc board meetings 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 32.

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. In addition, each director may review the agenda and propose items for discussion with the chairman's agreement.

Governance
Corporate Governance continued

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 9. 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 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.

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.

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 2010 AGM.

Board evaluation
In 2009 Boardroom Review undertook an extensive independent external review of the board and its Committees. In 2010 they were re-appointed to consider the board's progress; the 2010 evaluation demonstrated considerable progress in the board's strategic processes and the overall strengthening of the group's governance structure. In 2011 the Nomination and Governance Committee recommended that the board evaluation should be undertaken internally. The formal and rigorous internal evaluation was led by the company secretary and took the form of confidential questionnaires which assessed the performance of the board with separate specific evaluations completed by board committee members for each of the board committees. The board evaluation focused on the following areas:
- Board 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 board in July.

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

Themes arising which will form the basis of an action plan for 2011/2012 are:

- Continued focus on non-executive director succession planning;
- Ensuring there are a wide range of backgrounds and diversity on the board;
- Focus on execution of strategy; and
- Ensuring clarity on the purpose and focus of the Risk Committee.

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

Induction and professional development

On joining the board all directors receive a formal, personalised induction programme to meet their specific requirements. The Company also provides bespoke inductions for directors when they are appointed as a committee chair. In January 2011, Geoffrey Howe was appointed as a non-executive director and received a broad induction tailored to his experience and needs which included site visits, one to one meetings with the executive directors, the company secretary, senior management for the business areas and support functions and a confidential meeting with the external auditor.

Ray Greenshields was appointed chairman of the newly created Risk Committee in December 2010 and undertook a comprehensive induction for that role which included meetings with the chief risk officer, executive directors, senior management across the business areas, heads of the group operating functions, site visits and a tailored training programme with PricewaterhouseCoopers.

Based on feedback from the 2010 board evaluation a central training programme was introduced for the directors which received positive feedback in the 2011 board evaluation. The training took the form of site visits, including visits to the Banking division's Retail and Commercial businesses at Tolworth and the Winterflood business, 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 Bribery Act;
- The new regulatory regime;
- Treating customers fairly;
- Corporate governance and internal audit; and
- Regulatory risk management.

All directors attended two dedicated strategy sessions in October 2010 and May 2011. Both sessions lasted a day and half and focused on strategy development and execution.

In addition, the chairman discusses and agrees any specific development requirements as part of each non-executive director's half year and year end reviews.

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 the group's risk management framework, regulatory compliance and internal control and for ensuring that they work effectively. 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's risk management framework has continued to evolve. Governance has been strengthened by the establishment of the Risk Committee, outlined in detail on page 37, to lead the management of risk across the group. This is supported by risk and compliance committees in the divisions with responsibility for risk management, internal control and regulatory compliance.

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 unexpected loss.

The group reviews and revises its risk appetite as part of the strategy setting process and identifies its material risks through this process. This aligns risk taking with the achievement of strategic objectives.

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 them within their 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 following table:

Governance
Corporate Governance continued

1st line of defence	2nd line of defence	3rd line of defence
Group Risk and Compliance Committee Reports to the board via the Risk Committee. 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. 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. 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.	**Risk Committee** Reports to the board. Risk Committee delegates to the chief risk officer day-to-day responsibility for oversight and challenge on risk related issues. 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. 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".	**Audit Committee** Reports to the board. Audit Committee mandates the head of group internal audit with day-to-day responsibility for independent assurance. 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: • 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.

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, not simply to maximise short-term profits;
- Risk functions are independent of the businesses but partner closely with and provide support and challenge to 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 Committee

Membership

The committee is chaired by Ray Greenshields. The other members of the committee are Douglas Paterson and Bruce Carnegie-Brown who chair the Audit and Remuneration Committees respectively. All members of the committee are independent non-executive directors. A record of attendance at meetings since the committee was established in December 2010 is set out on page 32.

Responsibilities

The committee's primary responsibilities are to:

- Develop, review and recommend risk appetite in the context of both the group's strategy and the economic, market and regulatory environment;
- Monitor the risk profile in relation to current and future strategy and ensure that it is consistent with the risk appetite;
- Consider, evaluate, monitor and challenge the appropriateness and effectiveness of the risk management framework and the oversight arrangements in relation to the business undertaken and risk profile;
- Review and challenge reports and recommendations regarding current risk exposures and overall risk strategy and discuss mitigation, providing advice as appropriate;
- Consider and assess the implications of proposed regulatory and legal changes that are material to the risk profile, risk appetite and management of risk;
- Oversee and challenge the design and execution of stress and scenario testing;
- Provide the advice, oversight and challenge necessary to embed and maintain a supportive risk culture; and
- Agree recommended actions, as appropriate, and ensure that these are owned and followed through to completion.

In addition the committee:

- Provides input and advice to the Remuneration Committee on the alignment of reward structures to the group's risk appetite; and
- Considers and approves the appointment and dismissal of the group chief risk officer.

Meetings

Since the committee was established in December 2010, a total of seven meetings of the committee were held during the year ended 31 July 2011.

The company secretary, or her nominee, acts as secretary to the committee. The group chief risk officer and the group head of compliance attend all meetings and all other non-executive and executive directors who are not committee members attend by invitation.

Other executives, subject matter experts and external advisers are also invited to attend the committee and, as required, to present and advise on reports commissioned by the committee.

Work in 2011

At each committee meeting, the group chief risk officer provides the committee with a presentation on the key risk issues faced by the group. An update is also given on the key issues discussed at the group's executive risk forum the Group Risk and Compliance Committee ("GRCC") and minutes of the GRCC are included in the committee packs for review.

During 2011, the work of the committee particularly focused on a number of key areas, including:

- Oversight of the review, design and implementation of an enhanced risk management framework and received regular reports on the enhancement of the group risk policy framework;
- The group risk appetite framework was developed significantly during 2011 and continues to be enhanced. Risk appetite was regularly reviewed by the committee, which makes recommendations to the board on risk appetite and tolerance as part of this ongoing process;
- Considering the group's risk profile relative to current and future group strategy. The committee reported to the board following each meeting on its consideration of the risk profile of the group and any longer-term macroeconomic or perceived strategic threats to the group and made recommendations as appropriate;
- Providing oversight and challenge for the scenario-based operational risk capital methodology in order to assess the risk capital requirements;
- The committee received additional in depth business reviews on risk management in treasury and credit risk management. These provided a key insight to the risks and associated drivers and how they are measured, controlled and mitigated;
- Review of the risk management operating model, strategy and policy;
- Oversight of the ICAAP with detailed review and challenge of the assumptions and conclusions;
- Consideration of the Individual Liquidity Adequacy Assessment ("ILAA"); and
- The output of stress testing and scenario planning.

The chairman of the committee together with the chief risk officer has a formal programme of meetings with senior management across the group in addition to regular ad hoc meetings.

The Company has complied with the Turnbull Committee guidance for directors. Identifying, evaluating and managing the group's significant risks is an ongoing process which is regularly reviewed by the board, and which has been in place for the year ended 31 July 2011 and up to the date of the approval of these financial statements.

Governance
Corporate Governance continued

Audit Committee
Membership
The committee is chaired by Douglas Paterson. The other members of the committee are Bruce Carnegie-Brown and Ray Greenshields who chair the Remuneration and Risk Committees respectively. All members of the committee are independent non-executive directors and served throughout the year. A record of attendance at meetings during the year ended 31 July 2011 is set out on page 32.

Responsibilities
The committee's primary responsibilities are:
- Monitoring the integrity of the financial statements of the Company and the form and content of published announcements;
- Reviewing the appropriateness of the group's accounting policies, accounting treatments, judgements and disclosures in relation to the financial affairs of the group;
- Reviewing the adequacy of the group's system of regulatory compliance and internal control;
- Monitoring the group's processes for internal and external audit; and
- Monitoring and reviewing the group's whistleblowing procedures.

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

Audit Committee chairman
Douglas Paterson was a senior partner in the banking and capital markets division of PricewaterhouseCoopers until 2001, is a non-executive director of Goldman Sachs International Bank and has, in the view of the board, the appropriate level of recent and relevant financial experience as required by the Code.

The committee chairman plays a leading role in the setting of the annual agenda planning for the committee and with the agenda for each committee meeting. Prior to every committee meeting, the committee chairman holds a meeting with the group finance director, the heads of group internal audit, compliance and risk, company secretarial and the group financial controller to ensure he is fully briefed on all relevant issues and that these are brought to the attention of the committee. In addition he has regular contact with the lead external audit partner throughout the year.

Meetings
A total of five meetings of the committee were held during the year ended 31 July 2011. The committee meetings were scheduled to coincide with the financial reporting and audit cycles of the group. The committee has throughout the year monitored the integrity of the financial statements through a review of the interim and annual reports.

The company secretary, or her nominee, acts as secretary to the committee. The external auditor and the head of group internal audit attend all meetings and the committee meets privately with them at each meeting. The chairman of the board, Jamie Cayzer-Colvin and Geoffrey Howe who are both non-executive directors, the executive directors, heads of internal audit, risk and compliance and the group financial controller attend by invitation.

Other executives, subject matter experts and external advisers are also invited to attend the committee and, as required, to present and advise on reports commissioned by the committee.

Work in 2010/2011
During the year, the committee focused on a number of key areas, including:
- The group's annual and half year reporting including significant reporting judgements made by management;
- Reviewing the accounting issues and proposed accounting treatments relating to the business acquisitions and disposals in the Asset Management division;
- Monitoring market developments in disclosures including reviewing a summary of the recommendations of the Financial Reporting Council discussion paper on Effective Company Stewardship;
- Reviewing the reports of the internal and external auditor;
- Reviewing and approving a revised policy for the approval of non-audit services for the external auditor and the co-source internal audit provider;
- Considering the impact on the committee of the creation of the new Risk Committee; and
- Oversight of the project to implement a new general ledger within the Banking division.

In its consideration of each of these respective areas, the aims of the committee have been to:
- Understand and challenge the valuation and other accounting judgements made by management;
- Satisfy itself that the disclosures in the financial statements about these estimates and valuations are transparent and appropriate;
- Review the conclusions of the external auditor and, where applicable, other experts to understand how they came to their conclusions;
- Satisfy itself that the group internal controls and policies are adequate and appropriate; and
- Ensure controls are in place over the implementation of relevant major projects.

The external auditor presented for approval to the committee their audit plan, audit fee proposal and engagement letter, as well as confirmation of their independence. In addition the external auditor provided the committee with reports summarising their main observations and conclusions arising from their year end audit, half year review and recommendations for enhancements to the group's reporting and controls.

Group internal audit

The committee receives a report from the head of group internal audit at each meeting. The head of group internal audit has unfettered access to the committee and meets privately with them at each meeting. The head of group internal audit reports functionally to the committee through the chairman of the committee and to the finance director, who provides support and guidance to the function including with regard to the professional development of the head of group internal audit. Group internal audit's role is to assess continuously how operating risks are being managed and controlled throughout the group, to report regularly to the committee on the results of these assessments and influence the continuous development of the risk management and control process through sharing best practice. An annual internal audit plan is presented to the committee each year which focuses in particular on higher risk areas of the group's business. The committee actively monitors the audit reports and ensures relevant matters raised are dealt with in a timely and appropriate manner. These reports offer the committee oversight of group internal audit's work and the co-source internal audit provider and allow the committee to monitor the level of internal control within the group.

External auditor

Deloitte LLP has been the sole auditor of the group since 2008.

The committee is responsible for making recommendations to the board in relation to the appointment, re-appointment and removal of the external auditor and the board submits the committee's recommendations to shareholders for their approval at the AGM. The committee also approves the terms of engagement of the external auditor and fixes their remuneration as authorised by shareholders at the AGM. The board has endorsed the committee's recommendation that shareholders be requested to approve the re-appointment of Deloitte LLP as external auditor at the AGM on 17 November 2011.

The committee undertakes an annual evaluation to assess the independence and objectivity of the external auditor and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements. The annual evaluation is carried out following completion of the annual report and audit.

In assessing the effectiveness of the group's external auditor the committee has regard to:

- The experience and expertise of the engagement team;
- The proposed scope of the audit work planned and executed;
- The quality of the dialogue between the external auditor, the committee and senior management;
- The clarity, quality and robustness of written reports presented to the committee setting out the external auditor's findings arising from the audit;
- The quality of the observations provided to the Company by the external auditor on the group's systems of internal control; and
- The views of management on the performance of the external auditor.

The outcomes of the evaluation were considered by the committee and the board.

There are no contractual obligations restricting the Company's choice of external auditor.

Audit and non-audit work

The committee has adopted a policy on the engagement of the external auditor to supply audit and non-audit work, which takes into account relevant regulation regarding the provision of such services by an external audit firm.

The committee approved a revised policy for the award of non-audit work to the external auditor during the year. The key elements of the policy are:

- The external auditor may not be used where the provision of such services breaches ethical rules or guidelines or where the committee believes there is a threat to auditor independence;
- The provision of any non-audit work expected to exceed a value of £100,000 must be pre-approved by the committee;
- Fees under £100,000 are not considered to be significant in terms of the overall audit fee and are pre-approved, subject to confirmation from the auditor and the agreement of the group financial controller, that the scope neither breaches rules nor impairs independence;
- The committee chairman is informed of all assignments incurring fees of over £10,000 throughout the year; and
- The committee is consulted where cumulative non-audit fees in any given year may exceed the annual audit fee.

The policy reflects the committee's view that there are benefits to the auditor carrying out non-audit work where it is closely related to the audit, where a detailed understanding of the group is required and/or where they can deliver a better value and higher quality service than available elsewhere in the market. The committee balances these benefits with the potential impact on auditor independence.

A breakdown of the fees paid to the external auditor is included in note 6 on page 76 of the Financial Statements. Examples of non-audit work awarded to the external auditor in the year to 31 July 2011 include:

- Transaction support on a business disposal;
- Tax compliance services; and
- Advice and review of the group's approach to new regulatory requirements.

Governance
Corporate Governance continued

In assessing the independence of the external auditor, the committee considers the level of non-audit work carried out. Having given consideration to the additional non-audit work undertaken by the auditor in the year, and after review with the audit partner and the executive directors, the committee is satisfied as to the independence of the external auditor.

Nomination and Governance Committee
The committee is chaired by Strone Macpherson. The other members of the committee are 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 and served throughout the year. A record of attendance at meetings during the year ended 31 July 2011 is set out on page 32.

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 2010/2011
During the year the committee focused on:
- Reviewing and recommending a new non-executive director appointment;
- Talent management and succession planning;
- Board evaluation;
- Diversity; and
- Time commitment of non-executive directors.

Remuneration Committee
Details of the role and work of the committee are set out in the Report of the Board of Directors' Remuneration on pages 44 to 55.

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.

