Close Brothers Group plc

Pillar 3 disclosures for the year ended 31 July 2013

Contents

Should you have any queries please e-mail pillar3@closebrothers.com

1. Overview

Background

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. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess key pieces of information on that firm's capital, risk exposures and risk assessment process. The disclosures contained in this document cover the qualitative and quantitative disclosure requirements of Pillar 3 and are based on data at 31 July 2013 with comparative figures for 31 July 2012 where relevant.

Within this document are references to the group's annual report which can be found at:
http://www.closebrothers.com/investor-relations/results-reports-presentations

Scope

The Prudential Regulation Authority ("PRA") supervises Close Brothers Group plc ("CBG" or "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 either the PRA or overseas regulators, and our Securities and Asset Management divisions are regulated by the Financial Conduct Authority. Details of the group's principal subsidiaries are included in note 26 of the group's annual report. There are no differences between the basis of consolidation of the group for accounting and regulatory purposes except that in 2012 the group's associate was accounted for on under the equity method for accounting purposes and consolidated in proportion to the participation of the group for regulatory purposes. As the group no longer has an associate, the residual investment is treated as a material holding and is deducted from regulatory capital.

Other than restrictions due to regulatory capital requirements for regulated entities, there are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities when due between the group and its subsidiaries.

The group has not applied for any Internal Ratings Based ("IRB") waivers and consequently no Pillar 3 IRB disclosures are included in this document.

Policy

Disclosures will be issued as a minimum on an annual basis and are published on the group's website. These disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the group's annual report. These disclosures are ratified by the Group Risk and Compliance Committee ("GRCC") and approved by the CBG board ("the board").

The Pillar 3 disclosures have been prepared purely for explaining the basis on which the group has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgement about the group.

Solo-consolidation

Close Brothers Limited ("CBL"), the group's regulated banking subsidiary, makes use of the provisions laid down in the PRA handbook BIPRU Chapter 2.1 and reports to the PRA on a solo-consolidated basis. This solo-consolidated group includes CBL and its major trading subsidiaries as at 31 July 2013. CBL publishes its Pillar 3 disclosures on the group's website.

2. Risk management objectives and policies

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

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

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

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

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

Risk Management Framework

First line of defence	Second line of defence	Third 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.	**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; • Adequacy of mitigation plans; and • Group risk profile.	**Audit Committee** Audit Committee Reports to the board. Audit Committee mandates the head of 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 • Promotes a strong risk culture and focus on sustainable risk adjusted returns; • Implements the risk framework; • Promotes a culture of adhering to limits and managing risk exposures; and • Ongoing monitoring of positions and management of risks.	**Key features** • Overarching "risk oversight unit" takes an integrated view of risk (qualitative and quantitative); • Risk management separate from risk control but work together; • Supports through developing and advising on risk strategies; and • Creates constructive tension through challenge, "critical friend".	**Key features** • Draws on in depth knowledge of the group and its businesses; • Independent assurance on the activities of the firm including the risk management framework; and • Assesses the appropriateness and effectiveness of internal controls.

2. Risk management objectives and policies continued

The key principles underlying risk management in the group are:

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

The Risk Committee supports the board in its oversight of risk management across the group. The role of the Committee in summary is to:

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

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

2. Risk management objectives and policies continued

Risk assessment

We aim to achieve an appropriate balance between assuming risk and generating returns through:

- Adhering to our prudent and established business model outlined in the group's annual report on pages 8 and 9;
- Following an integrated risk management approach as set out in the group's annual report on page 37; and
- Maintaining clearly defined risk appetites with clear limits and metrics which are applied to our day-to-day business decisions.

This approach has served the group well historically and the group has been consistently profitable in a wide range of trading environments. Whilst this framework helps us mitigate the risks we face, we remain exposed to a range of key risks and uncertainties which have the potential to affect the performance of the group. We have listed the principal risks and uncertainties we face, how we seek to manage and mitigate those risks as well as how we believe they have changed over the last financial year. We have also highlighted where further information can be found in this report relevant to the individual risk or uncertainty. The risk and uncertainties faced are broadly unchanged from previous years.

