

Close Brothers Group plc  
Annual Report 2013



Close Brothers makes loans, trades securities and provides financial advice and investment management services.

## Corporate Overview

- 1 Financial Highlights
- 2 Our Business
- 4 Chairman's and Chief Executive's Statement
- 8 Business Model
- 10 Strategy and Key Performance Indicators

## Business Review

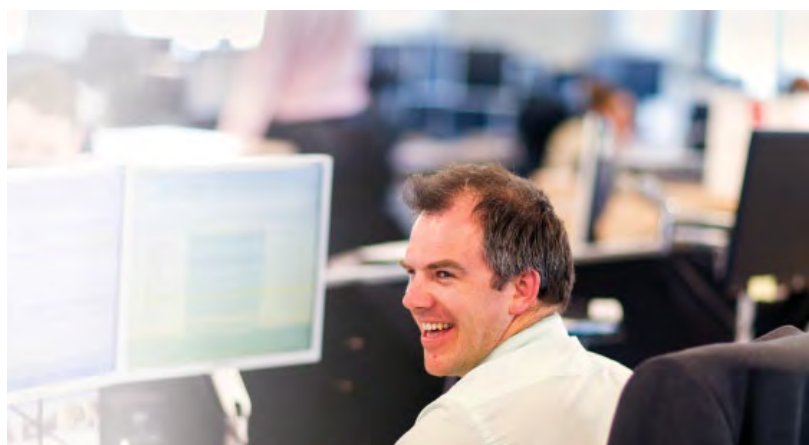
- 12 Financial Overview
- 18 Banking
- 20 Securities
- 22 Asset Management
- 24 Principal Risks and Uncertainties

## Governance

- 28 Board of Directors
- 30 Executive Committee
- 31 Report of the Directors
- 33 Corporate Governance
- 44 Corporate Responsibility
- 47 Report of the Board on Directors' Remuneration

## Financial Statements

- 61 Report of the Auditor
- 62 Consolidated Income Statement
- 63 Consolidated Statement of Comprehensive Income
- 64 Consolidated Balance Sheet
- 65 Consolidated Statement of Changes in Equity
- 66 Consolidated Cash Flow Statement
- 67 Company Balance Sheet
- 68 The Notes
- 112 Investor Relations
- 112 Cautionary Statement



## Corporate Overview

### Financial Highlights

for the year ended 31 July 2013

£166.5m

(2012: £134.2m)  
Adjusted<sup>1</sup> operating profit

83.1p

(2012: 67.3p)  
Adjusted<sup>2</sup> basic earnings  
per share

£163.1m

(2012: £134.9m)  
Operating profit before tax

81.6p

(2012: 68.6p)  
Basic earnings per share

£119.4m

(2012: £99.7m)  
Profit attributable to shareholders

44.5p

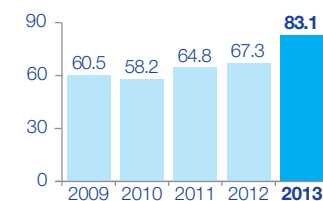
(2012: 41.5p)  
Ordinary dividend per share<sup>3</sup>

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

Adjusted operating profit  
£ million



Adjusted basic earnings per  
share  
pence



Ordinary dividend per share  
pence



# Corporate Overview

## Our Business

Close Brothers makes loans, trades securities and provides financial advice and investment management services. We were established in 1878 and since then have held true to the principles of merchant banking – supporting small businesses and individuals through all conditions. Today we employ over 2,500 people, principally in the UK. We are listed on the London Stock Exchange and a member of the FTSE 250.

### Banking

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

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

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

### Securities

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

Winterflood is a leading market-maker to the UK private client broker community, serving over 450 brokers and financial institutions. We deal in over 15,000 UK and international securities and have access to all major exchanges and Multilateral Trading Facilities as well as our own internal liquidity pool, and offer guaranteed best execution to our clients.

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

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

### Asset Management

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

We employ around 130 advisers and 50 investment professionals and service clients either through personal face-to-face relationships or via telephone or online support.

Our investment management follows a global, multi-asset investment approach. We offer a broad range of directly invested, multi-manager and passive funds, separately managed accounts and fully bespoke portfolio management through both our own advisers and third party IFAs.