In addition to formal announcements and reporting around the financial calendar, the IR programme includes meetings, telephone discussions and investor presentations. During the year detailed presentations on the group's Banking and Asset Management divisions were held in order to provide shareholders with additional detail on the business and strategy of these divisions.

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 questions to the board at the AGM, either in person or by submitting written questions in advance. The chairmen of each of the board committees attend 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.co.uk.

Substantial Shareholdings
The Company has been notified at 16 September 2011 under the provisions of the Disclosure and Transparency Rules of the following significant interests in the voting rights of the Company.

	Ordinary shares millions	Voting rights %
Caledonia Investments	19.6	13.45
Lloyds Banking Group	16.9	11.58
Prudential	11.6	7.93
Aberdeen Asset Management	6.6	4.52
Artemis Investment Management	6.0	4.08
Legal & General	5.3	3.62
Schroders	5.0	3.39
Aviva	3.0	2.02

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 2 to 5 and 11 to 23 respectively. The principal risks and uncertainties the group currently faces are described on pages 24 to 28 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 UK 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 directors' report, 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

27 September 2011

Governance
Corporate Responsibility

Introduction

The group's focus on corporate responsibility ("CR") is underpinned by its commitment to conduct its business in a socially responsible manner. This includes recognising the needs of different stakeholders such as customers, employees and investors as well as being involved with and supporting local communities.

The group has developed clear business principles and guidelines to ensure CR objectives are met and integrity is maintained throughout all its divisions. It is the responsibility of each of the divisions to implement the group's CR objectives in their day-to-day activities and ensure they are widely communicated across the divisions.

A CR committee was established in 2010 and is chaired by a member of the executive committee. The committee includes representatives from across the divisions and provides a forum for sharing ideas and raising awareness of the group's CR objectives. During the year, it continued to focus on employee engagement and contribution to the community and has made some significant progress in these areas, in particular conducting the employee opinion survey and increasing involvement in the Give As You Earn ("GAYE") scheme.

The group also recognises the importance of embedding broader CR principles into the businesses including acting responsibly with customers, as well as monitoring and minimising its impact on the environment.

Employees

Equal opportunities and diversity

The group remains committed to providing equal opportunities to its employees and values diversity amongst its workforce. This is with regard to both recruitment of new talent and to the promotion and development of existing employees. This is supported by the divisional Recruitment and Equal Opportunity policies which encourage equality of opportunity regardless of race, gender, age, disability, sexual orientation or religion.

Employee opinion survey

The group values communication and feedback with its employees and as planned conducted a group wide Employee Opinion Survey in December 2010. This provided employees with the opportunity to give honest and confidential feedback on their views of the group and how it operates. The group made a charitable donation for each survey completed and achieved a response rate of 80%. Whilst the survey identified that employee engagement is a strength, it also identified areas for improvement, in particular with regard to employee communication. In response to this feedback, dedicated internal communication teams were established and action plans agreed to address this which include using the intranet to communicate more widely, distributing divisional newsletters, providing regular business updates and "lunch and learn" sessions to improve understanding of the different businesses and operating functions.

Training and development

The group remains committed to the training and development of all its employees, recognising the importance of the workforce to the performance of the group. Employees participated in a formal annual performance review where performance is measured against agreed objectives. The reviews also cover the employee's development and training requirements which are discussed and documented. During the year, divisional training programmes have been introduced to develop managers and cover core management skills such as communication, recruitment and performance management.

Employee benefits

All divisions offer pension and life assurance to all UK based permanent employees and an employee assistance programme giving employees and their immediate families the ability to discuss work, health or family matters confidentially. The group promotes its SAYE scheme to all eligible UK based employees and approximately one third of all staff participate in the scheme.

Health and safety

All divisions have health and safety policies which are communicated through the health and safety representatives to staff via induction packs, staff handbooks or the intranet.

Responsible Finance

The group recognises its CR in all aspects of its lending to and dealing with customers. Its priority is to agree optimum lending solutions through working closely with its clients and maintaining relationships.

Treating customers fairly ("TCF")

TCF is core to the group's business culture and has been embedded within the group. The group has formal TCF policies which document the minimum standards that are required, to ensure the TCF concepts work effectively. Divisional boards approve the policies for their relevant businesses and review TCF heatmaps at board meetings. The scope and content of TCF reporting is subject to review at least annually and all staff are given TCF training which is appropriate for their role.

Complaint handling

Understanding and dealing with complaints from customers is a priority for the businesses to ensure customers are fully satisfied and concerns are appropriately addressed. Complaint handling processes are regularly monitored by compliance teams and improvements are made where necessary to ensure regulatory requirements are followed where appropriate and good practice prevails across the businesses.

Anti-bribery and corruption
The group is committed to operating with the highest standards of ethical and professional conduct. The group's anti-bribery and corruption policy applies to all employees and is regarded as the minimum standard for all businesses. The group adheres to the Bribery Act 2010 and during the year all employees have been given appropriate training. Group compliance, group risk and group internal audit will, through their reviews and audits, ensure that anti-bribery policies and procedures are followed across the group.

Anti-money laundering
The group complies with all applicable anti-money laundering regulations and appropriate "know your customer" procedures are carried out for each customer with or for whom the group conducts business. Each of the groups regulated entities has a dedicated money laundering reporting officer and compliance officer and regular training is provided to staff to raise awareness.

Whistleblowing
The group seeks to achieve the highest possible standards of openness and accountability. This is communicated through a whistleblowing policy which states employee's responsibilities on this matter and protects those employees who expose wrongdoing.

Environment
As the group continues to grow, it recognises the increasing importance of ensuring it minimises the impact of its activities on the environment.

Energy consumption and carbon management
The group aims to reduce its energy consumption and carbon footprint of its electricity and contribute to the UK commitment of reducing greenhouse gas emissions.

Following an energy audit in September 2008 at the group's head office, 10 Crown Place, a further audit took place in July 2010 which identified potential energy savings which are now being implemented, including a more formal energy management process to monitor and maintain efficiencies. A third party energy management company has also been appointed to assist with the provision of energy market information and support the group's head office in energy purchasing and carbon management reporting.

As part of the group's compliance with the Carbon Reduction Committee Energy Efficiency Scheme ("CRC"), an information disclosure has been made on the CRC Registry. The group is not required to report any future emissions data or purchase allowances for the remainder of this phase of the scheme.

Waste reduction and recycling
In line with the group's efforts to improve waste management and recycling facilities, it continues to recycle toners, paper and general waste.

Community
The group encourages all staff to participate in the community and support charitable causes and offers a number of opportunities for involvement.

Charitable donations
During the year, the group has established a charitable partnership with The Prince's Trust and for the first time held a number of group wide fundraising events.

Give As You Earn
The group continues to promote the GAYE scheme. Participation in the scheme has increased to 11% (2010: 10%) of all group employees, and the group achieved a Payroll Giving Quality Mark Gold Award in April 2011 in recognition of the strong participation rate.

Volunteering
The group encourages employees to volunteer in projects to help make a difference in local communities. The group will shortly be promoting staff participation in a school reading partnership project which is a ten week project where staff volunteer their time to read with children from a Tower Hamlets school in London. The group intends to continue promoting further opportunities for employee volunteering.

Matched giving
In order to encourage both individual and team fundraising efforts, during the year the group has introduced a policy offering support for staff involved in fundraising. This matched giving policy offers employees the chance to have 30% of the raised amount, up to a maximum of £250, matched by the group.

As a result of this, and increased involvement in the GAYE scheme, the group donated £228,500 (2010: £281,000) to charitable causes. Of this, approximately 25% was contributed by matched funding schemes for employees and the remainder through direct group contributions.

Work experience
The group continues to offer two work experience programmes throughout the year. These provide young students and school children with the opportunity to work in various departments within the group, gaining practical experience of a financial services group.

Governance
Report of the Board on Directors' Remuneration

This report has been prepared in accordance with the relevant provisions of Schedule 8 to the Accounting Regulations under the Companies Act 2006 and has been approved by the board. The report also meets the relevant requirements of the Listing Rules of the FSA and describes how the board has applied the principles relating to directors' remuneration in the UK Corporate Governance Code. It will be presented to shareholders for approval at the AGM on 17 November 2011.

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

Introduction

The key issue facing the Remuneration Committee this year has been the significant regulatory changes governing remuneration which have been introduced during the year and, in particular, those required by the FSA's Remuneration Code for financial institutions ("Remuneration Code"). As forecast in the Annual Report 2010, the group has made a number of changes and enhancements to its remuneration structures and practices to ensure compliance with the Remuneration Code. The regulatory changes have also driven some significant changes in market practices. Within this environment the committee has attempted to balance the needs of shareholders, regulators, executives and employees.

The committee reviewed the remuneration approach across the group, particularly with a view to ensuring it is aligned with the Remuneration Code. As a result the remuneration governance, performance management and compensation review processes across the group have been further enhanced this year to increase focus on the importance of good risk management and alignment of pay with both financial and non-financial performance measures for all staff.

Code staff are the group's employees whose professional activities have a material impact on the firm's risk profile ("Code Staff"). The committee reviewed individual justifications for the bonus awards to Code Staff within the group. The remuneration of Code Staff is subject to specific requirements within the Remuneration Code.

The new remuneration policies and approaches that have been reviewed and implemented by the committee over the year are outlined in the section entitled "Activities during the year". By implementing these changes, the committee believes that the group has ensured compliance with the Remuneration Code, has remuneration structures in place that are appropriate to its business model and organisational structure and are supportive of the group's strategy.

The committee chairman will be available to answer questions at the forthcoming AGM on 17 November 2011.

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 "Risk Appetite and Reputation"); 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. This includes bonuses, incentive payments, share options, share awards and benefits;
- Approve the design and targets of any performance related pay schemes operated by the group;
- Review the design of all employee share incentive plans, including the granting of awards, the setting and testing of performance conditions and the exercise of any discretion on the granting of good leaver status or regarding material amendments to the plan rules not requiring the approval of shareholders;
- 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 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 is chaired by Bruce Carnegie-Brown. The other members of the committee are Ray Greenshields and Douglas Paterson who chair the Risk and Audit Committees respectively. All members of the committee are independent non-executive directors and served throughout the year. The chairman of the board, chief executive, group head of human resources, group head of reward, Jamie Cayzer-Colvin and Geoffrey Howe, both non-executive directors, attend meetings by invitation. The company secretary or her nominee acts as secretary to the committee. A record of attendance at meetings during the year ended 31 July 2011 is set out on page 32.

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 six occasions during the year and discussed, amongst others, the issues set out as follows:

Meeting	Agenda Items
24 November 2010	• Review of the assessment process for the strategic goals elements of the 2009 Long Term Incentive Plan ("2009 LTIP") Awards; and • Review and approval of divisional reward and deferral schemes.
27 January 2011	• Review of the Remuneration Code requirements; • Review and approval of the group wide reward policy; • Approval of adjustments to governance documents to incorporate TCF requirements; • Review and approval of the annual remuneration review calendar; and • Review and approval of the revised divisional adviser incentive scheme.
20 April 2011	• Review of the current status and potential changes required to ensure compliance with the Remuneration Code; and • Review of the anticipated bonus pool spend for 2010/2011.
6 June 2011	• Review and approval of increases in fixed remuneration for some Code Staff, in line with FSA guidelines.
29 June 2011	• Review of initial proposals for the 2010/2011 compensation review; • Review and approval of share plan and deferral changes as a result of adopting the Remuneration Code; and • Review of employee performance evaluation process across the group.
28 July 2011	• Review and approval of 2009 LTIP awards for 2011; • Review and approval of final bonus pools; • Review and approval of specific recommendations for salary and bonus awards to the executive directors and Code Staff within the group; and • Review and approval of changes to compensation structures for Code Staff to ensure compliance with the FSA Remuneration Code.

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, and changes required by, the Remuneration Code;
- Periodic monitoring of the 2004 Long Term Incentive Plan ("2004 LTIP") and 2009 LTIP total shareholder return ("TSR") targets; and
- Advice on the structure of long-term incentive awards.

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

Chief executive
- 2010/2011 compensation recommendations for executive directors and other senior executives; and
- Recommendations regarding divisional incentive structures.

Group head of human resources and group head of reward
- Approach to assessing performance against the strategic goals in the 2009 LTIP;
- Changes to remuneration policies, structures and practices required by the Remuneration Code;
- Governance on approval for reward and termination packages;
- Approach to the compensation review process across the group;
- Approach to performance evaluation of all employees across the group; and
- Approach to divisional incentive structures.

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 TCF 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	Policy
Base salary	• The committee determines the level of base salary for each executive director annually taking into account salaries in relevant comparator companies and specific factors relating to individual performance. Pay for the broader employee population is also taken into account when setting base salaries.
Annual bonus	• Executive directors and other senior executives are eligible to receive annual bonus awards under which discretionary payments may be made based on the achievement of pre-determined objectives. As agreed with shareholders in 2009, the annual bonus for 2011 for executive directors is capped at 300% of base salary. • Bonuses for the executive directors are delivered in line with the requirements of the Remuneration Code. A minimum of 60% of the variable remuneration is deferred for up to three years and at least half is delivered in the Company's shares. Variable remuneration consists of annual bonus awards and Long Term Incentive Plan ("LTIP") awards. The LTIP awards are valued at 60% of face value for the purposes of calculating deferral. • 50% of the bonus that is not deferred is paid immediately in cash. The remaining 50% of the non-deferred element is delivered in accordance with the Remuneration Code retention period requirements, in the form of Close Brothers Group plc shares that vest immediately but are only released after six months (the "Non-deferred Shares"). • As a result, a maximum of 20% of the annual variable remuneration for executive directors is paid in cash with no deferral.
Deferred Annual Bonus and Deferred Cash Bonus Plan	• For executive directors, the deferred bonus element is delivered in a combination of group shares through the Deferred Annual Bonus ("DAB") and deferred cash through the Deferred Cash Bonus Plan ("DCBP"), subject to the requirements of the Remuneration Code. Both plans vest in three equal tranches over three years. This year the deferral period has been extended from two to three years. On vesting the shares also have an additional six month holding period. • Both plans are subject to forfeiture and may be reduced after grant in certain adverse circumstances ("malus").
Share Matching Plan ("SMP")	• 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. Performance conditions do not apply to the Invested Shares, which will be released in full at the end of the three year deferral although the shares are also subject to a further six month retention period. • Invested Shares will be matched with free matching shares for every Invested Share subject to performance conditions over the three year deferral period ("Matching Shares"). The Matching Shares also have an additional six month holding period and are subject to forfeiture and malus provisions. • The committee has determined the matching ratio for the 2011 award for executive directors to be two Matching Shares for each Invested Share. The performance conditions for the 2011 Matching Share awards will be the same as the performance conditions in respect of this year's LTIP awards.
Long Term Incentive Plan	• The 2009 LTIP is intended to motivate executives to achieve the group's longer-term strategic objectives, to aid the attraction and retention of key staff and to 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.
Shareholding guideline	• Executive directors are required to build and maintain a shareholding of two times base salary over a reasonable timeframe.
Additional information	• For executive directors at least 60% of variable remuneration is deferred for up to three years through a combination of the DAB, DCBP, SMP and LTIP. • The structure of these deferrals is compliant with the Remuneration Code.