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

Key:

No change   Risk decreased   Risk increased

Risk/uncertainty	Risk mitigation and management	Change
Economic environment Adverse economic conditions, particularly in the UK where the majority of the group's business is transacted, could affect the group's performance in multiple ways including: • Reduced demand for the group's products and services; • Higher bad debts resulting from customers inability to repay loans and lower asset values for security held against those loans; and • Reduced investor risk appetite reducing trading income for our Securities division.	The group's businesses typically trade in specialist areas where they have developed significant market knowledge and expertise. Across the divisions, the group aims to build long-term relationships with its customers adding resilience to trading performance in difficult economic conditions. Exposure is further mitigated in our Banking business by the conservative loan to value ratios underwritten and the short term, secured nature of our lending. The group carries out regular stress testing to test that the historic resilience of its businesses can be expected to continue.	The economic environment has not changed materially and each of our divisions has continued to trade profitably. However, the outlook remains uncertain. Further commentary on the attributes and resilience of the group's business model is shown in the group's annual report on pages 8 and 9 of the Corporate Overview.

2. Risk management objectives and policies continue

Risk/uncertainty	Risk mitigation and management	Change
Credit losses The group faces credit and counterparty risk across its divisions but particularly in relation to its Banking activities. The group advances loans to a range of corporate, SME and individual borrowers. In addition, the group places surplus funding with other financial institutions and has a limited number of derivative contracts to hedge interest rate, foreign exchange and equity exposures in its treasury operations.	Our lending businesses apply consistent and conservative lending criteria to our loan underwriting. In addition to mitigate credit risk we have: • Robust processes that facilitate the assessment of the credit quality and covenant of the underlying borrower; • 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; and • Timely and rigorous collections and arrears management processes. The majority of the group's lending is short term and average loan size is small with the result that few individual loans have the capacity to materially impact the group's earnings. We monitor the credit quality of the counterparties with whom we place deposits, enter into derivative contracts or whose debt securities are held to ensure these remain within approved limits. Interest rate and foreign currency derivatives are solely held to hedge interest rate and foreign currency exposures. Similarly, equity derivatives are only held to hedge embedded derivatives within our structured deposits funding. In our Securities businesses exposure is limited as we trade in the cash markets with regulated counterparties on a delivery versus payment basis such that any credit exposure is limited to price movements in the underlying securities. Counterparty exposure and settlement failure monitoring controls are in place.	⊖ While impairment losses have fallen during the past year, the economic outlook for our customers remains uncertain. We have maintained our lending criteria and surplus funding continues to be concentrated in Bank of England deposits and UK gilts. Further commentary on the credit quality of our loan book is outlined in the annual report on page 14. Further details on loans and advances to customers and debt securities are in the group's annual report in notes 12 and 13 on pages 82 and 83 of the Financial Statements, and in this document within section 6.

2. Risk management objectives and policies continued

Risk/uncertainty	Risk mitigation and management	Change
Regulatory change The group operates in a highly regulated environment. Regulatory and legislative changes have the potential to significantly impact the group's markets and financial performance.	The group actively monitors regulatory and legal developments and maintains a constructive and regular dialogue with the relevant regulatory authorities. We continue to believe our straight forward business model, transparent approach and strong liquidity and capital positions means we are well placed to adapt to regulatory change. During the year we have enhanced our conduct risk management framework as we continue to focus on ensuring we treat clients and business counterparties in a fair and transparent manner.	↑ The UK regulatory regime changed from 1 April 2013 with the result that the group has two new regulators, the Prudential Regulation Authority and the Financial Conduct Authority. The new regulatory relationships combined with the continuing significant regulatory and political focus on the financial services industry increases the risk of material impact from regulatory changes. The group's approach to regulatory change during the year is discussed in the Risk Committee report in the group's annual report on page 38 and 39. Further detail on the group's capital, funding and liquidity position is outlined in the group's annual report on pages 15 and 16.
Employees The skill and experience of our people is central to our distinctive business model and therefore retention of our key employees is fundamental to the group's performance.	The human resources function reviews our performance management framework and the reward and incentive schemes regularly to ensure we are successful in retaining and attracting the right calibre of employees. The group has succession plans in place for its key employees and remains committed to developing its employees.	⊖ The group's specialist teams remain targets for our competitors. However, the results of the group's employee survey showed that an overwhelming majority of the group's staff value working for the group. Further detail on the employee survey and our investment in our people is outlined in the group's annual report in Corporate Responsibility on pages 44 to 46 of Governance.
Technology The group's businesses need to ensure they maintain a robust IT infrastructure to support their operations and are able to respond to new technology.	The group invests in its IT platforms to ensure they remain up to date and fit for purpose for all of the markets in which we operate. Business continuity plans are in place to ensure we are able to respond to a disaster event. During the year we have continued to update our IT infrastructure including migrating data centres to specialist third party providers and enhancing data security.	⊖ We continue to invest in our IT infrastructure to ensure we are well placed to respond to new technology and cyber threats. Further detail on the technology related investment in the Banking division is outlined in the group's annual report on page 19.