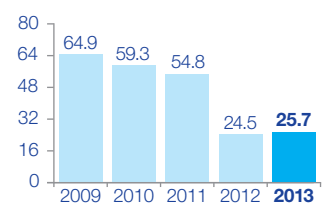
Our financial advice helps clients to achieve their specific financial and lifestyle goals by covering areas such as investment strategy, tax efficiency, pension and retirement planning, protection and intergenerational planning.

Our self-directed investment portal enables investors to manage their own investments using our technology platform.

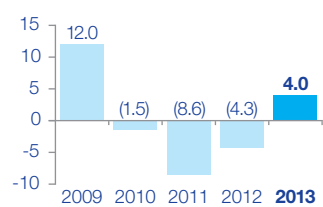
Banking adjusted  
operating profit  
£ million



Securities adjusted  
operating profit  
£ million



Asset Management adjusted  
operating profit/(loss)  
£ million



## Corporate Overview

### Chairman's and Chief Executive's Statement



Strone Macpherson,  
Chairman

We are pleased to report another year of significant progress for the group. We have delivered a strong set of financial results, reflecting the strength and stability of our simple, prudent business model in a period of continued economic uncertainty. We have continued to build on our successful track record of earnings growth, supporting our strong capital position and enabling us to continue to grow the dividend.

#### **Strong Financial Performance**

The financial year was again shaped by a subdued economic environment, with slow growth and events in the Eurozone continuing to impact sentiment. Against this challenging backdrop we had a strong year with good growth in both revenues and profit. Adjusted operating income increased 10% to £582.9 million (2012: £531.7 million) and adjusted operating profit increased 24% to £166.5 million (2012: £134.2 million), reflecting strong growth in Banking and a return to profitability in Asset Management. Adjusted basic earnings per share increased 23% to 83.1p (2012: 67.3p), while basic earnings per share increased 19% to 81.6p (2012: 68.6p). Overall the group's return on opening equity improved to 16% (2012: 12%).



Preben Prebensen,  
Chief Executive

The group has maintained a strong capital and funding base to support growth, with all ratios remaining well ahead of regulatory requirements. During the year, our core tier 1 capital ratio improved to 13.3% (31 July 2012: 12.8%), and our leverage ratio also increased slightly to 9.8% (31 July 2012: 9.7%). We expect to meet all regulatory requirements of the Basel III capital framework being implemented in Europe under CRD IV.

#### Dividend

Recognising our strong financial performance in the year and continued confidence in our longer-term prospects, the board is recommending a 2.0p increase in the final dividend to 29.5p (2012: 27.5p) per share. This results in a full year dividend per share of 44.5p (2012: 41.5p), up 7%.

#### Simple Business Model and Clear, Consistent Strategy

We continue to benefit from our focus on our core business activities in areas where we have significant expertise, and we have always set ourselves apart through our prudent and conservative approach to managing our balance sheet and capital position. We have continued to support our customers through a range of economic conditions and overall our strategy has remained unchanged.

Our Banking division continues to maintain its distinctive, specialist, local lending model and our loan book is differentiated by being predominantly secured, small ticket and short term. By staying focused on this model in all market conditions, we have maintained good growth while

achieving consistently high returns. During the 2013 financial year, the loan book increased 13% to £4.6 billion (31 July 2012: £4.1 billion), the net interest margin remained strong at 8.8% (2012: 9.4%) and the bad debt ratio continued to improve to 1.2% (2012: 1.5%). As a result we maintained a good return on net loan book of 3.6% (2012: 3.6%). The division continues to generate strong profit growth with adjusted operating profit increasing 17% to £157.8 million (2012: £135.0 million) in the year.

Our Securities division has remained consistently profitable throughout the cycle, demonstrating its resilience in difficult trading conditions. In the year, despite continued low investor risk appetite, the division's adjusted operating

## Corporate Overview

### Chairman's and Chief Executive's Statement continued

profit increased 5% to £25.7 million (2012: £24.5 million) and Winterflood's adjusted operating profit increased 6% to £16.9 million (2012: £16.0 million). Our priority remains to maintain our trading capacity, and our flexible cost model maximises profitability in all market conditions. Through the skill and experience of our traders, Winterflood achieved a trading profit on 245 out of 253 trading days in the year.

