



**Close Brothers Group plc**

**Pillar 3 disclosures for the year ended 31 July 2012**

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## 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 as at 31 July 2012 with comparative figures for 31 July 2011 where relevant.

### Scope

The Financial Services Authority ("FSA") 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 the FSA or overseas regulators. Details of the group's principal subsidiaries are included in note 27 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 the group's associate are accounted for on an equity basis for accounting purposes and consolidated in proportion to the participation of the group for regulatory purposes.

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 FSA handbook BIPRU Chapter 2.1 and reports to the FSA on a solo-consolidated basis. This solo-consolidated group includes CBL and its major trading subsidiaries as at 31 July 2012. 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 strategic priorities for the group. Over the past 12 months the group has continued to strengthen its risk management framework and further develop the group's risk committee, and its divisional risk committees, which continue working efficiently and effectively.

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

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

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

### Risk Management Framework

| 1st line of defence  | 2nd line of defence  | 3rd line of defence  |
|--|--|--|
| <p><b>Group Risk and Compliance Committee</b></p> <p>Reports to the board via the Risk Committee.</p> <p>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.</p> <p>Business management has day-to-day ownership, responsibility and accountability for risks:</p> <ul style="list-style-type: none"> <li>• Identifying and assessing risks;</li> <li>• Managing and controlling risks;</li> <li>• Mitigating risks; and</li> <li>• Reporting risks.</li> </ul> <p><b>Key features:</b></p> <ul style="list-style-type: none"> <li>• Promotes a strong risk culture and focus on sustainable risk-adjusted returns;</li> <li>• Implements the risk framework;</li> <li>• Promotes a culture of adhering to limits and managing risk exposures; and</li> <li>• Ongoing monitoring of positions and management of risks.</li> </ul> | <p><b>Risk Committee</b></p> <p>Reports to the board.</p> <p>Risk Committee delegates to the chief risk officer day-to-day responsibility for oversight and challenge on risk related issues.</p> <p>Risk functions provide support and independent challenge on:</p> <ul style="list-style-type: none"> <li>• Risk framework;</li> <li>• Risk assessment;</li> <li>• Risk appetite and strategy;</li> <li>• Performance management;</li> <li>• Risk reporting; and</li> <li>• Adequacy of mitigation plans.</li> </ul> <p><b>Key features:</b></p> <ul style="list-style-type: none"> <li>• Over-arching "risk oversight unit" takes an integrated view of risk (qualitative and quantitative);</li> <li>• Risk management separate from risk control but work together;</li> <li>• Supports through developing and advising on risk strategies; and</li> <li>• Creates constructive tension through challenge, "critical friend".</li> </ul> | <p><b>Audit Committee</b></p> <p>Reports to the board.</p> <p>Audit Committee mandates the head of internal audit with day-to-day responsibility for independent assurance.</p> <p>Group internal audit provides independent assurance on:</p> <ul style="list-style-type: none"> <li>• First and second lines of defence;</li> <li>• Appropriateness/effectiveness of internal controls; and</li> <li>• Effectiveness of policy implementation.</li> </ul> <p><b>Key features:</b></p> <ul style="list-style-type: none"> <li>• Draws on in depth knowledge of the group and its businesses;</li> <li>• Independent assurance on the activities of the firm including the risk management framework; and</li> <li>• Assesses the appropriateness and effectiveness of internal controls.</li> </ul> |

## 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's primary responsibilities are 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 Risk Committee's full terms of reference are available from the corporate governance section of our website.

## 2. Risk management objectives and policies continued

### Risk assessment

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   |
|--|--|--|
| <p><b>Uncertain economic environment</b></p> <p>Economic conditions, particularly in the UK, could impact on the group's performance in a number of different ways including:</p> <ul style="list-style-type: none"> <li>• Lower demand for the group's products and services due to lower economic activity;</li> <li>• Increased bad debts due to customers inability to repay loans and lower asset values for security held against these loans;</li> <li>• Lower investor risk appetite reducing trading volumes for the Securities division; and</li> <li>• Asset write downs as a result of reduced trading expectations due to lower economic activity.</li> </ul> | <p>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.</p> <p>The group carries out regular stress testing to test that the historic resilience of its businesses can be expected to continue.</p> <p>In Banking, loans are short term with conservative loan to values ratios and are predominantly secured on accessible assets.</p> <p>In Securities, our businesses offer liquidity across a diverse range of products and maintain a low fixed cost base allowing the division to trade profitably even when investor risk appetite is reduced.</p> <p>In Asset Management, the key focus is to manage, protect and enhance the wealth of private and corporate clients.</p> | <p>⊖</p> <p>The economic environment remains volatile with an uncertain outlook for the demand for our services across the divisions. However this is in part offset by the benign competitive environment for our Banking division.</p> |