2. Risk management objectives and policies continued

Risk/Uncertainty	Risk mitigation and management	Change
Competition We operate in competitive markets and increased competition has the potential to impact on our performance. Government backed funding schemes have the potential to alter the competitive environment for our lending activities.	Across all our businesses we aim to build long-term relationships and generate repeat business by operating in a fair and transparent manner and offering a differentiated proposition across each of our businesses. This is done by, inter alia: • Speed and flexibility of service; • Local presence with experienced staff; • Product choice; and • Pricing.	↑ We have begun to see increasing competition in parts of our Banking business, while in Securities and Asset Management the markets remain highly competitive. Further commentary on the market environment for the Banking division is outlined in the group's annual report on page 18.
Funding The group requires access to funding, principally to provide liquidity and support lending in its Banking businesses.	The group's funding and liquidity are actively managed within clearly defined risk appetites. During the year we have accessed: • Retail funding markets; • Corporate deposits; • Interbank funding; and • Securitisation Total funding is £6.3 billion or 135% of the loan book at 31 July 2013 and is diversified. The surplus provides adequate liquidity, particularly given the duration of our lending. Liquidity in the Banking division is assessed on a daily basis to ensure it remains above both internal and regulatory requirements	↓ The group has continued to access a wide range of funding markets during the year. The outlook for further funding access remains positive. Further commentary on funding and liquidity is provided in the group's annual report on pages 15 and 16 of the Business Review. Further financial analysis of our funding at 31 July 2013 is shown in the group's annual report in note 21 on page 91 of the Financial Statements.

2. Risk management objectives and policies continued

Risk/uncertainty	Risk mitigation and management	Change
Execution of strategy We have experienced significant growth in our banking businesses since 2009 in line with our strategic plans and have made a significant investment, including some acquisitions, in our Asset Management business, as well as setting up Winterflood Business Services within the Securities division. Failure to invest in our businesses to support growth, to respond to changes in our markets or to execute plans to integrate acquisitions while retaining existing and attracting new customers in our Asset management business, has the potential to affect future earnings and delivery of our strategic objectives.	We devote significant time and resources to the development and execution of our strategic plans, including a formal annual review of plans of all of the divisions with the group board. Our plans are to predominately grow organically with significant due diligence and performance hurdles set before acquisitions are considered. We constantly monitor performance against our plans through key performance and risk indicators and have sound corporate governance practices to ensure strategic decision making is based on carefully considered principles.	↓ The group has made further progress in executing its organic strategic plans. In particular the Asset Management restructuring has been completed and the division has returned to profitability. Further commentary on the group's strategy is outlined in the group's annual report on pages 10 and 11 of the Corporate Overview.

2. Risk management objectives and policies continued

Risk/uncertainty	Risk mitigation and management	Change
Exposure to markets The group is 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, borrowings and customer deposits, within the Banking division. In addition the group has a small number of overseas subsidiaries and currency denominated investments.	Our Securities businesses primarily act as a market-makers, providing liquidity in short dated exchange traded products. Position limits are set annually for each product, sector and individual stock with real time monitoring and oversight by senior management. The group's policy is to match fixed and variable interest rate liabilities and assets utilising interest rate swaps where necessary. Returns from the group's capital and reserves are necessarily subject to interest rate fluctuations and as a matter of policy are not hedged. A sensitivity analysis on interest rate exposures is shown in the group's annual report on page 109, and in this document within section 10. 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 in the group's annual report on page 109.	The group's approach is consistent with prior years and the risk is considered unchanged. Further analysis on the group's exposures to market risk outlined in the group's annual report in note 33 on pages 109 and 110 of the Financial Statements.

3. Capital resources

The table below summarises the composition of regulatory capital as at 31 July 2013. 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 2013 and 2012.