Note: See page 50 for details of the pension schemes.

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Report of the Board on Directors' Remuneration continued

Overview of Directors' Remuneration in 2010/2011

The key elements of the remuneration structure for the year ended 31 July 2011 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 performed well overall in the year with continued strong performance in the Banking division.

The Banking division has actively taken advantage of favourable business conditions and delivered a strong performance. In the Securities division, Winterflood has had a resilient performance notwithstanding challenging market conditions in the three months to 31 July 2011, whilst Close Brothers Seydler continued to benefit from good capital markets activity. The Asset Management division continues to invest in its Private Clients business and delivered a loss as expected. The group recognises the need to invest in Asset Management to attract, retain and motivate key individuals during this period of significant change.

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

Base salary and benefits

In determining base pay for the 2012 financial year, the committee has been mindful of the current inflationary environment. This is the first time since Preben Prebensen joined in April 2009 that he has been reviewed for a salary increase. As a result, base salaries for the 2012 financial year for Preben Prebensen, Stephen Hodges and Jonathan Howell will be increased. In the case of Stephen Hodges there has been a more significant adjustment based on the growth of the Banking division over the last two years. Details of base salaries paid during the year and the new base salaries for the executive directors are set out below. In addition, the group also provided benefits which consisted of healthcare cover, prolonged disability and life assurance cover, a company car or payment of an allowance in lieu thereof and a pension contribution or payment of an allowance in lieu thereof.

	Annual base salary		
	From 1 August 2011	1 August 2010 to 31 July 2011	Increase %
Preben Prebensen	£500,000	£475,000	5
Stephen Hodges	£450,000	£386,000	17
Jonathan Howell	£380,000	£370,000	3

Annual bonus

The annual bonus policy which was applied during the year is described on page 47. Bonus payments made in respect of the 2011 financial year were determined by equal reference to adjusted profit before tax performance and individual performance. 50% of Preben Prebensen's and Jonathan Howell's 2011 bonuses were calculated by reference to group adjusted profit before tax. 50% of Stephen Hodges' bonus was determined by a mix of group and Banking division performance. The remaining 50% for all three was determined by reference to performance against individual objectives.

Adjusted operating profit before tax for 2010/2011 was £131.2 million, a 13% increase on the prior year. Adjusted operating profit before tax for the Banking division for 2010/2011 was £106.3 million, a 34% increase on the prior year. Bonus payments for the executive directors have correspondingly been increased to reflect the performance of the group, the Banking division and the individuals themselves. Over 60% of the 2011 total variable remuneration in respect of the executive directors will be deferred, in line with Remuneration Code requirements.

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 requirements of the Remuneration Code. The number of shares comprised in the deferred awards was determined by reference to the market value of Close Brothers Group plc shares shortly following the announcement of the Company's results for the financial year. 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

	2010/2011 bonus			2009/2010 bonus			Increase/ decrease in bonus from prior year
	Total bonus	Immediate cash	Shares and deferred[1]	Total bonus	Immediate cash	Deferred	%
Preben Prebensen	£1,350,000	£384,000	£966,000	£1,285,000	£475,000	£810,000	5
Stephen Hodges	£1,158,000	£324,240	£833,760	£1,000,000	£367,500	£632,500	16
Jonathan Howell	£1,000,000	£288,800	£711,200	£950,000	£360,000	£590,000	5

[1]This includes the Non-deferred Shares, 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 28 September 2010 which was 743.6p 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 (the "1995 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 shares vest after three years subject to the following performance targets:

- 33.3% of the award will be subject to absolute TSR growth;
- 33.3% of the award will be subject to adjusted EPS growth; and
- 33.3% of the award will be subject to a balanced scorecard of strategic goals.

Targets for the 2009 LTIP award are:

Absolute TSR:

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

EPS:

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

Strategic goals

The board has agreed a number of long-term business improvement goals focusing on:

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

The goals concentrate management's efforts on integrating the operations of the group, improving efficiencies and processes, and improving the scalability of the group. The committee will assess management's progress towards achieving these goals against agreed milestones and performance criteria over the performance period.

Details of awards made during the year to the executive directors are set out in the table on page 53.

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 will vest, subject to performance conditions, in 2011.

The performance conditions under the 2004 LTIP are a range of EPS growth targets for two thirds of an award and relative TSR targets for the remaining one third. Performance against the performance criteria is calculated by the committee and independently verified by external advisers.

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Report of the Board on Directors' Remuneration continued

2004 LTIP EPS element vesting criteria

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

2004 LTIP TSR element vesting criteria

In previous years up to and including 2007, for the TSR element, performance was measured against a group of companies drawn from the FTSE 350 General Financial Index and the FTSE 350 Banks Index. For the LTIP grant in 2007 which vested in October 2010, the comparator group consisted of the following companies:

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

[1]Delisted. These have been tracked forward as the mean of the remaining companies from the day prior to the delisting/announcement of any bid (whichever date is most applicable).
[2]Collins Stewart and Tullett Prebon (having demerged from Collins Stewart Tullett) were added to the 2007 comparator group in place of the pre-demerged entity which was included in the 2006 comparator group.

For the 2004 LTIP grant in 2008, the committee included all companies in the FTSE 350 General Financial Index and the FTSE 350 Banks Index in the comparator group at the date of grant which was 7 October 2008.

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

Close Brothers Group 1995 Executive Share Option 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 2012 financial year.

Pensions

Preben Prebensen and Jonathan Howell participate in defined contribution pension schemes or receive an allowance equivalent to the Company's pension contribution rate in lieu thereof.

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

The Company contribution rate for the group's defined benefits pension scheme was determined by the scheme actuary and was 31.5% per annum of pensionable salary, effective from April 2010.

The table on page 52 summarises pension benefits from the group's defined benefits pension scheme for the executive director who participated in the scheme. The accrued pension is that which would be paid annually on retirement based on service to the end of the year. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 and represents potential liabilities of the group's defined benefits pension scheme in respect of the relevant executive director and does not necessarily represent a sum paid or payable to the executive director.

External Appointments

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

Executive Directors' Service Contracts

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

	Date of agreement	Notice period
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 2011	1 August 2010
Bruce Carnegie-Brown	**10,000**	10,000
Jamie Cayzer-Colvin	**–**	–
Ray Greenshields	**3,000**	3,000
Stephen Hodges	**593,573**	593,573
Geoffrey Howe	**5,000**	–
Jonathan Howell	**98,945**	39,967
Strone Macpherson	**13,300**	–
Douglas Paterson	**12,000**	12,000
Preben Prebensen	**153,564**	116,721

There have been no changes in notifiable interests between 31 July 2011 and 26 September 2011.

As at 31 July 2011 Preben Prebensen and Stephen Hodges had shareholdings in excess of twice their base salary, whilst Jonathan Howell's shareholdings were within 1% of twice his base salary.

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 2011, Caledonia Investments plc was paid £51,250.

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 2011. These are reviewed annually and were increased with effect from 1 December 2010. This was the first increase in the fees since August 2007.

	Non-executive fees 2011	Non-executive fees 2010
Chairman	**£200,000**	£180,000
Non-executive director	**£55,000**	£47,500
Supplements		
Senior independent director	**£10,000**	£10,000
Chairman of Audit Committee	**£20,000**	£15,000
Chairman of Remuneration Committee	**£20,000**	£10,000
Chairman of Risk Committee[1]	**£20,000**	–
Chairman of Nomination and Governance Committee	**–**	–
Committee membership	**£5,000**	–

[1]The Risk Committee was established in December 2010.

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Report of the Board on Directors' Remuneration continued

Directors' Remuneration – Audited
The following table shows the remuneration of each director for the year to 31 July 2011.

	Salaries and fees £'000	Allowances[1] £'000	Other benefits[2] £'000	Annual bonus: Cash £'000	Annual bonus: Shares and deferred bonus[3] £'000	Total 2011 £'000	Total 2010 £'000	Company pension contributions[4] 2011 £'000	Company pension contributions[4] 2010 £'000
Executive director									
Stephen Hodges	386	31	2	324	834	**1,577**	1,400	**102**	95
Jonathan Howell	370	59	15	289	711	**1,444**	1,326	**28**	81
Preben Prebensen	475	125	2	384	966	**1,952**	1,888		
Non-executive director									
Bruce Carnegie-Brown	86					**86**	68		
Jamie Cayzer-Colvin	51					**51**	48		
Ray Greenshields	72					**72**	48		
Geoffrey Howe[5]	32					**32**	–		
Strone Macpherson	193					**193**	180		
Douglas Paterson	77					**77**	63		
	1,742	215	19	997	2,511	**5,484**	5,021	**130**	176

[1](i) Stephen Hodges received an allowance in lieu of a company car and a cash allowance in lieu of capped employer pension contributions; (ii) Jonathan Howell received an allowance in lieu of a company car (three months) and an allowance in lieu of pension contributions (eight months); and (iii) Preben Prebensen received an allowance in lieu of a company car and an allowance in lieu of pension contributions.
[2]Other benefits include healthcare cover, and a company car and fuel for part of the year.
[3]This includes the Non-deferred Shares, Deferred Cash Bonus Plan and Deferred Annual Bonus Plan.
[4]Payment equivalent to the Company's pension contribution rate was made into Jonathan Howell's defined contribution pension plan for four months.
[5]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 pensions scheme.

	Transfer value of accrued pension[1]: At 31 July 2010 £'000	Director's contributions £'000	Actual increase excluding director's contribution £'000	**At 31 July 2011 £'000**	Accrued pension: Increase during the year £'000	**At 31 July 2011 £'000**
Stephen Hodges	2,729	17	1,607	**4,353**	16	**175**

[1]The accrued pension at 31 July 2011 represents the deferred pension to which the director would have been entitled had he left the group on 31 July 2011.

The real increase of the accrued pension transfer value excluding director's contribution was £1,470,200. During the year 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, the scheme liabilities have been remeasured to a normal retirement age of 60.

Directors' Deferred Share Awards ("DSAs") and LTIP Awards

The DSA forms part of the annual performance related bonus award. The DSA and the LTIP consists of the right for an executive to call for shares in the Company from the employee benefit trust, at nil cost, together with a cash amount representing accrued notional dividends thereon. If the executive director leaves employment in certain circumstances prior to 1 August immediately preceding the vesting date those entitlements will lapse. Following vesting, these shares may be called for at any time up to 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 for the DSA, and spread over the vesting period for LTIP awards.

The DSAs held by each director at 31 July 2011 and the LTIP awards which are held by directors 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 49 and 50, were:

Directors' DSAs and LTIP Awards – Audited

	Held at 1 August 2010	Awarded	Called	Lapsed	**Held at 31 July 2011**	**Value at 31 July 2011 £**	Market price on award p	Market price on calling p	Dividends paid on vested shares £	Earliest vesting date
Stephen Hodges										
2008 DSA	51,214		51,214		–	–	535.0	824.0	58,845	1 September 2010
2009 DSA	46,406				**46,406**	**345,261**	793.0			1 October 2011
2010 DSA		35,638			**35,638**	**265,147**	743.6			7 October 2012
	97,620	**35,638**	**51,214**	**–**	**82,044**	**610,408**			**58,845**	
2004 LTIP—2007 Award[1]	86,069		28,689	57,380	–	–	823.0	824.0	53,218	2 October 2010
2004 LTIP—2008 Award	131,414				**131,414**	**977,720**	559.3			7 October 2011
2009 LTIP—2009 Award	105,339				**105,339**	**783,722**	699.0			18 November 2012
2009 LTIP—2010 Award		101,499			**101,499**	**755,153**	760.6			19 October 2013
	322,822	**101,499**	**28,689**	**57,380**	**338,252**	**2,516,595**			**53,218**	
2010 SMP—Invested		49,422			**49,422**	**367,700**	743.6			7 October 2013
2010 SMP—Matched		98,844			**98,844**	**735,399**	743.6			7 October 2013
	–	**148,266**	**–**	**–**	**148,266**	**1,103,099**			**–**	
Jonathan Howell										
2008 DSA	19,626		19,626		–	–	535.0	746.5	16,996	1 September 2010
2009 DSA	45,397				**45,397**	**337,754**	793.0			1 October 2011
2010 DSA		30,931			**30,931**	**230,127**	743.6			7 October 2012
	65,023	**30,931**	**19,626**	**–**	**76,328**	**567,881**			**16,996**	
2004 LTIP—2007 Award[1]	113,207		37,736	75,471	–	–	612.0	840.0	49,019	4 March 2011
2004 LTIP—2008 Award	128,732				**128,732**	**957,766**	559.3			7 October 2011
2009 LTIP—2009 Award	103,049				**103,049**	**766,685**	699.0			18 November 2012
2009 LTIP—2010 Award		97,292			**97,292**	**723,852**	760.6			19 October 2013
	344,988	**97,292**	**37,736**	**75,471**	**329,073**	**2,448,303**			**49,019**	
2010 SMP—Invested		48,414			**48,414**	**360,200**	743.6			7 October 2013
2010 SMP—Matched		96,828			**96,828**	**720,400**	743.6			7 October 2013
	–	**145,242**	**–**	**–**	**145,242**	**1,080,600**			**–**	
Preben Prebensen										
2010 DSA		45,052			**45,052**	**335,187**	743.6			7 October 2012
	–	**45,052**	**–**	**–**	**45,052**	**335,187**			**–**	
2009 LTIP—2009 Award	135,967				**135,967**	**1,011,594**	699.0			18 November 2012
2009 LTIP—2010 Award		124,902			**124,902**	**929,271**	760.6			19 October 2013
	135,967	**124,902**	**–**	**–**	**260,869**	**1,940,865**			**–**	
2010 SMP—Invested		63,879			**63,879**	**475,260**	743.6			7 October 2013
2010 SMP—Matched		127,758			**127,758**	**950,520**	743.6			7 October 2013
	–	**191,637**	**–**	**–**	**191,637**	**1,425,780**			**–**	

[1]The 2007 LTIP award was tested in October 2010 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 some two thirds of the original 2007 LTIP award shares lapsed during the year.

Note: The market price on award and at vesting 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.