## 2. Risk management objectives and policies continued

### Credit losses

The group faces credit and counterparty risk across its divisions but particularly in relation to its banking activities. The group advances loans to a range of corporate, SME and individual customers. In addition the group places surplus funding with other financial institutions and has a limited number of derivative contracts to hedge interest rate, foreign exchange and equity exposures in its treasury operations.

These risks are enhanced given the uncertain economic environment and potential dislocation in global financial markets. The group has limited direct exposure to the Eurozone but the indirect impact of a Eurozone break up on our primarily UK customers could be material.

The group's lending businesses have a dual approach to mitigate credit risk:

- Robust processes that facilitate the assessment of the credit quality and covenant of the underlying borrower; and
- Lending on a predominantly secured basis with significant emphasis on the quality of the underlying security to minimise any loss should the customer not be able to repay.

These are supplemented by timely and rigorous collections and arrears management processes. The majority of the group's lending is short term and average loan size is small with the result that few individual loans have the capacity to materially impact the group's earnings.

The Banking division monitors the credit quality of the counterparties with whom it places deposits, enters into derivative contracts or whose debt securities are held, within approved limits.

Interest rate and foreign currency derivatives are solely held to hedge the interest rate and foreign currency exposures. Similarly, the equity derivatives are only held to hedge the embedded derivatives within our structured deposits funding.

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



While underlying economic conditions have weakened and the outlook for financial markets is uncertain, impairments in the Banking division have fallen. Surplus funding is more concentrated in UK gilts and deposits at Bank of England, reducing risk.

## 2. Risk management objectives and policies continued

| Risk/uncertainty   | Risk mitigation and management  | Change  |
|--|---|---|
| <p><b>Availability of funding</b><br/>Access to funding is fundamental to the Banking division in particular to support its lending activities. Inability to source sufficient funding could constrain growth and in extreme circumstances require reductions to lending levels. Access to funding is also fundamental to the group maintaining sufficient levels of liquidity.</p>  | <p>The group's funding and liquidity profile are managed closely within clearly defined risk appetites. The group's funding is diversified and amounted to £5.9 billion at 31 July 2012, equivalent to 142% of the loan book. The surplus provides a sufficient level of liquidity relative to the duration of lending and is of high quality with the majority invested in UK gilts or deposited at the Bank of England. Weekly stress testing is carried out to ensure adequate liquidity is maintained at all times.</p>         | <p style="text-align: center;">⊖</p> <p>The availability of interbank funding has continued to be limited although the securitisation of our motor finance loan book has further improved funding diversity. We have also continued to demonstrate our ability to access the retail deposit market.</p> |
| <p><b>Regulatory change</b><br/>The group operates in a highly regulated environment and significant changes to the regulatory and legislative environment are currently being introduced. The changes affect, inter alia, capital and liquidity levels and the way in which the group's employees are remunerated. In addition intervention to funding markets by legislative and/or regulatory bodies has the potential to impact on the group's competitive position.</p> | <p>The group monitors regulatory and legal developments and engages in dialogue with regulatory authorities on a regular basis. We continue to maintain a conservative model with a strong, well capitalised and funded balance sheet and believe we are well placed to react to regulatory change.</p> <p>The group has a central tax function which liaises regularly with the tax authorities and has developed a group tax policy to ensure a consistent and conservative approach is taken to tax issues across the group.</p> | <p style="text-align: center;">⊕</p> <p>The reputation of the banking industry remains in the spotlight increasing the risk of significant regulatory change.</p>   |
| <p>The impact on the group's businesses caused by changes in regulation, legislation or the tax system is potentially material notwithstanding that many of the proposed changes are aimed primarily at larger institutions.</p>   |   |   |