	2013 £ million	2012 £ million
Core tier 1 capital		
Called up ordinary share capital	**37.7**	37.6
Share premium account	**283.7**	283.4
Retained earnings and other reserves	**541.9**	483.5
Non-controlling interests	**3.7**	3.7
Deductions from core tier 1 capital		
Intangible assets	**(141.6)**	(139.7)
Goodwill in associate	**-**	(8.1)
Investment in own shares	**(33.9)**	(39.6)
Core tier 1 capital	**691.5**	620.8
Less: deductions from tier 1		
50% of material holdings	**(6.2)**	-
Tier 1 capital	**685.3**	620.8
Tier 2 capital		
Subordinated debt	**75.0**	75.0
Unrealised gains on available for sale equity shares	**9.1**	7.3
Less: deductions from tier 2		
50% of material holdings	**(6.1)**	-
Total tier 2 capital	**78.0**	82.3
Total of tier 1 and tier 2	**763.3**	703.1
Deductions from total of tier 1 and tier 2		
Other regulatory adjustments	**(0.4)**	(0.2)
Total regulatory capital	**762.9**	702.9

3. Capital resources continued

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

	2013 £ million	2012 £ million
Equity	**840.5**	769.8
Regulatory deductions from equity:		
Intangible assets	**(141.6)**	(139.7)
Goodwill in associate	**-**	(8.1)
Other reserves not recognised for core tier 1 capital:		
Cash flow hedging reserve	**1.7**	5.3
Available for sale movements reserve	**(9.1)**	(6.5)
Core tier 1 capital	**691.5**	620.8

Intangible assets include goodwill, capitalised software and intangible assets arising on acquisition. All the subordinated loan capital has been issued by CBL and is denominated in sterling. The subordinated loans have over five years until the final maturity date and the option for prepayment is solely at CBL's discretion. Therefore the full subordinated loan capital total of £75 million has been included as lower Tier 2 capital. The subordinated loan capital excludes accrued interest. There has been no change from 31 July 2012 and the terms are as follows:

Final maturity date	Prepayment date	Initial interest rate	**2013 £ million**
2020	2015	7.39%	**30.0**
2026	2021	7.42%	**15.0**
2026	2021	7.62%	**30.0**
			75.0

4. Capital adequacy

The group's policy is to be well capitalised, and its approach to capital management is driven by strategic and organisational requirements, while also taking into account the regulatory and commercial environments in which it operates. The group maintains a strong capital base to support the development of the business and to ensure the group meets the Pillar 1 capital requirements and ICG at all times. As a result, the group maintains capital adequacy ratios comfortably above minimum regulatory requirements.

Information on the estimated impact of CRD IV can be found in the group's annual report on page 17.

Internal capital adequacy assessment process ("ICAAP")

The group is required to carry out internal capital adequacy assessments. An annual group-wide process has been developed and is an integral part of the group's risk management processes. The main output from the process is an assessment of all material risks faced by the group, determination of the level of capital required to be held against each major source of risk and an analysis of a severe stress test over a three-year time horizon, which is the group's standard business planning timescale.

Management at all levels within the group are involved in carrying out risk assessments for their business units, having input into stress testing and scenario analysis and where necessary approving inputs into the process. The ICAAP is subject to detailed review and challenge before approval by both the GRCC and by the board.

4. Capital adequacy continued

Capital requirement

The group's Pillar 1 capital requirement is set out in the table below. The Pillar 1 requirement in respect of credit risk is based on 8% of the risk weighted exposure amounts for each of the following standardised exposure classes in accordance with PRA rules.

	2013 £ million	2012 £ million
Credit risk - standardised approach		
Central governments or central banks	**-**	-
Regional governments or local authorities	**0.1**	-
Administrative bodies and non-commercial undertakings	**0.1**	-
Institutions[1]	**1.0**	3.4
Corporates[1]	**81.5**	70.3
Retail	**162.6**	148.4
Secured on real estate property	**65.8**	55.7
Past due items	**11.6**	11.8
Items belonging to regulatory high risk categories	**0.8**	1.5
Short-term claims on institutions and corporates	**4.0**	5.5
Collective investment undertakings	**-**	-
Other items	**19.6**	18.3
	347.1	314.9
Operational risk - standardised approach[2]	**54.3**	59.6
Counterparty credit risk	**2.6**	3.0
Market risk - trading book		
Interest rate PRR[3]	**1.5**	1.8
Equity PRR[3]	**7.2**	6.4
Market risk - non-trading book		
Foreign currency PRR[3]	**2.4**	3.0
Total Pillar 1 capital requirement	**415.1**	388.7