Governance
Report of the Board on Directors' Remuneration continued

Directors' Share Option Entitlements – Audited

	Held at 1 August 2010	Exercised	Lapsed	**Held at 31 July 2011**	Exercise price p	Market price on exercise p	From	To
Stephen Hodges								
2000	1,333		1,333	–	1125.0		23 October 2003	22 October 2010
2000	26,126		26,126	–	1090.8		23 October 2003	22 October 2010
2000	1,333		1,333	–	1125.0		23 October 2005	22 October 2010
2000	26,126		26,126	–	1090.8		23 October 2005	22 October 2010
2001	36,097	36,097		–	542.9	824.0	26 September 2004	25 September 2011
2001	36,097	36,097		–	542.9	824.0	26 September 2006	25 September 2011
2002	46,411			**46,411**	436.3		8 October 2005	7 October 2012
2002	46,411			**46,411**	436.3		8 October 2007	7 October 2012
2003	56,724			**56,724**	710.2		7 October 2006	6 October 2013
2003	56,724			**56,724**	710.2		7 October 2008	6 October 2013
2008 SAYE	2,242			**2,242**	428.0		1 December 2011	31 May 2012
	335,624	**72,194**	**54,918**	**208,512**				

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 50. Unexercised options over ordinary shares held by directors under the 1995 Scheme and SAYE scheme are shown above.

Matching Share Awards ("MSA") 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 granted to Preben Prebensen shortly after joining the group 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 first of four annual tranches of Preben Prebensen's MSA will vest in September 2011, with vesting subject to the 2009 LTIP performance conditions.

One third of the award is subject to a balanced scorecard of "Strategic goals". As previously reported, within the strategic goals there are five categories to be evaluated by the committee:

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

Strategic priorities

The group's internal and external communication has been significantly strengthened and a number of non-core businesses have been sold bringing greater strategic clarity to the group; there has also been significant progress on the group's goal of building the Asset Management division through a number of important acquisitions.

People

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

Capital and balance sheet management

A detailed capital model has been developed for the group; detailed liquidity and funding targets have been developed; funding sources have been diversified; and a robust process for setting ICAAP and ILAA levels across the group has been implemented.

Risk, compliance and controls

The governance framework for control functions has been significantly upgraded in all divisions. There have been significant improvements in these areas, particularly in the quality of external reporting, board papers, business papers and the culture of transparency.

Financial key performance indicators

The group has performed well with both adjusted operating profit and return on opening equity increasing in consecutive years since 2009 to £131.2 million and 13% respectively. The Banking division has delivered strong revenue and profit growth and Winterflood has produced resilient results over the period.

The committee feels the areas for further development are:

- Integration of the acquisitions in Asset Management and acceleration of organic growth;
- Further evolution of the credit risk management process in the Banking division;
- Ensuring that progress in risk management disciplines becomes embedded across the group; and
- Further improving productivity in the Banking and Asset Management divisions.

	Held at 1 August 2010	Awarded	Called	**Held at 31 July 2011**	**Value at 31 July 2011 £**	Market price on calling p	Earliest vesting date
Preben Prebensen							
MSA	65,902			**65,902**	**490,311**		September 2011
MSA	65,902			**65,902**	**490,311**		September 2012
MSA	65,902			**65,902**	**490,311**		September 2013
MSA	65,902			**65,902**	**490,311**		September 2014
	263,608	–	–	**263,608**	**1,961,244**		
RSA	55,848		55,848	**–**	**–**	839.7	March 2011
RSA	27,924			**27,924**	**207,755**		March 2012
	83,772	–	55,848	**27,924**	**207,755**		

The committee has evaluated developments in all five categories and determined that the vesting percentage on these strategic goals should be 76%.

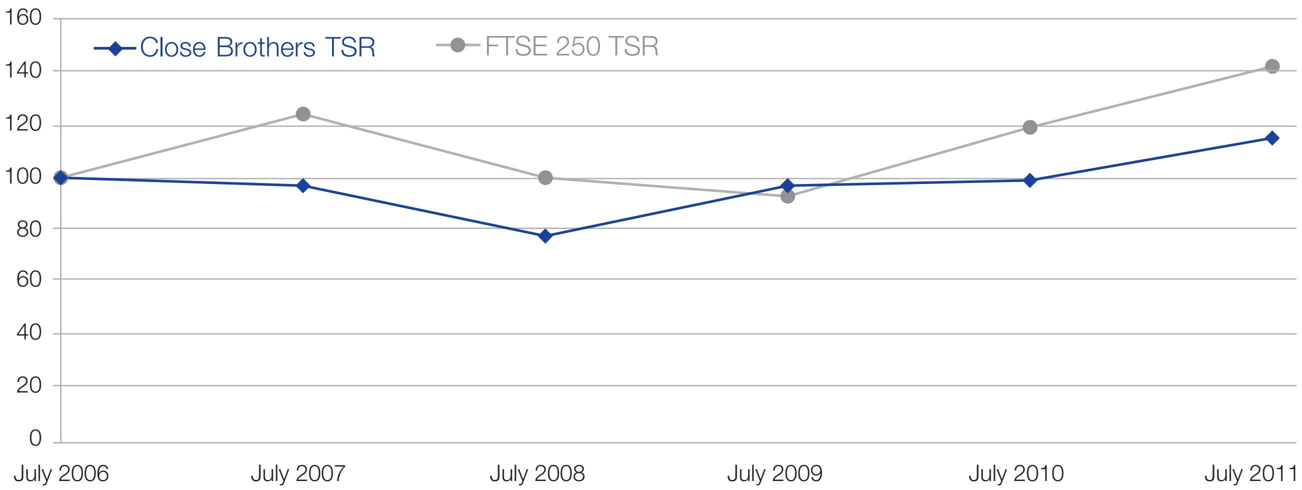
The minimum 3% real EPS per annum compounded growth target (covering one third of the award) was not met whilst the TSR performance was 14.6%, warranting the vesting of 59.3% of the shares subject to this part of the award.

Accordingly, the 2009 MSA award will vest at 45.1% at the end of September 2011.

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% vests following announcement of the Company's interim results in 2012 subject to continued employment until the vesting date.

Total Shareholder Return

The graph below shows a comparison of TSR for the Company's shares for the five years ended 31 July 2011 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 2011, of £100 invested in Close Brothers Group plc on 31 July 2006 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 2011 was 744p and the range during the year was 663.75p to 887p.

Approval

This report was approved by the board of directors on 27 September 2011 and signed on its behalf by:

B. N. 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 2011 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 35. 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 2011 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 Corporate Governance relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the Report of the Board on Directors' Remuneration.

Kari Hale

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

27 September 2011

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 2011

	Note	2011 £ million	2010 £ million
Continuing operations			
Interest income	4	**360.5**	307.9
Interest expense	4	**(129.6)**	(117.4)
Net interest income		**230.9**	190.5
Fee and commission income	4	**175.9**	149.5
Fee and commission expense	4	**(19.2)**	(17.4)
Gains less losses arising from dealing in securities		**132.2**	141.9
Share of profit of associates	28	**2.6**	5.7
Other income		**26.1**	25.1
Non-interest income		**317.6**	304.8
Operating income		**548.5**	495.3
Administrative expenses	4	**(352.1)**	(315.4)
Impairment losses on loans and advances	13	**(65.2)**	(63.4)
Total operating expenses before exceptional items, goodwill impairment and amortisation of intangible assets on acquisition		**(417.3)**	(378.8)
Operating profit before exceptional items, goodwill impairment and amortisation of intangible assets on acquisition		**131.2**	116.5
Exceptional items	5	**(46.9)**	(15.0)
Goodwill impairment	17	**(3.7)**	–
Amortisation of intangible assets on acquisition	17	**(2.1)**	(0.5)
Operating profit before tax		**78.5**	101.0
Tax	7	**(35.1)**	(32.8)
Profit after tax from continuing operations		**43.4**	68.2
Loss for the period from discontinued operations, net of tax	8	**(27.6)**	(1.7)
Profit for the year		**15.8**	66.5
Profit attributable to non-controlling interests from continuing operations		**0.7**	0.3
Profit attributable to non-controlling interests from discontinued operations		**0.5**	0.3
Profit attributable to the shareholders of the company		**14.6**	65.9
From continuing operations			
Basic earnings per share	10	**29.6p**	47.4p
Diluted earnings per share	10	**29.0p**	46.6p
From continuing and discontinued operations			
Basic earnings per share	10	**10.1p**	46.0p
Diluted earnings per share	10	**9.9p**	45.2p
Interim dividend per share paid	11	**13.5p**	13.5p
Final dividend per share	11	**26.5p**	25.5p

Financial Statements
Consolidated Statement of Comprehensive Income
for the year ended 31 July 2011

	2011 £ million	2010 £ million
Profit for the year	**15.8**	66.5
Other comprehensive income from continuing operations		
Currency translation (losses)/gains	**(2.1)**	4.5
Gains on cash flow hedging	**0.6**	6.1
Other losses	**(0.7)**	(3.9)
Gains/(losses) on financial instruments classified as available for sale:		
Gilts and government guaranteed debt	**–**	(0.2)
Floating rate notes	**2.8**	19.0
Equity shares	**(0.2)**	(2.8)
Transfer to income statement on impairment of available for sale equity shares	**–**	15.0
Other comprehensive income for the year, net of tax, from continuing operations	**0.4**	37.7
Other comprehensive income for the year, net of tax, from discontinued operations	**–**	0.1
Total comprehensive income for the year	**16.2**	104.3
Attributable to:		
Non-controlling interests	**1.2**	0.6
Shareholders	**15.0**	103.7
	16.2	104.3

Consolidated Balance Sheet
at 31 July 2011

	Note	2011 £ million	2010 £ million
Assets			
Cash and balances at central banks		**594.5**	452.7
Settlement balances		**551.1**	541.7
Loans and advances to banks	12	**114.8**	158.5
Loans and advances to customers	13	**3,435.3**	2,912.6
Debt securities	14	**852.8**	1,636.2
Equity shares	15	**57.1**	59.9
Loans to money brokers against stock advanced		**75.3**	86.0
Derivative financial instruments	16	**45.2**	23.0
Investments in associates	28	**33.4**	73.7
Intangible assets	17	**133.1**	107.5
Property, plant and equipment	18	**62.2**	46.2
Deferred tax assets	19	**26.7**	32.8
Prepayments, accrued income and other assets	20	**127.1**	128.8
Total assets		**6,108.6**	6,259.6
Liabilities			
Settlement balances and short positions	21	**521.8**	565.1
Deposits by banks	22	**192.8**	48.1
Deposits by customers	22	**3,170.5**	3,115.5
Loans and overdrafts from banks	22	**502.6**	1,178.4
Debt securities in issue	22	**548.1**	218.6
Loans from money brokers against stock advanced		**63.6**	32.7
Derivative financial instruments	16	**45.3**	20.5
Accruals, deferred income and other liabilities	20	**260.6**	251.3
Subordinated loan capital	23	**75.0**	75.0
Total liabilities		**5,380.3**	5,505.2
Equity			
Called up share capital	24	**37.6**	37.4
Share premium account		**283.0**	275.9
Profit and loss account		**416.2**	457.3
Other reserves		**(10.4)**	(18.7)
Total shareholders' equity		**726.4**	751.9
Non-controlling interests in equity		**1.9**	2.5
Total equity		**728.3**	754.4
Total liabilities and equity		**6,108.6**	6,259.6

Approved and authorised for issue by the Board of Directors on 27 September 2011 and signed on its behalf by:

P.S.S. Macpherson
Chairman

P. Prebensen
Chief Executive

Registered number: 520241

Financial Statements
Consolidated Statement of Changes in Equity
for the year ended 31 July 2011

	Called up share capital £ million	Share premium account £ million	Profit and loss account £ 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 2009	37.4	274.5	445.7	(35.7)	(37.4)	18.6	(9.7)	693.4	4.3	697.7
Profit for the year	–	–	65.9	–	–	–	–	65.9	0.6	66.5
Other comprehensive income	–	–	(4.4)	31.0	–	5.1	6.1	37.8	–	37.8
Total comprehensive income for the year	–	–	61.5	31.0	–	5.1	6.1	103.7	0.6	104.3
Exercise of options	–	1.4	–	–	–	–	–	1.4	–	1.4
Dividends paid	–	–	(55.5)	–	–	–	–	(55.5)	–	(55.5)
Shares purchased	–	–	–	–	(2.3)	–	–	(2.3)	–	(2.3)
Shares issued	–	–	–	–	–	–	–	–	–	–
Shares released	–	–	–	–	9.5	–	–	9.5	–	9.5
Other movements	–	–	5.6	–	(3.9)	–	–	1.7	(2.4)	(0.7)
At 31 July 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 income	–	–	(0.7)	2.6	–	(2.1)	0.6	0.4	–	0.4
Total comprehensive income 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**

Consolidated Cash Flow Statement

for the year ended 31 July 2011

	Note	2011 £ million	2010 £ million
Net cash inflow/(outflow) from operating activities	33(a)	**67.9**	(135.1)
Net cash outflow from investing activities			
Dividends received from associates		**2.5**	8.2
Purchase of:			
Assets held under operating leases		**(26.8)**	(12.6)
Property, plant and equipment		**(9.5)**	(8.5)
Intangible assets		**(7.2)**	(4.7)
Equity shares held for investment		**(0.5)**	(0.2)
Own shares for employee share award schemes		**(0.3)**	(2.3)
Non-controlling interests		**–**	(4.0)
Loan book	9	**–**	(97.8)
Subsidiaries	33(b)	**(39.0)**	(0.4)
Sale of:			
Property, plant and equipment		**5.2**	2.2
Equity shares held for investment		**20.7**	3.3
Subsidiaries	33(c)	**(231.0)**	–
		(285.9)	(116.8)
Net cash outflow before financing		**(218.0)**	(251.9)
Financing activities			
Issue of ordinary share capital, net of transaction costs	33(d)	**0.2**	1.4
Equity dividends paid		**(55.7)**	(55.5)
Dividends paid to non-controlling interests		**(0.4)**	(0.7)
Interest paid on subordinated loan capital		**(5.6)**	(5.6)
Debt securities (redeemed)/issued		**(20.5)**	197.2
Net decrease in cash		**(300.0)**	(115.1)
Cash and cash equivalents at beginning of year		**1,283.2**	1,398.3
Cash and cash equivalents at end of year	33(e)	**983.2**	1,283.2

Financial Statements
Company Balance Sheet
at 31 July 2011

	Note	2011 £ million	2010 £ million
Fixed assets			
Intangible assets	17	**0.2**	0.2
Property, plant and equipment	18	**2.4**	3.2
Investments in subsidiaries	27	**287.0**	287.0
Interest free loan to subsidiary		**313.2**	377.3
		602.8	667.7
Current assets			
Cash at bank		**1.1**	0.5
Amounts owed by subsidiaries		**445.9**	412.9
Other investments		**4.7**	11.2
Corporation tax receivable		**4.7**	7.1
Deferred tax asset	19	**2.7**	3.3
Other debtors		**5.6**	1.9
		464.7	436.9
Creditors: Amounts falling due within one year			
Amounts owed to subsidiaries		**1.8**	6.2
Accruals and deferred income		**7.7**	5.9
Provisions	20	**6.7**	7.4
Bank loans and overdrafts		**135.0**	100.0
Other creditors		**7.0**	8.3
		158.2	127.8
Net current assets		**306.5**	309.1
Total assets less current liabilities		**909.3**	976.8
Creditors: Amounts falling due after more than one year:			
Debt securities in issue		**198.1**	197.8
Interest free loan from subsidiary with no fixed repayment date		**–**	17.9
Net assets		**711.2**	761.1
Capital and reserves			
Share capital	24	**37.6**	37.4
Share premium account		**283.0**	275.9
Profit and loss account	25	**412.2**	477.2
Other reserves	25	**(21.6)**	(29.4)
Total equity shareholders' funds		**711.2**	761.1

Approved and authorised for issue by the Board of Directors on 27 September 2011 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 2 "Share-based Payments" – Amendments relating to group cash-settled share-based payment transactions and vesting conditions;
- IAS 32 "Financial Instruments: Presentation" – Amendments relating to classification of rights issues;
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"; and
- IFRS Annual Improvements 2009 – Sets out minor amendments to IFRS standards as part of the annual improvements process.