2. Risk management objectives and policies continued

| Risk/uncertainty  | Risk mitigation and management  | Change   |
|---|---|--|
| <p><b>Employees</b><br/>The group's experienced people are fundamental to the group's performance. The loss of key employees or teams could impact on the group's performance.</p>  | <p>The group's human resources function reviews the performance management framework and the reward and incentive schemes regularly to ensure that the group is successful in attracting and retaining the calibre of employees necessary to meet its objectives.</p> <p>In addition the group has also further extended its succession planning for its key employees during the year and is committed to continuing to develop its employees.</p> | <p>⊖</p> <p>The overall market for financial services personnel is largely benign, although our specialist teams continue to be potential targets for competitors.</p> |
| <p><b>IT systems and business continuity</b><br/>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.</p> | <p>Each of the businesses continually invests in its IT platforms to ensure they remain up to date and fit for purpose for the markets in which they operate. Additionally, business continuity plans are in place to enable the businesses to respond in a timely manner to a disaster event.</p>  | <p>⊖</p> <p>While investment into the group's IT infrastructure continues, the group remains highly reliant on its IT systems.</p>                                     |

2. Risk management objectives and policies continued

| Risk/uncertainty  | Risk mitigation and management   | Change  |
|---|--|---|
| <p><b>Execution of strategy</b><br/> In line with its strategic plans, the group has achieved significant growth in its banking activities and is investing in its infrastructure to support a larger business. In addition within Asset Management we are rolling out our new proposition to existing and prospective clients as well as continuing to integrate the acquisitions made in the last two years.</p> <p>If these strategic plans which are supported by substantial expenditure are not delivered as anticipated, earnings could grow more slowly or decline.</p> | <p>The group devotes substantial management resources to the development and execution of its strategic plans, monitoring key performance and risk indicators and has various policies and practices to mitigate strategic risk, including subscribing to sound corporate governance practices, which require that activities, processes and decisions are based on carefully considered principles.</p> <p>The group regularly reinforces these policies and practices through transparent communication, accurate reporting, continuous group culture and values assessment, regulatory compliance review and risk management practices. This is supported by more formal strategy and budget reviews.</p> | <p style="text-align: center;">⬇</p> <p>The low average duration of the Banking division's lending means that many of the new loans advanced in the last three years of high loan book growth have already been repaid demonstrating that growth has been successfully managed despite the economic environment.</p> <p>The group has now substantially completed its investment in its Asset Management division and has made progress on integrating the acquisitions made.</p> |

2. Risk management objectives and policies continued

| Risk/uncertainty   | Risk mitigation and management  | Change   |
|--|---|--|
| <p><b>Exposure to markets</b><br/>The group's securities businesses are exposed to market movements deriving from trading in equity and fixed income securities.</p> <p>Interest income is a substantial proportion of the group's revenues. Movements in interest rates have the potential to affect the group's earnings.</p> <p>While the majority of the group's activities are located in the UK and transacted in sterling, the group is subject to foreign exchange exposure. The group has currency assets and liabilities, principally lending and FRNs as well as borrowings and customer deposits, within the Banking division. In addition the group has a small number of overseas subsidiaries and currency denominated investments.</p> | <p>In Securities, the primary activity is to act as a market-maker, providing liquidity in short dated exchange traded products. Position limits are set annually for each product, sector and individual stock with real time monitoring and oversight by senior management.</p> <p>The group's policy is to match fixed and variable interest rate liabilities and assets utilising interest rate swaps where necessary. Returns from the group's capital and reserves are necessarily subject to interest rate fluctuations and as a matter of policy are not hedged. A sensitivity analysis on interest rate exposures is shown on page 19.</p> <p>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.</p> <p>The group does not hedge its currency exposure to its overseas subsidiaries and currency investments since it is relatively modest.</p> | <p>⊖</p> <p>The group's approach is consistent with prior years and the risk is considered unchanged despite the volatile and challenging financial markets.</p> |

### 3. Capital resources

The table below summarises the composition of regulatory capital as at 31 July 2012, at which point the group's individual regulated entities and the group complied with all of the externally imposed capital requirements to which they were subject.