[1] Excluding those assessed as short-term claims on institutions and corporates
[2] Including the Alternative Standardised Approach for relevant exposures in the Banking division
[3] Position Risk Requirement

5. Counterparty credit risk

Counterparty credit risk is the risk of loss as a result of a counterparty to a transaction defaulting before the final settlement of the transaction's cash flows.

Counterparty credit risk derives from the Securities division trading 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.

The table on page 12 shows that counterparty credit risk amounts to less than 1% (2012: less than 1%) of the overall capital requirement. Consequently, on the grounds of materiality, no further detail is provided on this risk.

6. 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. The following tables analyse regulatory credit risk exposures at 31 July 2013:

	2013 £ million	Average exposure in 2013 £ million
Standardised approach		
Central governments or central banks	**980.3**	891.9
Regional governments or local authorities	**3.4**	2.8
Administrative bodies and non-commercial undertakings	**3.4**	2.0
Institutions[1]	**34.7**	74.5
Corporates[1]	**1,430.2**	1,341.0
Retail	**2,759.9**	2,641.6
Secured on real estate property	**1,392.8**	1,238.6
Past due items	**112.1**	119.4
Items belonging to regulatory high risk categories	**6.6**	9.7
Short-term claims on institutions and corporates	**142.7**	223.7
Collective investment undertakings	**0.2**	0.2
Other items	**245.7**	237.6
	7,112.0	6,783.0

[1] Excluding those assessed as short-term claims on institutions and corporates

The exposures are before applying risk weightings and include undrawn commitments. The retail exposure class consists of loans to individuals and small and medium sized entities with similar characteristics. Past due items follows the regulatory definition as disclosed on page 15 and is net of any provisions made against such items. Short-term claims on institutions and corporates are defined as exposures where the remaining maturity is less than twelve months.

6. Credit risk continued

Geographic distribution of exposures by regulatory exposure asset class at 31 July 2013:

	British Isles £ million	Europe £ million	Rest of world £ million	**Total £ million**
Standardised approach				
Central governments or central banks	980.2	0.1	-	**980.3**
Regional governments or local authorities	3.4	-	-	**3.4**
Administrative bodies and non-commercial undertakings	3.4	-	-	**3.4**
Institutions[1]	26.4	5.8	2.5	**34.7**
Corporates[1]	1,295.1	125.7	9.4	**1,430.2**
Retail	2,566.7	193.2	-	**2,759.9**
Secured on real estate property	1,392.6	0.2	-	**1,392.8**
Past due items[2]	100.9	10.7	0.5	**112.1**
Items belonging to regulatory high risk categories	6.6	-	-	**6.6**
Short-term claims on institutions and corporates	71.2	26.9	44.6	**142.7**
Collective investment undertakings	0.2	-	-	**0.2**
Other items	242.5	3.0	0.2	**245.7**
	6,689.2	**365.6**	**57.2**	**7,112.0**

[1] Excluding those assessed as short-term claims on institutions and corporates
[2] Shown net of value adjustments and provisions

Residual maturity breakdown of regulatory exposure asset classes on a contractual basis at 31 July 2013:

	< 3 months £ million	3 months to 1 year £ million	1 to 5 years £ million	> 5 years £ million	**Total £ million**
Central governments or central banks	935.4	-	44.9	-	**980.3**
Regional governments or local authorities	0.2	0.6	2.6	-	**3.4**
Administrative bodies and non-commercial Undertakings	0.2	0.6	2.6	-	**3.4**
Institutions[1]	-	-	34.7	-	**34.7**
Corporates[1]	872.2	185.0	357.8	15.2	**1,430.2**
Retail	666.2	760.9	1,288.2	44.6	**2,759.9**
Secured on real estate property	348.2	656.0	388.6	-	**1,392.8**
Items belonging to regulatory high risk categories	-	-	6.6	-	**6.6**
Short-term claims on institutions and corporates	86.8	55.9	-	-	**142.7**
Collective investment undertakings	-	-	-	0.2	**0.2**
Other items	189.2	32.9	23.6	-	**245.7**
	3,098.4	**1,691.9**	**2,149.6**	**60.0**	**6,999.9**
Past Due Items[2]					**112.1**
					7,112.0

[1] Excluding those assessed as short-term claims on institutions and corporate
[2] Shown net of value adjustments and provisions

6. Credit risk continued

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 available for sale or loans and receivables is impaired.