In Asset Management we have completed our restructuring and have refocused the division on wealth management for the UK private client market. As part of our strategy, we have established a business model and propositions that are designed to benefit from market changes driven by technology, demographics and regulation, particularly RDR which came into effect on 1 January 2013. Our integrated propositions, providing both advice and investment management, have been well received by clients and we are seeing strong inflows across our multiple distribution channels. In the year, Assets under Management ("AuM") increased 9% to £9.1 billion (2012: £8.3 billion), reflecting market movements, and the division returned to profitability as planned, delivering an adjusted operating profit of £4.0 million (2012: loss of £4.3 million).

#### **Long-term Relationships Underpinned by Strong Expertise**

It is clear that trust in the financial services sector and consumer confidence continue to be low. Despite this, we have successfully continued to build our business through the cycle, supporting SMEs as their businesses grow, providing continuous liquidity to retail brokers through Winterflood, and providing wealth management services to a wide range of private clients.

Over the years we have remained differentiated through our distinctive client proposition, and the way we do business resonates with our customer base. We believe this reflects the strong legacy of Close Brothers and the fact that all three divisions, while serving different client bases, share the same commitment to service, based on the traditional values of merchant banking applied to the modern business world. We recognise that relationships are critical to our success and our clients benefit from long-term, consistent contact with our expert teams across all three divisions.

Our lenders are highly experienced with a strong understanding of their local markets. We have 500 sales staff operating from more than 40 offices. Our management teams in the Banking division have on average well over 20 years' experience in their niche, specialist fields, and many customer relationships are of a similar tenure. We know and understand our customers' needs which, together with our consistent pricing and underwriting through the cycle, have helped us to generate consistently high repeat business levels.

Winterflood has around 90 skilled traders and is connected to over 40 trading venues. Our strong relationships with more than 450 stockbrokers and financial institutions, and our proprietary technology, have helped us to maintain our leading market share and consistent position as the number one market-maker to retail brokers in the UK. Similarly Seydler has maintained its position as the market leading designated sponsor in Germany, and has successfully leveraged these client relationships to build a strong capital markets franchise.

In Asset Management we have built a strong national presence, having fully integrated the regional businesses acquired over the last few years. At 31 July 2013 we had around 130 advisers in 10 UK offices and 50 investment professionals. We have received strong external recognition for the quality of our investment products and the service we provide to our clients, receiving a number of awards in the year including the "Financial Advisory Firm of the Year" at the Citywealth Magic Circle Awards and winning two Private Asset Manager awards.

In order to provide customers across the group with the highest level of service, we continuously invest in developing the skills of our people, as well as expanding our distribution networks through attracting and retaining new talent. We are also investing in technology, to complement the skill of our people and enhance our level of service, enabling us to adapt to changes in customer behaviour and the market environment.

For example, recognising that the speed of our decision making is critical to our success, we have enhanced our point of sale capabilities in the Banking division. In motor finance we have developed "e-click" which enables us to approve and issue funds within 20 minutes while maintaining the same level of credit control. Similarly Winterflood continues to focus on developing its technology to maintain its market leading position.



### **Well Positioned for Continued Good Performance**

We remain focused on driving organic growth and believe that all of our divisions are now well positioned to deliver continued good performance. We believe that there are significant opportunities in the UK's markets, and that the group's UK focus places us in a strong position to make the most of these.

In the Banking division, we have a proven track record of sustainable growth and continue to believe there are good opportunities for further penetration into our existing markets. There is widespread recognition of the role SMEs will play in the economic recovery, but they remain under-served by the banking sector. We currently lend to over 23,000 SMEs in our Commercial businesses and we believe that our cautious, high quality credit underwriting and service-led approach together with our reputation as a trusted, reliable lender place us in a strong position for further growth in this market.

We also continuously explore opportunities to grow in adjacent areas which share common attributes with our core lending businesses. For example, in recent years we have expanded our motor finance business to serve larger, franchised motor dealerships, and we are developing our business which provides bespoke leasing solutions in asset finance.

In Securities, Winterflood continues to focus on its core market-making activities, maintaining its leading position while markets have remained difficult. An active secondary market is, to an extent, dependent on an active primary market. Last year, UK IPO activity was well below pre-financial crisis levels and new money raised on AIM, which generates the higher margin trades for Winterflood, continued to be at historically low levels. Winterflood's performance is highly sensitive to retail investor sentiment and although risk appetite remained low during the year, a number of changes in the UK, such as increased primary market activity or increased retail trading on AIM, could improve trading conditions for Winterflood.