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 19 "Employee benefits" – 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 12 "Disclosure of interests in other entities" – Effective for annual periods beginning on or after 1 January 2013;
- IFRS 11 "Joint arrangements" – 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 2013;
- IAS 28 "Investments in associates" – Effective for annual periods beginning on or after 1 January 2013;
- IAS 27 "Separate financial statements" – Effective for annual periods beginning on or after 1 January 2013;
- IFRS 9 "Financial Instruments" – Effective for annual periods beginning on or after 1 January 2013;
- IAS 12 "Income taxes" – Effective for annual periods beginning on or after 1 January 2012;
- IFRS 7 "Disclosures – Transfers of Financial Assets" – Effective for annual periods beginning on or after 1 July 2011;
- IAS 24 "Related Party Disclosures" – Effective for annual periods beginning on or after 1 January 2011;
- IFRIC 14 "Prepayments of a Minimum Funding Requirement" – Effective for annual periods beginning on or after 1 January 2011; and
- IFRS Annual Improvements 2010 – Most of the amendments are effective for annual periods beginning on or after 1 January 2011.

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.

Financial Statements
The Notes

1. Significant accounting policies continued

(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.

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. 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 business.

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.

Financial Statements
The Notes

1. Significant accounting policies continued

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.

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 are the cash collateral provided to these institutions for stock borrowing by the group's market-making activities, and are 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 are 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.

Financial Statements
The Notes

1. Significant accounting policies continued

(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.

(u) Employee benefits

The group operates defined contribution pension schemes and a defined benefits 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, 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.

(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 reserves. 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:

Financial Statements
The Notes

2. Critical accounting estimates and judgements continued

(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.

3. Segmental analysis

The Executive Committee, which is considered the group's chief operating decision maker, manages the group by class of business as determined by the products and services offered and present 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 Business Review. 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 growth 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 of the group's activities, revenue and assets are located within the British Isles.

	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 income/(expense)	**(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.

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3. Segmental analysis continued

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

	2011 £ million	2010 £ million
Banking		
Retail	**128.8**	104.9
Commercial	**140.6**	114.2
Property	**42.9**	36.5
Treasury and other non-lending income	**13.7**	16.4
Securities		
Market-making and related activities	**158.7**	162.2
Asset Management		
Management fees on AuM	**57.3**	48.1
Other income	**6.5**	12.5
Group	**–**	0.5
Operating income before exceptional items (continuing operations)	**548.5**	495.3
Discontinued operations	**31.5**	36.4
Operating income before exceptional items	**580.0**	531.7

	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**
Investments in associates	**–**	**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 equities	**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.

	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 2010							
Net interest income/(expense)	188.5	(0.4)	2.1	0.3	190.5	5.0	195.5
Other income	83.5	162.6	58.5	0.2	304.8	31.4	336.2
Operating income before exceptional items	272.0	162.2	60.6	0.5	495.3	36.4	531.7
Administrative expenses	(118.3)	(100.9)	(61.6)	(20.6)	(301.4)	(30.3)	(331.7)
Depreciation and amortisation	(10.8)	(2.0)	(0.5)	(0.7)	(14.0)	(1.3)	(15.3)
Impairment losses on loans and advances	(63.4)	–	–	–	(63.4)	–	(63.4)
Total operating expenses before exceptional items	(192.5)	(102.9)	(62.1)	(21.3)	(378.8)	(31.6)	(410.4)
Adjusted operating profit/(loss)[1]	79.5	59.3	(1.5)	(20.8)	116.5	4.8	121.3
Exceptional items	–	–	–	(15.0)	(15.0)	–	(15.0)
Goodwill impairment	–	–	–	–	–	(6.5)	(6.5)
Amortisation of intangible assets on acquisition	(0.5)	–	–	–	(0.5)	–	(0.5)
Loss on disposal of discontinued operations	–	–	–	–	–	–	–
Operating profit/(loss) before tax	79.0	59.3	(1.5)	(35.8)	101.0	(1.7)	99.3
Tax	(22.5)	(16.0)	(0.5)	6.2	(32.8)	–	(32.8)
Non-controlling interests	(0.3)	–	–	–	(0.3)	(0.3)	(0.6)
Profit/(loss) after tax and non-controlling interests	56.2	43.3	(2.0)	(29.6)	67.9	(2.0)	65.9
External operating income/(expense)	284.5	162.2	60.6	(5.8)	501.5	30.2	531.7
Inter segment operating income/(expense)	(12.5)	–	–	6.3	(6.2)	6.2	–
Segment operating income	272.0	162.2	60.6	0.5	495.3	36.4	531.7

[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.

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3. Segmental analysis continued

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Summary Balance Sheet at 31 July 2010					
Assets					
Cash and loans and advances to banks	493.5	26.8	90.4	0.5	611.2
Settlement balances, long trading positions and loans to money brokers[1]	–	713.3	–	–	713.3
Loans and advances to customers	2,898.0	–	14.6	–	2,912.6
Non-trading debt securities	1,448.1	2.0	132.0	–	1,582.1
Investments in associates	–	73.4	0.3	–	73.7
Intangible assets	37.8	28.7	40.8	0.2	107.5
Other assets	168.3	15.5	52.9	22.5	259.2
Intercompany balances	(475.7)	(27.5)	515.9	(12.7)	–
Total assets	4,570.0	832.2	846.9	10.5	6,259.6
Liabilities					
Settlement balances, short trading positions and loans from money brokers	–	597.8	–	–	597.8
Deposits by banks	37.8	–	10.3	–	48.1
Deposits by customers	2,469.1	1.2	645.2	–	3,115.5
Borrowings	1,167.8	4.9	1.5	297.8	1,472.0
Other liabilities	148.5	59.9	47.7	15.7	271.8
Intercompany balances	377.7	73.6	17.5	(468.8)	–
Total liabilities	4,200.9	737.4	722.2	(155.3)	5,505.2
Equity	369.1	94.8	124.7	165.8	754.4
Total liabilities and equities	4,570.0	832.2	846.9	10.5	6,259.6
Other segmental information for the year ended 31 July 2010					
Property, plant, equipment and intangible asset expenditure	19.9	1.6	1.9	2.4	25.8
Employees (average number)	1,403	260	810	72	2,545

[1]£54.1 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.

4. Operating profit before tax

	2011 £ million	2010 £ million
Interest income		
Cash and balances with central banks	**2.7**	0.6
Loans and advances to banks	**0.3**	0.2
Loans and advances to customers	**336.1**	276.0
Other interest income	**21.4**	31.1
	360.5	307.9
Interest expense		
Deposits from banks	**8.3**	6.4
Deposits by customers	**72.5**	63.9
Borrowings	**42.0**	36.5
Other interest expense	**6.8**	10.6
	129.6	117.4
Net interest income	**230.9**	190.5

	2011 £ million	2010 £ million
Fee and commission income		
Banking	**83.5**	74.3
Asset Management	**68.8**	58.6
Securities	**23.6**	16.6
	175.9	149.5
Fee and commission expense	**(19.2)**	(17.4)
Net fee and commission income	**156.7**	132.1

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 £79.0 million (2010: £69.5 million) and £7.5 million (2010: £4.5 million).

Fee income and expense arising from trust and other fiduciary activities amounted to £67.2 million (2010: £58.1 million) and £9.6 million (2010: £10.7 million).

	2011 £ million	2010 £ million
Administrative expenses		
Staff costs:		
Wages and salaries	**184.9**	165.6
Social security costs	**20.8**	19.4
Share-based awards	**4.5**	3.2
Pension costs	**6.6**	5.4
	216.8	193.6
Depreciation and amortisation	**15.5**	14.0
Other administrative expenses	**119.8**	107.8
	352.1	315.4

Operating lease rentals payable, of which £1.0 million (2010: £0.9 million) relate to plant and machinery, amounted to £8.5 million (2010: £6.1 million).

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5. Exceptional items

	2011 £ million	2010 £ million
Exceptional income		
Investment gains	**4.5**	–
Exceptional expenses		
Impairment on investment in Mako	**(36.0)**	–
Restructuring costs	**(15.4)**	–
Impairment on investment assets	**–**	(15.0)
	(46.9)	(15.0)

Investment gains relates to the group's redemption of its investment in Pelagus Capital Fund Inc.

The impairment on investment in Mako 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%. Further details of the sale agreement are discussed in note 35.

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 a credit of £1.2 million (2010: £nil).

6. Information regarding the auditor

	2011 £ million	2010 £ million
Fees payable		
Audit of the company's annual accounts	**0.1**	0.1
Audit of the company's subsidiaries pursuant to legislation	**1.1**	1.1
Other services pursuant to legislation	**0.1**	–
Tax services	**0.3**	0.3
Other services	**1.1**	0.3
	2.7	1.8

The auditor of the group is Deloitte LLP.

7. Tax expense

	2011 £ million	2010 £ million
Tax recognised in the income statement		
Current tax:		
UK corporation tax	**38.7**	29.9
Foreign tax	**3.0**	1.8
Adjustments in respect of previous years	**(4.7)**	3.4
	37.0	35.1
Deferred tax:		
Deferred tax (credit)/expense for the current year	**(5.5)**	0.8
Adjustments in respect of previous years	**3.6**	(3.1)
Tax charge	**35.1**	32.8
Tax recognised in equity		
Current tax relating to:		
Financial instruments classified as available for sale	**0.4**	7.4
Share-based transactions	**(0.7)**	(0.5)
Deferred tax relating to:		
Cash flow hedging	**0.6**	2.3
Share-based transactions	**(0.3)**	(0.2)
	–	9.0
Reconciliation to tax expense		
UK corporation tax for the year at 27.3% (2010: 28.0%) on operating profit	**21.5**	28.3
Goodwill impairment	**1.1**	–
Impairment on investment assets	**–**	4.2
Impairment on investment in Mako	**9.8**	–
Effect of different tax rates on other jurisdictions	**(0.9)**	0.3
Share of associates consolidated at profit after tax	**(0.7)**	(1.6)
Utilisation of losses not previously recognised	**(0.5)**	(0.8)
Disallowable items and other permanent differences	**3.2**	1.1
Deferred tax impact of reduced UK corporation tax rate	**2.7**	1.0
Prior year tax provision	**(1.1)**	0.3
	35.1	32.8

The effective tax rate for the year is 44.7% (2010: 32.5%). The effective tax rate for the period is above the UK corporation tax rate of 27.3% due to non-tax deductible impairment of associate and goodwill, other disallowable expenditure, and a reduction in the deferred tax asset due to a reduction in the standard UK corporation tax rate applying for future periods.

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8. Discontinued operations

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:

Results of discontinued operations

	2011 £ million	2010 £ million
Operating income	**31.5**	36.4
Operating expenses	**(29.5)**	(31.6)
Goodwill impairment	**(4.5)**	(6.5)
Operating loss before tax	**(2.5)**	(1.7)
Tax	**(0.2)**	–
Loss after tax	**(2.7)**	(1.7)
Loss on disposal of discontinued operations, net of tax	**(24.9)**	–
Loss for the period from discontinued operations	**(27.6)**	(1.7)

Cash flow from discontinued operations

	2011 £ million	2010 £ million
Net cash flow from operating activities	**4.0**	(23.0)
Net cash flow from investing activities	**(1.9)**	(1.8)
Net cash flow from financing activities	**(0.4)**	(0.7)

9. Acquisitions

Since 31 July 2010 the group has made the following acquisitions:

On 10 September 2010 the group acquired 100% of Chartwell Group Limited, an Independent Financial Adviser ("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

Acquisition related costs of £1.2 million are included within 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.

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9. Acquisitions continued

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

2010 acquisitions

On 4 January 2010 the group acquired the invoice financing loan book of GMAC Commercial Finance Limited (UK) for a premium to net book value of £4.0 million in cash. The loan book acquired of £93.8 million 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 "Business Combinations" has not been disclosed.

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.

	2011	2010
Earnings per share		
Continuing operations[1]		
Basic	**29.6p**	47.4p
Diluted	**29.0p**	46.6p
Adjusted basic[2]	**64.8p**	58.2p
Adjusted diluted[2]	**63.6p**	57.2p

[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.

	2011	2010
Continuing and discontinued operations		
Basic	**10.1p**	46.0p
Diluted	**9.9p**	45.2p

	£ million	£ million
Profit attributable to the shareholders of the company	**14.6**	65.9
Loss for the period from discontinued operations including non-controlling interests	**(28.1)**	(2.0)
Profit attributable to the shareholders on continuing operations	**42.7**	67.9
Adjustments:		
Exceptional items	**46.9**	15.0
Goodwill impairment	**3.7**	–
Amortisation of intangible assets on acquisition	**2.1**	0.5
Tax effect of adjustments	**(1.7)**	–
Adjusted profit attributable to shareholders on continuing operations	**93.7**	83.4

	2011 million	2010 million
Average number of shares		
Basic weighted	**144.5**	143.4
Effect of dilutive share options and awards	**2.9**	2.4
Diluted weighted	**147.4**	145.8

The basic loss per share from discontinued operations is 19.4p (2010: loss of 1.4p) and the diluted loss per share from discontinued operations is 19.1p (2010: loss of 1.4p).

Adjusted basic earnings per share on a continuing and discontinued operations basis was 65.7p (2010: 61.3p), based on adjusted profit attributable to shareholders on continuing and discontinued operations of £95.0 million (2010: £87.9 million).