(a) Loans and advances to customers

Treatment

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables 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.

Differences in accounting and regulatory treatment

For accounting purposes, a financial asset is treated as past due when a counterparty has failed to make a payment when contractually due and an impairment provision is made where there is objective evidence of impairment. In contrast, under regulatory rules, a financial asset is treated as past due when the payment is ninety days past the contractual due date. Value adjustments and provisions required under regulatory rules are calculated on the same basis as impairment provisions, and so all provisions for impaired loans and advances are referred to as impairment provisions. The impairment provisions shown overleaf are the accounting values shown in note 33 of the group's annual report, where further relevant information can be found.

Analysis of impairment provisions

For accounting purposes, impaired loans and advances to customers are analysed according to whether the impairment provisions are individually or collectively assessed, as described in more detail in note 33 of the group's annual report. However, for regulatory purposes the group does not have any general/collective provisions as defined by the PRA.

6. Credit risk continued

(b) Financial instruments classified as available for sale

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.

Analysis of impaired and past due loans

The following tables analyse impaired loans as treated for accounting purposes and past due loans as treated for regulatory purposes at 31 July 2013.

Counterparty type[1] analysis of gross impaired and past due loans, and impairment provisions at 31 July 2013:

	Gross impaired loans 2013 £ million	Gross past due loans 2013 £ million	Impairment provisions 2013 £ million	Charges for impairment provisions during the period to 2013 £ million
Corporates	126.5	131.7	42.7	21.9
Retail	74.5	36.8	19.2	28.7
Total	**201.0**	**168.5**	**61.9**	**50.6**

[1]Counterparty type analysis is based on mapping all relevant loans to either Corporates or Retail, as classified by the PRA

Geographical analysis of gross impaired and past due loans, and impairment provisions at 31 July 2013:

	Gross impaired loans 2013 £ million	Gross past due loans 2013 £ million	Impairment provisions 2013 £ million	Charges for impairment provisions during the period to 2013 £ million
British Isles	180.3	148.5	50.8	46.2
Europe	20.7	20.0	11.1	4.4
Rest of World	-	-	-	-
Total	**201.0**	**168.5**	**61.9**	**50.6**

Impairment provisions:

	£ million
Opening balance at 1 August 2012	70.3
Charge for the year	50.6
Amounts written off net of recoveries	(59.0)
Closing balance at 31 July 2013	**61.9**

7. Credit risk: standardised approach

The group uses external credit assessments provided by Moody's Investors Service ("Moody's") to determine the risk weight of rated counterparties in each standardised credit risk exposure class. Moody's is recognised by the PRA as an eligible external credit assessment institution for the purposes of calculating credit risk requirements under the standardised approach. The external ratings of Moody's are mapped to the prescribed credit quality step assessment scale that in turn produces standard risk weightings. Exposures to central governments and central banks that have obtained a 0% risk weight from using external credit assessments are omitted from the tables below.

The tables below show the exposure amounts associated with the credit quality steps and the relevant risk weightings as at 31 July 2013 (only credit quality steps with exposures are shown):

Institutions[1]

Credit quality step	Moody's rating	Risk weight	Exposure
1	Aaa to Aa3	20%	17.0
2	A1 to A3	50%	17.6
3	Baa1 to Baa3	50%	0.1
Total			**34.7**

Short-term claims on institutions and corporates

Credit quality step	Moody's rating	Risk weight	Exposure
1	Aaa to Aa3 / P1	20%	69.7
2	A1 to A3 / P2	20% / 50%[2]	51.1
3	Baa1 to Baa3	100%	21.9
Total			**142.7**

[1] Excluding those assessed as short-term claims on institutions and corporate
[2] Lower weighting applies to those exposures with long-term rating and maturity 3 months or less

8. Credit risk mitigation

In the normal course of business cash collateral (margin) is posted by the counterparty to collateralise the mark to market exposure on a derivative portfolio. This covers £18.0 million of exposures within the institutions exposure class and £30.0 million of exposures within the short term claims on institutions and corporates exposure class, as shown in section 6. The group also has a repurchase agreement whereby FRNs to the value of £21.9m have been lent in exchange for cash collateral of £18.3m and reported within the short term claims on institutions and corporates exposure class.