|  | 2012<br>£ million | 2011<br>£ million |
|--|-------------------|-------------------|
| <b>Core tier 1 capital</b>                             |                   |                   |
| Called up ordinary share capital                       | 37.6              | 37.6              |
| Share premium account                                  | 283.4             | 283.0             |
| Retained earnings and other reserves                   | 483.5             | 448.9             |
| Non-controlling interests                              | 3.7               | 1.9               |
| <b>Deductions from core tier 1 capital</b>             |                   |                   |
| Intangible assets                                      | (139.7)           | (133.1)           |
| Goodwill in associate                                  | (8.1)             | (12.2)            |
| Investment in own shares                               | (39.6)            | (37.6)            |
| <b>Core tier 1 capital after deductions</b>            | <b>620.8</b>      | 588.5             |
| <b>Tier 2 capital</b>                                  |                   |                   |
| Subordinated debt                                      | 75.0              | 75.0              |
| Unrealised gains on available for sale equity shares   | 7.3               | 7.0               |
| <b>Tier 2 capital</b>                                  | <b>82.3</b>       | 82.0              |
| <b>Total of core tier 1 and tier 2</b>                 | <b>703.1</b>      | 670.5             |
| <b>Deductions from total of core tier 1 and tier 2</b> |                   |                   |
| Participation in a non-financial undertaking           | 0.0               | (1.3)             |
| Other regulatory adjustments                           | (0.2)             | (0.1)             |
| <b>Total regulatory capital</b>                        | <b>702.9</b>      | 669.1             |

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

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

### 3. Capital resources continued

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 £75m has been included as lower Tier 2 capital. There has been no change from 31 July 2011 and the terms are as follows:

| Final maturity date | Prepayment date | Initial interest rate | 2012<br>£ million |
|---------------------|-----------------|-----------------------|-------------------|
| 2020                | 2015            | 7.39%                 | 30.0              |
| 2026                | 2021            | 7.42%                 | 15.0              |
| 2026                | 2021            | 7.62%                 | 30.0              |
|                     |                 |                       | <b>75.0</b>       |

### 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 at all times. As a result, the group maintains capital adequacy ratios comfortably above minimum regulatory requirements.

#### 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 FSA rules.

|   | 2012<br>£ million | 2011<br>£ million |
|---|-------------------|-------------------|
| <b>Credit risk - standardised approach</b>                  |                   |                   |
| Central governments or central banks                        | -                 | -                 |
| Regional governments or local authorities                   | -                 | -                 |
| Administrative bodies and non-commercial undertakings       | -                 | 0.1               |
| Institutions <sup>1</sup>                                   | 3.4               | 3.6               |
| Corporates <sup>1</sup>                                     | 70.3              | 60.4              |
| Retail  | 148.4             | 127.4             |
| Secured by mortgages on residential real estate             | 0.1               | 0.1               |
| Secured by mortgages on commercial real estate <sup>2</sup> | 55.6              | 37.6              |
| Past due items  | 11.8              | 13.2              |
| Items belonging to regulatory high risk categories          | 1.5               | 1.5               |
| Short-term claims on institutions and corporates            | 5.5               | 15.3              |
| Collective investment undertakings                          | -                 | -                 |
| Other items   | 18.3              | 16.4              |
|   | <b>314.9</b>      | <b>275.6</b>      |
| <b>Operational risk – standardised approach<sup>3</sup></b> | <b>59.6</b>       | <b>66.5</b>       |
| <b>Counterparty credit risk</b>                             | <b>3.0</b>        | <b>5.5</b>        |
| <b>Market risk - trading book</b>                           |                   |                   |
| Interest rate PRR <sup>4</sup>                              | 1.8               | 1.6               |
| Equity PRR <sup>4</sup>                                     | 6.4               | 4.4               |
| <b>Market risk – non-trading book</b>                       |                   |                   |
| Foreign currency PRR <sup>4</sup>                           | 3.0               | 5.8               |
| <b>Total Pillar 1 capital requirement</b>                   | <b>388.7</b>      | <b>359.4</b>      |

<sup>1</sup> Excluding those assessed as short-term claims on institutions and corporates

<sup>2</sup> Credit risk categories shown reflect FSA reporting; this category includes the majority of the group's real estate despite not being secured by mortgages

<sup>3</sup> Including the Alternative Standardised Approach for relevant exposures in the Banking division