11. Dividends

	2011 £ million	2010 £ million
For each ordinary share		
Final dividend for previous financial year paid in November 2010: 25.5p (2009: 25.5p)	**36.4**	36.3
Interim dividend for current financial year paid in April 2011: 13.5p (2010: 13.5p)	**19.3**	19.2
	55.7	55.5

A final dividend relating to the year ended 31 July 2011 of 26.5p, amounting to an estimated £38.3 million, is proposed. This final dividend, which is due to be paid on 22 November 2011, is not reflected in these financial statements.

12. Loans and advances to banks

	On demand £ million	Within three months £ million	Between three months and one year £ million	Total £ million
At 31 July 2011	**109.9**	**3.4**	**1.5**	**114.8**
At 31 July 2010	136.2	19.9	2.4	158.5

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 2011	**32.7**	**1,060.7**	**1,143.7**	**620.8**	**658.3**	**12.8**	**(93.7)**	**3,435.3**
At 31 July 2010	49.6	915.0	996.5	473.5	552.3	12.8	(87.1)	2,912.6

	2011 £ million	2010 £ million
Impairment provisions on loans and advances to customers		
At 1 August	**87.1**	71.2
Charge for the year	**65.2**	63.4
Amounts written off net of recoveries	**(58.6)**	(47.5)
Impairment provisions at 31 July	**93.7**	87.1
Loans and advances to customers comprise		
Hire purchase agreement receivables	**1,380.2**	1,033.5
Finance lease receivables	**288.0**	232.9
Other loans and advances	**1,767.1**	1,646.2
	3,435.3	2,912.6

At 31 July 2011, gross impaired loans were £314.1 million (31 July 2010: £299.4 million) and equate to 9% (31 July 2010: 10%) 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.

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13. Loans and advances to customers continued

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:

	2011 £ million	2010 £ million
Gross investment in finance leases and hire purchase agreement receivables due:		
Within one year	**762.4**	571.7
Between one and five years	**1,230.3**	943.4
After more than five years	**4.2**	3.8
	1,996.9	1,518.9
Unearned finance income	**(305.5)**	(234.0)
Present value of minimum lease and hire purchase agreement payments	**1,691.4**	1,284.9
Of which due:		
Within one year	**626.2**	466.9
Between one and five years	**1,061.3**	814.5
After more than five years	**3.9**	3.5
	1,691.4	1,284.9

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £2,810.2 million (2010: £2,169.1 million). The average effective interest rate on finance leases approximates to 11.5% (2010: 11.7%). 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	Held to maturity £ 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 and government guaranteed debt	–	–	228.8	–	**228.8**
At 31 July 2011	**42.6**	**–**	**525.7**	**284.5**	**852.8**

	Held for trading £ million	Held to maturity £ million	Available for sale £ million	Loans and receivables £ million	Total £ million
Long trading positions in debt securities	54.1	–	–	–	54.1
Certificates of deposit	–	–	–	672.1	672.1
Floating rate notes	–	9.0	615.4	–	624.4
Gilts and government guaranteed debt	–	–	285.6	–	285.6
At 31 July 2010	54.1	9.0	901.0	672.1	1,636.2

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

	2011		2010	
	Book value £ million	**Fair value £ million**	Book value £ million	Fair value £ million
Certificates of deposit classified as loans and receivables	**284.5**	**284.6**	672.1	672.4
Floating rate notes held to maturity	**–**	**–**	9.0	8.8
	284.5	**284.6**	681.1	681.2

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

	Gilts and government guaranteed debt	Floating rate notes		
	Available for sale £ million	Available for sale £ million	Held to maturity £ million	Total £ million
At 1 August 2009	285.0	754.7	19.4	1,059.1
Disposals	–	(32.5)	–	(32.5)
Redemptions at maturity	–	(137.1)	(10.3)	(147.4)
Currency translation differences	–	4.1	(0.1)	4.0
Changes in fair value of financial instruments classified as available for sale	0.6	26.2	–	26.8
At 31 July 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**

In respect of floating rate notes ("FRNs"), £166.1 million (2010: £132.4 million) were due to mature within one year and £20.9 million (2010: £25.0 million) have been issued by corporates with the remainder issued by banks and building societies.

15. Equity shares

	2011 £ million	2010 £ million
Equity shares classified as held for trading	**37.9**	31.5
Other equity shares	**19.2**	28.4
	57.1	59.9

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 2009	25.4	12.6	38.0
Additions	–	0.2	0.2
Disposals	–	(10.9)	(10.9)
Currency translation differences	(0.3)	–	(0.3)
Changes in fair value of:			
Equity shares classified as available for sale	(2.4)	–	(2.4)
Unlisted equity shares held at fair value	–	3.8	3.8
At 31 July 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**

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

	2011			2010		
	Notional value £ million	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	**158.2**	**6.0**	**1.2**	423.6	14.5	8.8
Interest rate contracts	**2,540.6**	**11.0**	**10.9**	2,282.0	8.5	11.7
Embedded derivatives	**300.5**	**0.7**	**32.5**	–	–	–
Equity derivatives	**296.4**	**27.5**	**0.7**	–	–	–
	3,295.7	**45.2**	**45.3**	2,705.6	23.0	20.5

Embedded and 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 £1,470.7 million (2010: £1,000.8 million), exchange rate contracts totalling £43.0 million (2010: £20.8 million) and embedded and equity derivatives totalling £227.7 million have a residual maturity of more than one year. The group enters into derivative contracts with a number of financial institutions as a principal only to minimise the impact of interest and currency rate changes to its financial instruments. Equity derivatives are only held to hedge the embedded derivatives in the structured deposits. The notional value of exchange rate contracts has decreased £265.4 million due to a reduction in the requirement to hedge euro and US dollar denominated funding in the year.

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

	2011			2010		
	Notional value £ million	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Cash flow hedges						
Exchange rate contracts	**–**	**–**	**–**	124.8	4.6	3.2
Interest rate contracts	**959.0**	**0.1**	**4.2**	874.4	0.3	5.7
	959.0	**0.1**	**4.2**	999.2	4.9	8.9

	2011			2010		
	Notional value £ million	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Fair value hedges						
Exchange rate contracts	**–**	**–**	**–**	242.1	8.9	4.3
Interest rate contracts	**1,216.9**	**10.2**	**6.2**	918.1	7.3	5.6
	1,216.9	**10.2**	**6.2**	1,160.2	16.2	9.9

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 six (2010: seven) 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 2011 and 2010 were immaterial. The amount recognised in equity for cash flow hedges during the year was a credit of £0.6 million (2010: £6.1 million credit).

The group's fair value hedges hedge the interest rate and foreign exchange risks in recognised financial instruments; the net loss on the hedged items was £1.1 million (2010: gain of £11.5 million) which was offset by the hedging instrument.

17. Intangible assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Group total £ million	Company software £ million
Cost					
At 1 August 2009	169.1	21.8	4.9	195.8	–
Additions	–	4.7	–	4.7	0.2
Acquisitions	1.4	–	2.1	3.5	–
Disposals	–	–	–	–	–
Foreign exchange	0.7	–	–	0.7	–
At 31 July 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**
Amortisation and impairment					
At 1 August 2009	69.1	18.7	0.4	88.2	–
Amortisation charge for the year	–	2.0	0.5	2.5	–
Disposals	–	–	–	–	–
Impairment charge	6.5	–	–	6.5	–
At 31 July 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**	**–**
Net book value at 31 July 2011	**89.0**	**7.9**	**36.2**	**133.1**	**0.2**
Net book value at 31 July 2010	95.6	5.8	6.1	107.5	0.2
Net book value at 1 August 2009	100.0	3.1	4.5	107.6	–

Intangible assets on acquisition relates to broker and customer relationships.

The increase of £32.2 million relates to the acquisition of Chartwell Group Limited, Allenbridge Group plc and Cavanagh Group plc (2010: £2.1 million relates to the acquisition of GMAC Commercial Finance Limited (UK)).

£2.1 million (2010: £0.5 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £1.9 million (2010: £2.0 million) of the amortisation charge is included in administrative expenses in the Consolidated Income Statement.

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17. Intangible assets continued

Impairment tests for goodwill

At 31 July 2011 goodwill has been allocated to 12 individual CGUs, which are all at a lower level than the three operating divisions. Eight of these CGUs are within the Banking division; two are within the Securities division and the remaining two are 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 2010 £ million	Acquisitions £ million	Disposals £ million	Impairment £ million	Foreign exchange £ million	**31 July 2011 £ million**
Winterflood Securities	23.3	–	–	–	–	**23.3**
Close Private Bank	11.2	–	(11.2)	–	–	**–**
Close Brothers Cayman	16.5	–	(16.5)	–	–	**–**
Close Asset Management	7.2	26.0	–	(2.0)	–	**31.2**
Close Asset Finance	7.4	–	–	–	–	**7.4**
Other	30.0	–	(1.5)	(1.7)	0.3	**27.1**
	95.6	26.0	(29.2)	(3.7)	0.3	**89.0**

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 3%, 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 a rate of 12.4%, which represents the group's estimated weighted average cost of capital of 9%, grossed up by the applicable local tax rate, which is appropriate due to the use of pre-tax operating cash flows in the model. 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. Except for those businesses that have been impaired, 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 has been recognised in two of the Asset Management division's CGUs.

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 2009	9.8	50.6	37.4	1.9	99.7
Additions	1.6	6.6	12.6	0.3	21.1
Disposals	(3.7)	(4.4)	(6.4)	(0.4)	(14.9)
At 31 July 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**
Depreciation					
At 1 August 2009	6.2	37.9	13.0	1.0	58.1
Charge for the year	0.7	6.0	6.2	0.4	13.3
Disposals	(3.3)	(4.3)	(3.8)	(0.3)	(11.7)
At 31 July 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**
Net book value at 31 July 2011	**4.2**	**13.3**	**44.0**	**0.7**	**62.2**
Net book value at 31 July 2010	4.1	13.2	28.2	0.7	46.2
Net book value at 1 August 2009	3.6	12.7	24.4	0.9	41.6

	2011 £ million	2010 £ million
Future minimum lease rentals receivable under non-cancellable operating leases		
Within one year	**8.3**	8.3
Between one and five years	**15.1**	9.1
After more than five years	**0.3**	1.8
	23.7	19.2

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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 2009	4.7	2.7	0.1	7.5
Additions	1.5	0.6	–	2.1
Disposals	(3.7)	(1.3)	–	(5.0)
At 31 July 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**
Depreciation				
At 1 August 2009	3.5	1.8	–	5.3
Charge for the year	0.3	0.4	–	0.7
Disposals	(3.3)	(1.3)	–	(4.6)
At 31 July 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**
Net book value at 31 July 2011	**1.8**	**0.6**	–	**2.4**
Net book value at 31 July 2010	2.0	1.1	0.1	3.2
Net book value at 1 August 2009	1.2	0.9	0.1	2.2

The net book value of land and buildings comprises:

	Group		Company	
	2011 £ million	2010 £ million	**2011 £ million**	2010 £ million
Long leasehold	**1.4**	1.5	**–**	–
Short leasehold	**2.8**	2.6	**1.8**	2.0
	4.2	4.1	**1.8**	2.0

19. Deferred tax assets

	Group		Company	
	2011 £ million	2010 £ million	**2011 £ million**	2010 £ million
Capital allowances	**25.3**	22.0	**0.3**	0.3
Employee benefits	**10.2**	9.0	**2.4**	3.0
Unrealised capital gains	**(1.9)**	(1.0)	**–**	–
Other	**(6.9)**	2.8	**–**	–
	26.7	32.8	**2.7**	3.3

Movement in the year:

	Group £ million	Company £ million
At 1 August 2009	32.6	4.8
Credit/(expense) to the income statement	2.3	(2.0)
Equity movements	(2.1)	0.5
At 31 July 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**

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

	2011 £ million	2010 £ million
Prepayments, accrued income and other assets		
Prepayments and accrued income	**90.5**	88.6
Trade debtors	**13.6**	17.7
Other	**23.0**	22.5
	127.1	128.8
Accruals, deferred income and other liabilities		
Accruals and deferred income	**119.6**	122.0
Creditors	**90.4**	81.9
Provisions	**23.2**	14.0
Other	**27.4**	33.4
	260.6	251.3

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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 2009	8.2	6.9	–	11.0	26.1
Additions	0.6	0.4	–	0.5	1.5
Utilised	(4.6)	–	–	(5.3)	(9.9)
Released	(1.4)	(0.7)	–	(1.6)	(3.7)
At 31 July 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**

	Property £ million	Other £ million	Total £ million
Company			
At 1 August 2009	3.7	5.0	8.7
Additions	–	–	–
Utilised	–	(1.0)	(1.0)
Released	–	(0.3)	(0.3)
At 31 July 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**

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 12 years. Restructuring provisions relates to employee severance and other cost reduction measures in the Asset Management division which will be substantially completed next year.

In April 2010 Winterflood paid a financial penalty imposed by the Financial Services Authority ("FSA"). The penalty of £4.0 million was fully provided for in previous years.

21. Settlement balances and short positions

	2011 £ million	2010 £ million
Settlement balances	**477.8**	498.1
Short positions held for trading:		
Debt securities	**30.4**	48.6
Equity shares	**13.6**	18.4
	44.0	67.0
	521.8	565.1

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	**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**

	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	23.0	25.1	–	–	–	–	48.1
Deposits by customers	782.0	787.6	1,301.3	186.4	56.0	2.2	3,115.5
Loans and overdrafts from banks	13.7	437.5	617.2	50.0	60.0	–	1,178.4
Debt securities in issue	–	–	–	–	20.8	197.8	218.6
At 31 July 2010	818.7	1,250.2	1,918.5	236.4	136.8	200.0	4,560.6

Of the debt securities in issue, £198.1 million mature on 10 February 2017. The £350.0 million relates to the insurance premium receivables securitisation as discussed in note 34.

The group has entered into a repurchase agreement whereby FRNs have been lent in exchange for cash which has been included within loans and overdrafts from banks. Residual maturities 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 2011	**–**	**56.8**	**61.0**	**69.1**	**18.2**	**–**	**205.1**
At 31 July 2010	–	–	402.2	–	–	–	402.2

23. Subordinated loan capital

	Prepayment date	Initial interest rate	**2011 £ million**	2010 £ million
Final maturity date				
2020	2015	7.39%	**30.0**	30.0
2026	2021	7.42%	**15.0**	15.0
2026	2021	7.62%	**30.0**	30.0
			75.0	75.0

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

24. Share capital

	2011		2010	
	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 2010	**149.7**	**37.4**	149.5	37.4
Exercise of options/issues	**0.8**	**0.2**	0.2	–
At 31 July 2011	**150.5**	**37.6**	149.7	37.4

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25. Company reserves

	Profit and loss account £ million	Other reserves £ million
At 1 August 2009	517.9	(37.4)
Profit attributable to shareholders	9.4	–
Dividends paid	(55.5)	–
Shares purchased	–	(2.3)
Shares released	–	9.5
Other movements	5.4	0.8
At 31 July 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)**

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. The group's 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.co.uk/pillar3disclosures.aspx.