As explained in our approach to credit risk management in section 2, the majority of the banking division's lending is secured. The security taken does not result in any reduction in risk weighted assets under the standardised approach to credit risk. The group does not make use of on-balance sheet netting.

9. Non-trading book exposures in equities

At 31 July 2013, the group had £27.7 million of equity investments in the non-trading book, of which £27.1 million were classified as available for sale and £0.6 million as held at fair value through profit or loss under the fair value option. The total of all investments are unlisted. The capital requirement amounted to £1.4 million, with £5.0 million of equity investments being classified as high risk for regulatory purposes. Cumulative gains from sales in the period were immaterial.

The accounting policies for classifying equity investments are outlined below:

Equity investments classified as available for sale

These are recognised at fair value plus any directly attributable purchase costs, with changes being accounted for through equity. If such an asset is sold or there is objective evidence that they are impaired, the cumulative gains and losses recognised in equity are recycled through the income statement.

Equity investments designated at inception under the fair value option

These are equity shares fair valued where the resulting gains and losses are included in the income statement.

Movements in equity shares in the year to 31 July 2013 were as follows:

	Available for sale £ million	Fair value through profit or loss £ million
At 1 August 2012	13.3	5.2
Additions	0.2	0.1
Disposals	(0.3)	(7.3)
Currency translation differences	1.4	-
Increase/(decrease) in carrying value of:		
Equity shares classified as available for sale	0.2	-
Unlisted equity shares held at fair value	-	2.6
Reclassification from investment in Mako	12.3	-
At 31 July 2013	**27.1**	**0.6**

10. Interest rate risk in the non-trading book

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. Interest rate risk is regularly measured and reviewed throughout the year.

The sensitivities below are based upon reasonably possible changes in interest rate scenarios, including parallel shifts in the yield curve. At 31 July 2013 changes in interest rates compared to actual rates would increase/(decrease) the group's annual net interest income by the following amounts.

	2013 £ million
1.0% increase	**2.7**
0.5% decrease	**(1.4)**

The above analysis is calculated in sterling as the group's exposure to foreign exchange risk is immaterial, as described in note 33 of the group's annual report.

11. Securitisation

The group has securitised without recourse and restrictions £1,112.7 million (31 July 2012: £1,038.2 million) of its insurance premium and motor loan receivables in return for debt securities in issue of £850.0 million (31 July 2012: £835.0 million). As the group has retained exposure to substantially all the credit risk and rewards of the residual benefit of the underlying assets it continues to recognise these assets in loans and advances to customers in its Consolidated Balance Sheet. As a result, the group does not apply BIPRU 9 in calculating risk weighted assets on its securitised loans, and no further disclosures are required.

12. Remuneration

The Remuneration Committee

Remco membership
The membership of the Remco is comprised of five non-executive directors. They are Bruce Carnegie-Brown, Ray Greenshields, Geoffrey Howe, Shonaid Jemmett-Page and Douglas Paterson.

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

Advice
During the year under review the Remco consulted and took advice from PwC, Slaughter and May, the chairman of the board, the chief executive, the group head of human resources, the group head of reward and the group chief risk officer.

Where appropriate the Remco 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.

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

Remuneration Schemes for Code Staff
Remuneration Code Staff comprises categories of staff including senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on the firm's risk profile ("Code Staff"). The remuneration of Code Staff is subject to specific requirements within the PRA Remuneration Code.

12. Remuneration continued

Base salary

The base salary is designed to attract and retain high calibre employees and reflect an employee's role, skills and knowledge. These are set annually based on individual role and experience, pay for the broader employee population and external factors, where applicable.

Annual Bonus

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 individual performance. Employees have individual objectives against which their personal performance is rated. These objectives may 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 Remco 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.