<sup>4</sup> 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 businesses 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% (2011: less than 2%) 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 2012:

|   | 2012<br>£ million | Average<br>exposure in<br>2012<br>£ million |
|---|-------------------|---|
| <b>Standardised approach</b>                                |                   |   |
| Central governments or central banks                        | 803.5             | 812.5                                       |
| Regional governments or local authorities                   | 2.3               | 1.2   |
| Administrative bodies and non-commercial undertakings       | 0.8               | 0.6   |
| Institutions <sup>1</sup>                                   | 114.2             | 169.7                                       |
| Corporates <sup>1</sup>                                     | 1,251.7           | 1,183.0                                     |
| Retail  | 2,523.4           | 2,353.1                                     |
| Secured by mortgages on residential real estate             | 0.7               | 0.7   |
| Secured by mortgages on commercial real estate <sup>2</sup> | 1,083.7           | 927.3                                       |
| Past due items  | 126.8             | 130.0                                       |
| Items belonging to regulatory high risk categories          | 12.7              | 12.6  |
| Short-term claims on institutions and corporates            | 304.7             | 441.7                                       |
| Collective investment undertakings                          | 0.2               | 0.2   |
| Other items   | 229.4             | 213.8                                       |
|   | <b>6,454.1</b>    | <b>6,246.4</b>                              |

<sup>1</sup> Excluding those assessed as short-term claims on institutions and corporates

<sup>2</sup> Categories shown reflect FSA reporting; this category includes the majority of the group's real estate despite not being secured by mortgages

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 and where the counterparty has a short-term credit weighting.

6. Credit risk continued

Geographic distribution of exposures by regulatory exposure asset class at 31 July 2012:

|   | British Isles<br>£ million | Europe<br>£ million | Rest of<br>world<br>£ million | Total<br>£ million |
|---|----------------------------|---------------------|-------------------------------|--------------------|
| <b>Standardised approach</b>                                |                            |                     |                               |                    |
| Central governments or central banks                        | 803.5                      | -                   | -                             | <b>803.5</b>       |
| Regional governments or local authorities                   | 2.3                        | -                   | -                             | <b>2.3</b>         |
| Administrative bodies and non-commercial undertakings       | 0.8                        | -                   | -                             | <b>0.8</b>         |
| Institutions <sup>1</sup>                                   | 87.4                       | 2.9                 | 23.9                          | <b>114.2</b>       |
| Corporates <sup>1</sup>                                     | 1,157.1                    | 69.5                | 25.1                          | <b>1,251.7</b>     |
| Retail  | 2,390.9                    | 132.5               | -                             | <b>2,523.4</b>     |
| Secured by mortgages on residential real estate             | 0.7                        | -                   | -                             | <b>0.7</b>         |
| Secured by mortgages on commercial real estate <sup>2</sup> | 1,083.5                    | 0.2                 | -                             | <b>1,083.7</b>     |
| Past due items <sup>3</sup>                                 | 113.7                      | 13.1                | -                             | <b>126.8</b>       |
| Items belonging to regulatory high risk categories          | 12.7                       | -                   | -                             | <b>12.7</b>        |
| Short-term claims on institutions and corporates            | 172.9                      | 103.2               | 28.6                          | <b>304.7</b>       |
| Collective investment undertakings                          | 0.2                        | -                   | -                             | <b>0.2</b>         |
| Other items   | 224.4                      | 5.0                 | -                             | <b>229.4</b>       |
|   | <b>6,050.1</b>             | <b>326.4</b>        | <b>77.6</b>                   | <b>6,454.1</b>     |

<sup>1</sup> Excluding those assessed as short-term claims on institutions and corporates

<sup>2</sup> Categories shown reflect FSA reporting; this category includes the majority of the group's real estate despite not being secured by mortgages

<sup>3</sup> Shown net of value adjustments and provisions

Residual maturity breakdown of regulatory exposure asset classes, excluding Past Due items, on a contractual basis at 31 July 2012:

|   | < 3 months<br>£ million | 3 months<br>to 1 year<br>£ million | 1 to 5<br>years<br>£ million | > 5 years<br>£ million | Total<br>£ million |
|---|-------------------------|------------------------------------|------------------------------|------------------------|--------------------|
| Central governments or central banks                        | 706.5                   | 50.6                               | 46.4                         | -                      | <b>803.5</b>       |
| Regional governments or local authorities                   | 0.3                     | 0.6                                | 1.4                          | -                      | <b>2.3</b>         |
| Administrative bodies and non-commercial undertakings       | 0.1                     | 0.2                                | 0.5                          | -                      | <b>0.8</b>         |
| Institutions <sup>1</sup>                                   | -                       | -                                  | 114.0                        | 0.2                    | <b>114.2</b>       |
| Corporates  | 699.7                   | 186.9                              | 351.8                        | 13.3                   | <b>1,251.7</b>     |
| Retail  | 617.0                   | 702.2                              | 1,194.0                      | 10.2                   | <b>2,523.4</b>     |
| Secured by mortgages on residential real estate             | 0.7                     | -                                  | -                            | -                      | <b>0.7</b>         |
| Secured by mortgages on commercial real estate <sup>2</sup> | 275.0                   | 540.2                              | 268.5                        | -                      | <b>1,083.7</b>     |
| Items belonging to regulatory high risk categories          | -                       | -                                  | 12.7                         | -                      | <b>12.7</b>        |
| Short-term claims on institutions and corporates            | 259.2                   | 45.5                               | -                            | -                      | <b>304.7</b>       |
| Collective investment undertakings                          | -                       | -                                  | -                            | 0.2                    | <b>0.2</b>         |
| Other items   | 114.3                   | 32.3                               | 80.7                         | 2.1                    | <b>229.4</b>       |
|   | <b>2,672.8</b>          | <b>1,558.5</b>                     | <b>2,070.0</b>               | <b>26.0</b>            | <b>6,327.3</b>     |

<sup>1</sup> Excluding those assessed as short-term claims on institutions and corporates

<sup>2</sup> Categories shown reflect FSA reporting, this category includes the majority of the group's real estate despite not being secured by mortgages



## 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 held to maturity, 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 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.

#### 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 34 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 34 of the group's annual report. However, for regulatory purposes the group does not have any general/collective provisions as defined by the FSA.

## 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.

The following tables analyse impaired loans as treated for accounting purposes and past due loans as treated for regulatory purposes at 31 July 2012.

Counterparty type<sup>1</sup> analysis of gross impaired and past due loans, and impairment provisions at 31 July 2012:

|              | Gross impaired loans<br>2012<br>£ million | Gross past due loans<br>2012<br>£ million | Impairment provisions<br>2012<br>£ million | Charges for impairment provisions during the period to<br>2012<br>£ million |
|--------------|---|---|--|---|
| Corporates   | 150.1                                     | 146.2                                     | 44.7                                       | 30.3  |
| Retail       | 83.5                                      | 44.5                                      | 25.6                                       | 27.3  |
| <b>Total</b> | <b>233.6</b>                              | <b>190.7</b>                              | <b>70.3</b>                                | <b>57.6</b>   |

<sup>1</sup> Counterparty type analysis is based on mapping all relevant loans to either Corporates or Retail, as classified by the FSA

Geographical analysis of gross impaired and past due loans, and impairment provisions at 31 July 2012:

|               | Gross impaired loans<br>2012<br>£ million | Gross past due loans<br>2012<br>£ million | Impairment provisions<br>2012<br>£ million | Charges for impairment provisions during the period to<br>2012<br>£ million |
|---------------|---|---|--|---|
| British Isles | 212.0                                     | 169.6                                     | 62.2                                       | 54.2  |
| Europe        | 21.6                                      | 21.1                                      | 8.1  | 3.4   |
| Rest of World | -   | -   | -  | -   |
| <b>Total</b>  | <b>233.6</b>                              | <b>190.7</b>                              | <b>70.3</b>                                | <b>57.6</b>   |

Impairment provisions:

|  | £ million   |
|--|-------------|
| Opening balance at 1 August 2011       | 93.7        |
| Charge for the year                    | 57.6        |
| Amounts written off net of recoveries  | (81.0)      |
| <b>Closing balance at 31 July 2012</b> | <b>70.3</b> |