In addition to maintaining a strong capital base to support the development of the business it is also necessary to ensure the group meets the Pillar 1 capital requirements at all times, and therefore 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 2011 and 2010. 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 13.1% (2010: 13.9%) and a total capital ratio of 14.9% (2010: 15.8%). The decrease in the capital ratios was principally due to both an increase in risk weighted assets as a result of growth in the loan book and goodwill on acquisition in the Asset Management division. This increase was partly offset by a reduction in notional risk weighted assets for operational risk as the group migrated to a more advanced methodology reflecting improvements in the group's operational risk framework.

Regulatory capital (core tier 1 capital and total capital) reduced during the year due to a reduction in retained earnings and other reserves partly offset by lower deductions overall for intangible assets and goodwill in associates. The composition of capital remained stable with 88.0% (2010: 88.2%) of the total capital consisting of core tier 1 capital.

	2011 £ million	2010 £ million
Core tier 1 capital		
Called up share capital	**37.6**	37.4
Share premium account	**283.0**	275.9
Retained earnings and other reserves	**448.9**	490.6
Non-controlling interests	**1.9**	2.5
Deductions from core tier 1 capital		
Intangible assets	**(133.1)**	(107.5)
Goodwill in associates	**(12.2)**	(51.9)
Investment in own shares	**(37.6)**	(43.7)
Core tier 1 capital after deductions	**588.5**	603.3
Tier 2 capital		
Subordinated debt	**75.0**	75.0
Unrealised gains on available for sale equity shares	**7.0**	7.6
Tier 2 capital	**82.0**	82.6
Deductions from total of tier 1 and tier 2 capital		
Participation in a non-financial undertaking	**(1.3)**	(1.8)
Other regulatory adjustments	**(0.1)**	(0.3)
Total regulatory capital	**669.1**	683.8
Risk weighted assets (notional)		
Credit and counterparty risk	**3,513.7**	3,230.8
Operational risk[1]	**831.6**	971.9
Market risk[1]	**147.7**	136.0
	4,493.0	4,338.7
Core tier 1 capital ratio	**13.1%**	13.9%
Total capital ratio	**14.9%**	15.8%

[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:

	2011 £ million	2010 £ million
Equity	**728.3**	754.4
Regulatory deductions from equity:		
Intangible assets	**(133.1)**	(107.5)
Goodwill in associates	**(12.2)**	(51.9)
Other reserves not recognised for core tier 1 capital:		
Cash flow hedging reserve	**3.0**	3.6
Available for sale movements reserve	**2.5**	4.7
Core tier 1 capital after deductions	**588.5**	603.3

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27. Investments in subsidiaries
The group's principal subsidiaries as permitted by Section 410(2) of the Companies Act 2006, at 31 July 2011 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. Investments in associates

	2011 £ million	2010 £ million
Share of profit before tax	**3.7**	8.2
Share of tax	**(1.1)**	(2.5)
Share of profit after tax	**2.6**	5.7
Dividends paid	**(2.5)**	(8.2)
Impairment	**(36.0)**	–
Disposals	**(0.3)**	–
Foreign exchange revaluation	**(4.1)**	4.3
	(40.3)	1.8
Carrying amount at 1 August	**73.7**	71.9
Carrying amount at 31 July	**33.4**	73.7

At 31 July 2011, the group had one associate investment, Mako (2010: eight associates). Mako owes £nil (2010: £nil) to the group. The group's share of the aggregated revenue of its associates in the year to 31 July 2011 amounted to £18.0 million (2010: £27.3 million). The group's share of the aggregated assets and liabilities of its associates at 31 July 2011 amounted to £36.5 million (2010: £43.7 million) and £15.3 million (2010: £21.0 million) respectively.

Mako's year end is 31 December which is different to that of the group, therefore the 31 July 2011 unaudited management accounts of Mako have formed the basis of the financial information used in determining the group's share of the profits.

The impairment on associate relates to Mako as discussed in the exceptional items note 5.

29. Contingent liabilities and commitments

Contingent liabilities

Financial Services Compensation Scheme

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

The FSCS raises annual levies from the banking industry to meet its management expenses and compensation costs and individual institutions make payments based on their level of market participation. The group has accrued £0.9 million (2010: £1.3 million) for its share of levies that will be raised by the FSCS, including the interest on the loan from HM Treasury, in respect of the levy years to 31 March 2012.

Other

The group has contingent liabilities in respect of guarantees arising in the normal course of business amounting to £nil million (2010: £1.4 million).

The company has given guarantees in respect of subsidiaries' bank facilities of £83.1 million (2010: £186.6 million) and subsidiaries' property leases of £8.2 million (2010: £9.1 million). In addition, the company has given guarantees in respect of the subordinated loan capital set out in note 23.

	2011 £ million	2010 £ million
Commitments		
Memorandum items		
Undrawn facilities, credit lines and other commitments to lend:		
Within one year	**739.1**	539.8
After more than one year	**–**	0.1
	739.1	539.9

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 £5.0 million (2010: £0.9 million) and contracted commitments to invest in private equity funds of £2.6 million (2010: £3.2 million). In addition subsidiaries have other commitments to lend to private equity funds of £0.6 million (2010: £0.8 million).

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

	2011		2010	
	Premises £ million	**Other £ million**	Premises £ million	Other £ million
Within one year	**10.8**	**1.3**	11.3	1.1
Between one and five years	**33.3**	**1.9**	37.5	1.2
After more than five years	**14.2**	**–**	16.6	0.1
	58.3	**3.2**	65.4	2.4

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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 44 to 55.

	2011 £ million	2010 £ million
Directors' emoluments		
Salaries and fees	**1.2**	1.6
Benefits and allowances	**0.2**	0.2
Performance related awards in respect of the current year:		
Cash	**1.0**	1.2
Deferred	**2.5**	2.0
	4.9	5.0
Share-based awards	**1.9**	1.5
Company pension contributions	**0.1**	0.2
	6.9	6.7

During the year directors' gains upon exercise of options, expensed to the income statement in previous years, totalled £1.8 million (2010: £0.7 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 2011 attributable, in aggregate, to key management were £1.3 million (2010: £1.0 million).

Transactions with associates

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 2011 were £6.7 million (2010: £11.7 million).

31. Pensions

The group operates defined contribution pension schemes and a defined benefits pension scheme for eligible employees. Assets of all schemes are held separately from those of the group. The charge to the income statement from continuing operations for the group pension schemes was £6.6 million (2010: £5.4 million) and is included within administrative expenses.

Defined benefits pension scheme

The group's only defined benefits pension scheme ("the scheme") was closed to new entrants in August 1996. At 31 July 2011 this scheme had 11 (2010: 15) active members, 67 (2010: 69) deferred members and 25 (2010: 21) pensioners. The remainder of this note relates exclusively to the scheme.

Contributions to the scheme have been determined by an independent qualified actuary based on triennial valuations using the attained age method. The most recent such valuation was at 31 July 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 and 2011 financial years and a further payment of £2.8 million to be paid on or before 1 July 2012. The group estimates a contribution of £3.2 million to the scheme during the year to 31 July 2012.

The valuation was based upon the following main actuarial assumptions:

	2011 %	2010 %
Inflation rate (Retail Price Index)	**3.6**	3.3
Rate of increase in salaries	**4.8**	4.5
Discount rate for scheme liabilities	**5.5**	5.4
Expected return on the scheme's assets:		
Equities	**7.9**	7.6
Bonds	**4.2**	4.1
Cash	**3.6**	3.9
Mortality assumptions[1]:		
Existing pensioners from age 65, life expectancy (years):		
Men	**23.7**	23.4
Women	**25.2**	24.9
Non-retired members currently aged 50, life expectancy from age 65 (years):		
Men	**25.8**	25.4
Women	**27.4**	27.0

[1]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.

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

Expected return on equities are determined by reference to Towers Watson's Global Investment Committee's ten year outlook as at 30 June 2011 as adjusted for the inflation assumption disclosed above. Expected return on fixed interest gilts of 3.6% is based on the 15 year FTSE fixed interest gilt yield as at 31 July 2011. Expected return on index-linked gilts of 4.0% is based on the over 15 year (5% inflation) FTSE index-linked gilts yield adjusted for the inflation assumption disclosed above. The expected return on corporate bonds of 5.0% is based on the iBoxx over 15 year AA corporate bond index yields of 5.3% reduced by 0.3% for default risk. Expected return on cash is determined by reference to Towers Watson's Global Investment Committee's ten year outlook as at 30 June 2011 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).

	2011 £ million	2010 £ million	2009 £ million	2008 £ million	2007 £ million
Fair value of scheme assets:					
Equities	**25.4**	19.7	15.9	15.2	19.3
Bonds	**6.6**	6.1	5.0	4.4	3.5
Cash	**3.3**	3.5	2.7	3.3	1.1
Total fair value of scheme assets	**35.3**	29.3	23.6	22.9	23.9
Present value of scheme liabilities	**(39.9)**	(30.9)	(26.8)	(24.4)	(23.3)
Unrecognised actuarial loss	**8.8**	3.2	1.6	–	–
Surplus/(deficit)	**4.2**	1.6	(1.6)	(1.5)	0.6

Unrecognised actuarial losses in the year amount to £6.0 million (2010: loss of £1.6 million). During the year actuarial losses of £0.4 million (2010: £nil) were recognised.

Movement in the present value of scheme liabilities during the year

	2011 £ million	2010 £ million
Carrying amount at 1 August	**(30.9)**	(26.8)
Current service cost	**(0.3)**	(0.3)
Interest expense	**(1.6)**	(1.6)
Contributions by members	**(0.1)**	(0.1)
Benefits paid	**0.5**	1.0
Actuarial loss	**(7.5)**	(3.1)
Carrying amount at 31 July	**(39.9)**	(30.9)

Movement in the fair value of scheme assets during the year

	2011 £ million	2010 £ million
Carrying amount at 1 August	**29.3**	23.6
Expected return on scheme assets	**1.9**	1.8
Contributions by members	**0.1**	0.1
Contributions by employer	**3.2**	3.3
Benefits paid	**(0.5)**	(1.0)
Actuarial (loss)/gain	**1.3**	1.5
Carrying amount at 31 July	**35.3**	29.3

The actual return on scheme assets was an increase of £3.3 million (2010: increase of £3.3 million).

History experience of actuarial gains and losses:

	2011 £ million	2010 £ million	2009 £ million	2008 £ million	2007 £ million
Experience gains/(losses) on scheme assets	**1.3**	1.5	(2.5)	(3.6)	0.5
Experience (losses)/gains on scheme liabilities	**(1.8)**	–	1.5	(0.6)	(1.5)
Impact of changes in assumptions on scheme liabilities	**(5.7)**	(3.1)	(3.3)	1.6	0.8
Total actuarial (losses)/gains on scheme liabilities	**(7.5)**	(3.1)	(1.8)	1.0	(0.7)

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 47 to 50.

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 2009	3,113,348	696.3p	1,273,030	459.8p	2,290,471	–	1,706,020	–	–	–
Granted	–	–	279,516	616.0p	1,080,410	–	167,586	–	–	–
Exercised	(816,090)	566.9p	(83,478)	523.3p	(95,118)	–	(661,491)	–	–	–
Forfeited	–	–	(91,791)	490.6p	–	–	–	–	–	–
Lapsed	(785,811)	825.0p	(70,317)	575.5p	(461,760)	–	(11,314)	–	–	–
At 31 July 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**	**–**
Exercisable at:										
31 July 2011	**889,211**	**638.4p**	**–**	**–**	**1,821**	**–**	**378,042**	**–**	**–**	**–**
31 July 2010	1,511,447	699.2p	–	–	34,128	–	853,421	–	–	–

[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:

	2011	2010
ESOS	**825.6p**	765.9p
SAYE	**825.8p**	706.4p
LTIP	**796.4p**	748.5p
DAB	**785.8p**	762.6p
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:

	2011 Options outstanding Number outstanding	2011 Options outstanding Weighted average remaining contractual life Years	2010 Options outstanding Number outstanding	2010 Options outstanding Weighted average remaining contractual life Years
ESOS				
Between £4 and £5	**159,103**	**1.2**	185,637	2.2
Between £5 and £6	**25,784**	**0.2**	151,901	1.2
Between £6 and £7	**304,964**	**3.2**	438,276	4.2
Between £7 and £8	**399,360**	**2.2**	522,519	3.2
Above £10	**–**	**–**	213,114	0.2
SAYE				
Between £4 and £5	**870,311**	**1.7**	951,279	2.7
Between £5 and £6	**281,902**	**3.2**	–	–
Between £6 and £7	**219,905**	**2.5**	349,725	3.0
Between £8 and £9	**5,713**	**0.8**	5,956	1.8
LTIP				
Nil	**2,763,284**	**2.2**	2,814,003	2.3
DAB				
Nil	**1,071,208**	**4.3**	1,200,801	4.0
SMP				
Nil	**586,683**	**3.2**	–	–
Total	**6,688,217**	**2.6**	6,833,211	2.8

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. 4.5 million (2010: 4.8 million) and 1.7 million (2010: 2.3 million) of these shares were held respectively, at the year end.