A portion of any annual bonus above certain thresholds and for certain individuals is deferred. This is generally into Close Brothers Group plc shares but in certain areas, where it is appropriate for the business based on the risk profile of that business, this may be deferred in cash. The deferred awards for Code Staff are subject to forfeiture and malus conditions. The malus conditions mean that the awards may be subject to forfeiture or may be reduced after grant in certain adverse circumstances.

The aggregate level of bonuses is determined by reference to group and divisional metrics, including financial and non-financial metrics, such as risk and strategic considerations.

Long Term Incentive Plan ("LTIP") award

The LTIP is delivered through an annual award of nil cost options, conditional shares or restricted shares, with a face value of up to 200% of base salary. The Remco decides annually the actual size of individual awards. The shares vest after three years subject to the following performance targets for the 2013 awards:

- 40% of the award is subject to absolute total shareholder return ("TSR") growth;
- 40% of the award is subject to adjusted earnings per share ("EPS") growth; and
- 20% of the award is subject to risk management objectives.

The LTIP awards are subject to forfeiture and malus conditions. Targets for the LTIP awards for 2013 are:

Absolute TSR:

Absolute TSR growth over three years	Vesting % of TSR element
20% p.a. or greater	100%
Between 20% p.a. and 10% p.a.	Straight-line between these points
10% p.a.	25%
Less than 10% p.a.	0%

Adjusted EPS:

Adjusted EPS growth over three years	Vesting % of EPS element
RPI + 10% p.a. or greater	100%
Between RPI + 10% p.a. and RPI + 3% p.a.	Straight-line between these points
RPI + 3% p.a.	25%
Less than RPI + 3% p.a.	0%

12. Remuneration continued

Risk Management Objectives
There are two objectives, with equal weighting of each:
- Capital and balance sheet management; and
- Risk, compliance and controls.

Share Match Plan ("SMP")
In addition to the elements outlined above, members of the Group Executive Committee ("Exco") (all of whom are Code Staff) can choose to invest up to 100% of base salary from their total annual bonus into Close Brothers Group plc shares ("Invested Shares"). The Invested Shares have a deferral period of three years and are subject to malus conditions.

Invested shares are matched with free Matching Shares for every invested share, subject to performance conditions over the three year period. The Remuneration Committee has determined the maximum matching ratio for the 2013 award to be two Matching Shares for each Invested Share. The Matched Shares are subject to the same performance conditions and malus provisions as the LTIP.

Risk Management
The remuneration policy approved by the Remco is designed to promote sound and effective risk management and to ensure that risk taking within the group does not exceed the group's risk tolerance. The Remco 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.

The group chief risk officer, group head of compliance, internal audit, and the divisional heads of risk and compliance are closely involved in the remuneration process to ensure that remuneration practices support this. The group chief risk officer reports independently to the Remco to ensure that remuneration decisions and practices support these objectives. Risk and compliance provide input into, and independent review of, the remuneration policies of the company.

Link between reward and performance - financial year 2013
The group's performance for the 2013 financial year was strong with adjusted operating profit increasing 24%. The group strengthened its capital position and maintained a prudent funding approach. The Banking division has achieved good loan growth of 17% compound per annum over the past three years while maintaining the quality of its loan book. It has maintained its prudent business model, as evidenced by continued strong net interest margin and improving bad debts, while returns have grown over the three year period, with the division this year reaching return on equity of 24%. Winterflood profits improved slightly although remained subdued by historical comparison, and it has maintained its leadership position, ranked number one in market making to UK retail brokers over the last three years. Seydler had a strong year, with profits increasing from £1.3 million to £7.9 million. The Asset Management business returned to profitability as forecast with Assets under Management increasing from £8.3 billion to £9.1 billion.

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

2013 Aggregate Remuneration[1] in respect of Code Staff by business (£ million)

Banking	Securities	Asset Management	Group
7.6	6.7	4.3	9.0

[1]Aggregate Remuneration consists of fixed and variable remuneration as outlined below

12. Remuneration continued

2013 Aggregate Remuneration in respect of Code Staff split into fixed and variable remuneration

	Senior Management	Other Code Staff
Number of Code Staff	29	6
Fixed remuneration (£ million)[1]	9.0	1.2
Variable remuneration (£ million)[2]	16.6	0.8

[1]Fixed Remuneration consists of base salary, company pension contributions and any other fixed allowances
[2]Variable Remuneration consists of the discretionary annual bonus, 60% of the face value of the LTIP award and 60% of the SMP match value