## 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 FSA 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 2012 (only credit quality steps with exposures are shown):

| Institutions <sup>1</sup> |                |             |              |
|---------------------------|----------------|-------------|--------------|
| Credit quality step       | Moody's rating | Risk weight | Exposure     |
| 1                         | Aaa to Aa3     | 20%         | 48.7         |
| 2                         | A1 to A3       | 50%         | 65.4         |
| 3                         | Baa1 to Baa3   | 50%         | 0.1          |
| <b>Total</b>              |                |             | <b>114.2</b> |

| Short-term claims on institutions and corporates |                 |             |              |
|--|-----------------|-------------|--------------|
| Credit quality step                              | Moody's rating  | Risk weight | Exposure     |
| 1  | Aaa to Aa3 / P1 | 20%         | 232.2        |
| 2  | A1 to A3        | 20%         | 49.0         |
| 3  | Baa1 to Baa3    | 50%         | 23.5         |
| <b>Total</b>                                     |                 |             | <b>304.7</b> |

| Corporates (rated exposures only) |                |             |             |
|-----------------------------------|----------------|-------------|-------------|
| Credit quality step               | Moody's rating | Risk weight | Exposure    |
| 3                                 | Baa1 to Baa3   | 100%        | 19.7        |
| <b>Total</b>                      |                |             | <b>19.7</b> |

<sup>1</sup> Excluding those assessed as short-term claims on institutions and corporates

## 8. Non-trading book exposures in equities

At 31 July 2012, the group had £18.5 million of equity investments in the non-trading book, of which £13.3 million were classified as available for sale and £5.2 million as held at fair value through profit or loss under the fair value option. Listed investments amounted to £0.3 million with the remainder being unlisted. The capital requirement amounted to £1.9 million, with £10.1 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. Investments principally comprise those made in various private equity limited liability partnerships. These partnerships themselves typically invest in unquoted companies via equity and loans and value each investment semi-annually in compliance with the International Private Equity and Venture Capital Valuation Guidelines, such valuations being externally audited annually.

Movements in equity shares in the year to 31 July 2012 were as follows:

|  | Available<br>for sale<br>£ million | Fair value through<br>profit or loss<br>£ million |
|--|------------------------------------|---|
| At 1 August 2011                               | 14.4                               | 4.8   |
| Additions                                      | -                                  | 0.3   |
| Disposals                                      | -                                  | (0.2)   |
| Currency translation differences               | (0.5)                              | -   |
| Increase/(decrease) in carrying value of:      |                                    |   |
| Equity shares classified as available for sale | (0.6)                              | -   |
| Unlisted equity shares held at fair value      | -                                  | 0.3   |
| <b>At 31 July 2012</b>                         | <b>13.3</b>                        | <b>5.2</b>  |

## 9. 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. This analysis shows the group's interest rate sensitivity on a contractual basis. At 31 July 2012 a 1.0% increase and 0.5% decrease in interest rates compared to actual rates would increase/(decrease) the group's annual net interest income by the following amounts.

|               | <b>2012</b>      |
|---------------|------------------|
|               | <b>£ million</b> |
| 1.0% increase | <b>2.5</b>       |
| 0.5% decrease | <b>(1.3)</b>     |

The above analysis is calculated in sterling as the group's exposure to foreign exchange risk is immaterial, as described in Note 34 of the group's annual report.

## 10. Securitisation

The group has securitised without recourse and restrictions £1,038.2 million (31 July 2011: £495.0) of its insurance premium and motor loan receivables in return for debt securities in issue of £835.0 million (31 July 2011: £350.0). 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.

## 11. Remuneration

### The Remuneration Committee

#### Remco Membership

The membership of the Remco is comprised of four non-executive directors. They are Bruce Carnegie-Brown, Ray Greenshields, Geoffrey Howe 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 Committee on remuneration policy and levels of remuneration;
- Ensure that the remuneration structures in the group are compliant with the rules and requirements of regulators and relevant legislation;
- Ensure that provisions regarding disclosure of remuneration are fulfilled; and
- Seek advice from group risk to ensure remuneration structures and annual bonuses are appropriately aligned to the group's risk appetite.

#### Advice

During the year under review and up to the date of this report, the Committee consulted and took advice from PricewaterhouseCoopers ("PwC"), Slaughter and May, the chief executive, the group head of human resources, the group head of reward and the 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 FSA Remuneration Code.

#### 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.

## 11. Remuneration continued

### Discretionary Bonus Scheme

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 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.

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 (or 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 and awards granted after 1 August 2012 are subject to the following performance targets for the 2012 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.

Targets for the LTIP award 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%                                 |

#### Risk Management Objectives:

There are two objectives, with equal weighting of each:

- Capital and balance sheet management; and
- Risk, compliance and controls.