For the share-based awards granted during the year, the weighted average fair value of those options at 31 July 2011 was 583p (2010: 565p). 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 2013 to 31 May 2014	738.0p	590.0p	46.0%	3	5.3%	4.5%
1 December 2015 to 31 May 2016	738.0p	590.0p	39.0%	5	5.3%	2.8%
LTIP						
19 October 2013 to 18 October 2014	769.0p	–	44.0%	3	5.1%	1.1%
DAB						
7 October 2012 to 6 October 2013	744.0p	–	–	–	–	–
SMP						
19 October 2013 to 18 October 2014	745.0p	–	44.0%	3	5.2%	1.1%

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

	2011 £ million	2010 £ million
(a) Reconciliation of operating profit before tax to net cash inflow/(outflow) from operating activities		
Operating profit on ordinary activities before tax on continuing operations	**78.5**	101.0
Operating loss on ordinary activities before tax on discontinued operations	**(27.4)**	(1.7)
Tax paid	**(33.3)**	(29.7)
(Increase)/decrease in:		
Interest receivable and prepaid expenses	**(4.8)**	21.5
Net settlement balances and trading positions	**(47.6)**	(82.3)
Net money broker loans against stock advanced	**41.6**	105.0
Increase/(decrease) in:		
Interest payable and accrued expenses	**(4.2)**	(19.3)
Impairment on investment in Mako	**36.0**	–
Depreciation, amortisation and goodwill impairment	**21.3**	22.3
Net cash inflow from trading activities	**60.1**	116.8
(Increase)/decrease in:		
Loans and advances to banks not repayable on demand	**(10.5)**	2.0
Loans and advances to customers	**(539.2)**	(453.9)
Floating rate notes held to maturity	**9.0**	10.4
Floating rate notes classified as available for sale	**329.0**	139.3
Debt securities held for liquidity	**370.4**	(0.6)
Other assets less other liabilities	**32.1**	17.0
Increase/(decrease) in:		
Deposits by banks	**155.3**	0.1
Deposits by customers	**338.4**	195.9
Loans and overdrafts from banks	**(676.7)**	(162.1)
Net cash inflow/(outflow) from operating activities	**67.9**	(135.1)
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries		
Cash consideration in respect of current year purchases	**(39.2)**	–
Loan stock redemptions and deferred consideration paid in respect of prior year purchases	**(3.1)**	(0.4)
Net movement in cash balances	**3.3**	–
	(39.0)	(0.4)
(c) Analysis of net cash inflow/(outflow) in respect of the sale of subsidiaries		
Cash consideration received	**44.5**	–
Cash and cash equivalents disposed of	**(275.5)**	–
	(231.0)	–
(d) Analysis of changes in financing		
Share capital (including premium) and subordinated loan capital:		
Opening balance	**388.3**	386.9
Shares issued for cash	**0.2**	1.4
Shares issued on acquisition	**7.1**	–
Closing balance	**395.6**	388.3
(e) Analysis of cash and cash equivalents[1]		
Cash and balances at central banks	**590.8**	452.7
Loans and advances to banks repayable on demand	**107.9**	158.4
Certificates of deposit	**284.5**	672.1
	983.2	1,283.2

[1] 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 represent a significant component of that 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 the Corporate Governance section on pages 35 and 36. 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	Fair value through profit or loss £ million	Held to maturity assets £ million	Available for sale assets £ million	Loans and receivables £ million	Other[1] financial instruments amortised cost £ 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	6.1	–	13.1	–	–	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	40.7	–	538.8	5,055.5	10.3	5,726.1
Liabilities							
Settlement balances and short positions	43.4	–	–	–	–	478.4	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
	43.4	34.9	–	–	–	5,041.4	5,119.7

[1]Derivative financial instruments relates to fair value and cash flow hedge relationships.

At 31 July 2010	Held for trading £ million	Fair value through profit or loss £ million	Held to maturity assets £ million	Available for sale assets £ million	Loans and receivables £ million	Other[1] financial instruments amortised cost £ million	Total £ million
Assets							
Cash and balances at central banks	–	–	–	–	452.7	–	452.7
Settlement balances	–	–	–	–	541.7	–	541.7
Loans and advances to banks	–	–	–	–	158.5	–	158.5
Loans and advances to customers	–	–	–	–	2,912.6	–	2,912.6
Debt securities	54.1	–	9.0	901.0	672.1	–	1,636.2
Equity shares	31.5	5.7	–	22.7	–	–	59.9
Loans to money brokers against stock advanced	–	–	–	–	86.0	–	86.0
Derivative financial instruments	1.9	–	–	–	–	21.1	23.0
	87.5	5.7	9.0	923.7	4,823.6	21.1	5,870.6
Liabilities							
Settlement balances and short positions	67.0	–	–	–	–	498.1	565.1
Deposits by banks	–	–	–	–	–	48.1	48.1
Deposits by customers	–	–	–	–	–	3,115.5	3,115.5
Loans and overdrafts from banks	–	–	–	–	–	1,178.4	1,178.4
Debt securities in issue	–	–	–	–	–	218.6	218.6
Loans from money brokers against stock advanced	–	–	–	–	–	32.7	32.7
Subordinated loan capital	–	–	–	–	–	75.0	75.0
Derivative financial instruments	1.7	–	–	–	–	18.8	20.5
	68.7	–	–	–	–	5,185.2	5,253.9

[1]Derivative financial instruments relates to fair value and cash flow hedge relationships.

(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 G10 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 fixed income and property funds and private equity limited partnership interests. 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 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

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34. Financial risk management continued

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.

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 2011 and 2010.

	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 and government guaranteed debt 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:				
Debt securities	**27.8**	**2.6**	**–**	**30.4**
Equity shares	**13.6**	**–**	**–**	**13.6**
	41.4	**47.9**	**–**	**89.3**

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2010				
Assets				
Debt securities:				
Long trading positions in debt securities held for trading	44.4	9.7	–	54.1
Floating rate notes classified as available for sale	–	615.4	–	615.4
Gilts and government guaranteed debt classified as available for sale	285.6	–	–	285.6
Derivative financial instruments	–	23.0	–	23.0
Equity shares:				
Held for trading	31.5	–	–	31.5
Fair value through profit or loss	–	–	5.7	5.7
Available for sale	3.7	7.8	11.2	22.7
	365.2	655.9	16.9	1,038.0
Liabilities				
Derivative financial instruments	–	20.5	–	20.5
Short positions:				
Debt securities	43.4	5.2	–	48.6
Equity shares	18.4	–	–	18.4
	61.8	25.7	–	87.5

There were no significant transfers between Level 1 and 2 in 2011 and 2010.

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 2009	11.1	12.6
Total gains recognised in the consolidated income statement[1]	–	3.8
Total gains recognised in other comprehensive income	0.1	–
Purchases and issues	–	0.2
Sales and settlements	–	(10.9)
At 31 July 2010	11.2	5.7
Total gains recognised in the consolidated income statement[1]	–	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**

[1]At 31 July 2011 £nil (2010: £8.5 million) of transfers from other comprehensive income to the income statement on impairment of available for sale level 3 equity shares are not included in the above table.

The losses recognised in the Consolidated Income Statement relating to instruments held at the year end amounted to £0.5 million (2010: gain of £0.6 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 avoid 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 28.

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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 2011. For off balance sheet instruments, the maximum exposure to credit risk represents the contractual nominal amounts.

	2011 £ million	2010 £ million
On balance sheet		
Cash and balances at central banks	**594.5**	452.7
Settlement balances	**551.1**	541.7
Loans and advances to banks	**114.8**	158.5
Loans and advances to customers	**3,435.3**	2,912.6
Debt securities	**852.8**	1,636.2
Loans to money brokers against stock advanced	**75.3**	86.0
Derivative financial instruments	**45.2**	23.0
	5,669.0	5,810.7
Off balance sheet		
Undrawn commitments	**739.7**	539.9
Guarantees	**–**	1.4
	739.7	541.3
Total maximum exposure to credit risk	**6,408.7**	6,352.0

Sovereign and banking sector exposure

The group has limited exposure outside of 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 sovereign exposures to any of the countries listed above. It has exposure through its holding of debt securities issued by Irish banks as follows:

	Exposure £ million
Floating rate notes	94.6

The FRNs are issued by Allied Irish Bank and Bank of Ireland and have a remaining maturity of under 12 months. As available for sale debt securities, the FRNs are marked to market against equity and had a carrying value of £86.0 million at 31 July 2011.

In addition, 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 lending criteria and security as applied within the UK.

	Ireland £ million	Spain £ million	Total £ million
Loans and advances to customers	75.7	3.4	**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 entered into a repurchase agreement whereby FRNs to the value of £249.5 million (31 July 2010: £553.6 million) have been lent in exchange for cash of £205.1 million (31 July 2010: £402.2 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 group has securitised £495.0 million (31 July 2010: £nil) of its insurance premium receivables in return for debt securities in issue of £350.0 million (31 July 2010: £nil). 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 on its consolidated balance sheet.

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 are applied across the whole loan book with emphasis on the quality of the security provided.

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

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 Committee. 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, average loan size and loan to valuation percentage. 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 £1.8 billion (2010: £1.6 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.

	2011 Loans and advances to customers			2010 Loans and advances to customers		
	Individually assessed £ million	**Collectively assessed £ million**	**Total £ million**	Individually assessed £ million	Collectively assessed £ million	Total £ million
Within one month	**257.2**	**214.3**	**471.5**	293.5	171.9	465.4
Between one and three months	**201.4**	**295.1**	**496.5**	155.9	251.6	407.5
Between three months and one year	**232.7**	**649.0**	**881.7**	195.2	558.5	753.7
Over one year	**184.5**	**980.1**	**1,164.6**	153.2	742.6	895.8
	875.8	**2,138.5**	**3,014.3**	797.8	1,724.6	2,522.4

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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.

	2011 Loans and advances to customers			2010 Loans and advances to customers		
	Individually assessed £ million	Collectively assessed £ million	Total £ million	Individually assessed £ million	Collectively assessed £ million	Total £ million
Within one month	**38.3**	**17.1**	**55.4**	35.8	13.0	48.8
Between one and three months	**57.5**	**3.2**	**60.7**	36.1	4.0	40.1
Between three months and one year	**36.2**	**10.8**	**47.0**	35.0	14.3	49.3
Over one year	**12.4**	**25.1**	**37.5**	6.3	33.4	39.7
	144.4	**56.2**	**200.6**	113.2	64.7	177.9

(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% (2010: 29%).

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

	2011 Loans and advances to customers			2010 Loans and advances to customers		
	Individually assessed £ million	Collectively assessed £ million	Total £ million	Individually assessed £ million	Collectively assessed £ million	Total £ million
Gross impaired loan	**199.6**	**114.5**	**314.1**	192.1	107.3	299.4
Provisions	**(65.5)**	**(28.2)**	**(93.7)**	(58.1)	(29.0)	(87.1)
Net impaired loans	**134.1**	**86.3**	**220.4**	134.0	78.3	212.3

The amount of interest income accrued on impaired loans and advances to customers was £29.5 million (31 July 2010: £20.2 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 asset: 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 trade with the intention of matching demand and supply for any given security. 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 in the EU or US.

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, which requires counterparties to settle the open trade when market conditions allow, 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.

	2011			2010		
	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	**515.7**	**28.2**	**543.9**	486.0	47.5	533.5
Between one and three months	**–**	**3.5**	**3.5**	–	4.4	4.4
Between three months and one year	**–**	**1.9**	**1.9**	–	1.6	1.6
Over one year	**–**	**0.4**	**0.4**	–	2.2	2.2
Net impaired loans	**515.7**	**34.0**	**549.7**	486.0	55.7	541.7

(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 2011 changes in interest rates compared to actual rates would increase/(decrease) the group's annual net interest income by the following amounts, prior to mitigation:

	2011 £ million	2010 £ million
1.0% increase (2010: 1.0% increase)	**2.7**	3.1
0.5% decrease (2010: 0.5% decrease)	**(1.4)**	(1.6)

At 31 July 2011 changes in interest rates compared to actual rates would increase/(decrease) the group's equity by the following amounts, prior to mitigation:

	2011 £ million	2010 £ million
1.0% increase (2010: 1.0% increase)	**8.0**	5.6
0.5% decrease (2010: 0.5% decrease)	**(4.0)**	(2.9)

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34. Financial risk management continued

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 2011 changes in exchange rates would increase/(decrease) the group's equity by the following amounts:

	2011 £ million	2010 £ million
20% strengthening of sterling against the US dollar (2010: 20% strengthening)	**(6.6)**	(19.4)
20% strengthening of sterling against the euro (2010: 20% strengthening)	**(10.7)**	(8.7)

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.

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 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**

	Highest exposure £ million	Lowest exposure £ million	Average exposure £ million	Exposure at 31 July £ million
For the year ended 31 July 2010				
Equity shares				
Long	46.9	24.6	35.1	31.5
Short	24.3	9.0	15.9	18.4
			19.2	13.1
Debt securities				
Long	87.0	31.2	55.3	54.1
Short	94.0	29.8	60.8	48.6
			(5.5)	5.5

With respect to the long and short positions on debt securities respectively, £2.8 million and £3.5 million (2010: £20.7 million and £19.1 million) were due to mature within one year.

The average exposure has been calculated on a daily basis. The highest and lowest exposures occurred on different dates and therefore a net position of these exposures does not reflect a spread of the trading book.

Based upon the trading book exposure given above, a hypothetical fall of 10% in market prices would result in a £2.4 million (2010: £1.3 million) decrease in the group's income and net assets on the equity trading book and a £1.2 million decrease (2010: £0.6 million increase) 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 note 14.

(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 2011 of £5.4 billion (2010: £5.6 billion). This funding is significantly in excess of its loans and advances to customers at 31 July 2011 of £3.4 billion (2010: £2.9 billion). The group has a large portfolio of high quality liquid assets including cash placed on deposit with the Bank of England, short dated certificates of deposit and gilts. The group measures liquidity risk with a variety of measures including regular stress testing and regular cash flow monitoring, and reporting to both the group and divisional boards.

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

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	**Total £ million**
At 31 July 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	**–**	**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**

	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 2010							
Settlement balances	–	498.1	–	–	–	–	498.1
Deposits by banks	23.0	25.1	–	–	–	–	48.1
Deposits by customers	782.4	789.3	661.0	682.3	256.7	3.0	3,174.7
Loans and overdrafts from banks	13.9	498.7	627.3	0.2	50.1	–	1,190.2
Debt securities in issue	–	6.5	–	6.5	79.3	219.5	311.8
Loans from money brokers against stock advanced	32.7	–	–	–	–	–	32.7
Subordinated loan capital	–	2.8	–	2.8	22.5	125.7	153.8
Derivative financial instruments	–	169.6	237.6	7.4	28.0	0.2	442.8
Total	852.0	1,990.1	1,525.9	699.2	436.6	348.4	5,852.2

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35. Post balance sheet event

On 16 September 2011, the group announced the phased sale of its 49.9% investment in Mako, which is included within the Securities division, to the management team. The sale is consistent with the group's focus on developing its core businesses where it has full control. Given the nature of its business, Mako has a more volatile earnings profile which is not consistent with the group's strategy.

The sale is for an estimated consideration of US$40 million in cash and will be effected via a series of purchases over several years by the management team. The sale of the first 16.6% is expected to close in the next few months, and the amount and timing of future purchases will depend on the financial performance of Mako. In addition, whilst it remains a shareholder in Mako, the group will continue to receive a dividend from Mako equivalent to its share of all profit after tax. Should the aggregate performance of Mako outperform certain predefined levels of profitability, the group will also be entitled to further deferred contingent consideration of up to US$7.5 million.

As a result of the transaction, the group has written down the value of its investment in Mako by £36.0 million.

Investor Relations

Financial calendar (provisional)

Event	Date
Annual General Meeting	17 November 2011
First quarter Interim Management Statement	November 2011
Final dividend payment	22 November 2011
Pre-close trading statement	January 2012
Half year end	31 January 2012
Interim results	March 2012
Third quarter Interim Management Statement	May 2012
Pre-close trading statement	July 2012
Financial year end	31 July 2012
Preliminary results	September 2012

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

Cautionary Statement

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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