## 11. Remuneration continued

### 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, an additional six month holding period and are subject to malus provisions. Employees can choose to invest from any element of their bonus.

Invested shares are matched with free Matching Shares for every invested share, subject to performance conditions over the three year period. The Remco has determined the maximum matching ratio for the 2012 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. At all times the participants in the SMP will still be subject to the minimum deferral and shares requirements of the Code.

### Structure of awards – Code Staff

The structure of the awards for Code Staff employees are determined in line with the requirements of the Code. The rules take into account the proportionality of certain entities which are permitted to dis-apply certain rules of the Code.

Where the Code Staff member is treated as a Tier 2<sup>1</sup> employee for the purposes of the Code and variable remuneration is greater than £500,000, the variable remuneration breakdown is as follows:

| Element   | Award Type  | Total %<br>breakdown |
|---|---|----------------------|
| <b>Total Variable Remuneration <sup>2</sup></b> |   | 100                  |
| <b>Deferred Remuneration (60%):</b>             |   |                      |
| 50% in deferred shares                          | LTIP <sup>3</sup> and Deferred Annual Bonus (“DAB”) | 30                   |
| 50% in deferred cash                            | Deferred Cash Bonus Plan (“DCBP”)                   | 30                   |
| <b>Non-deferred Remuneration (40%):</b>         |   |                      |
| 50% in non-deferred shares                      | Non-deferred Shares Plan (“NDSP”)                   | 20                   |
| 50% in cash                                     | Cash Bonus  | 20                   |

Where the variable remuneration is not more than £500,000, the structure is the same as that shown above, but the deferred element decreases to 40%.

<sup>1</sup> As defined in FSA’s PS10/21 Implementing CRD requirements on the disclosure of remuneration

<sup>2</sup> Variable Remuneration for the purposes of calculating the structure of awards outlined consists of the discretionary annual bonus plus 60% of the face value of the LTIP award

<sup>3</sup> The majority of Tier 2 Code Staff are eligible to receive an LTIP award. As outlined above this is a deferred share based award with vesting subject to performance against pre-set performance targets. For the purposes of the Remuneration Code we have valued these awards at 60% of face value. Where the LTIP alone does not satisfy the deferred shares requirement the balance of the deferred shares requirement is satisfied by a mandatory deferral of a proportion of the bonus into the DAB



## 11. Remuneration continued

### Details of Award Types for Code Staff

| Award Type           | Deferral Period?                                    | Additional Holding Period? | Subject To Performance Conditions?                      | Subject To Malus Provisions? |
|----------------------|---|----------------------------|---|------------------------------|
| Immediate Cash Bonus | No  | No                         | No  | No                           |
| NDSP                 | No – immediate vesting                              | Yes – 6 months             | No  | No                           |
| DCBP                 | Yes – vests 1/3 <sup>rd</sup> per year over 3 years | No                         | No  | Yes                          |
| DAB                  | Yes – vests 1/3 <sup>rd</sup> per year over 3 years | Yes – 6 months             | No  | Yes                          |
| LTIP                 | Yes – vests after 3 years                           | Yes – 6 months             | Yes – 40% EPS, 40% TSR, 20% risk management objectives. | Yes                          |

### 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 - FY2012

The group has had a solid performance in the year with continued strong performance in the Banking division.

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

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

11. Remuneration continued

2012 Aggregate Remuneration<sup>1</sup> in respect of Code Staff by business

|                  | £ million |
|------------------|-----------|
| Banking          | 7.1       |
| Securities       | 6.3       |
| Asset Management | 4.5       |
| Group            | 8.1       |

<sup>1</sup> Aggregate Remuneration consists of fixed and variable remuneration as outlined below

2012 Aggregate Remuneration in respect of Code Staff split into fixed and variable remuneration

|   | Senior Management | Other Code Staff |
|---|-------------------|------------------|
| Number of Code Staff                    | 30                | 6                |
| Fixed Remuneration (£m) <sup>1</sup>    | 9.1               | 1.2              |
| Variable Remuneration (£m) <sup>2</sup> | 15.1              | 0.6              |

<sup>1</sup> Fixed Remuneration consists of base salary, company pension contributions and any other fixed allowances

<sup>2</sup> Variable Remuneration consists of the discretionary annual bonus, 60% of the face value of the LTIP award and 60% of the SMP match value