We also believe that significant market opportunity exists in the UK for our Asset Management division. Post RDR, the industry remains fragmented and we are well placed to attract new clients and assets following the transformation of our business over the last three years. We have developed a scalable business from which we can build our core flows while driving operating leverage. We are generating strong asset inflows, and at the same time, we remain focused on improving our operational efficiency. As a result, we are making good progress towards our medium-term targets to achieve a revenue margin of around 100 basis points and an operating margin of 15% by the 2015 financial year.

### **Board Changes**

Douglas Paterson has decided to retire as a director of the company and consequently will not seek re-election at the Annual General Meeting on 21 November 2013. He was appointed to the board in July 2004 and has served as chairman of the Audit Committee. We thank him for his valued contribution to the group.

The board has appointed Shonaid Jemmett-Page to succeed Douglas Paterson as chairman of the Audit Committee with effect from 21 November 2013, following the conclusion of the Annual General Meeting.

### **Outlook**

Overall, the group is well positioned looking ahead to the 2014 financial year.

We continue to see good opportunities for growth in the Banking division and Securities remains well placed for any sustained improvement in trading conditions. In Asset Management we expect continued progress towards our medium-term targets.

We are confident in our outlook for the current financial year.

## Corporate Overview

### Business Model

Close Brothers makes loans, trades securities and provides financial advice and investment management services. We typically operate in segments of the financial market where we can differentiate ourselves and where we do not compete directly with traditional financial institutions.

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

Each of our businesses is a specialist in its field:

#### Banking

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

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

#### Securities

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

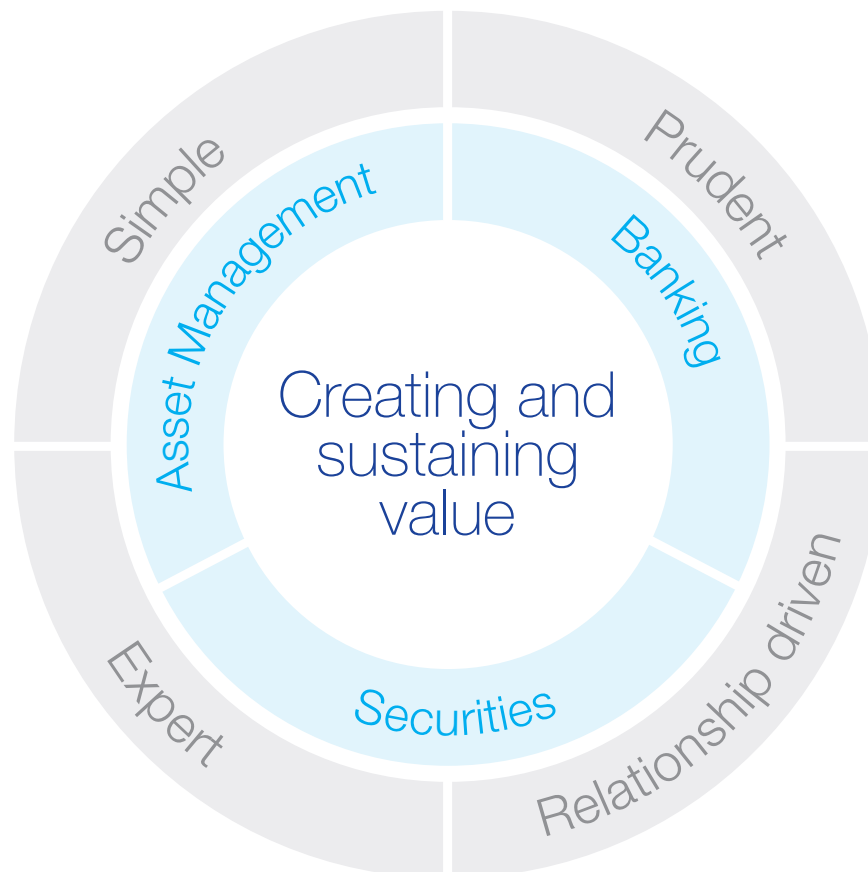
- Winterflood has a strong market position as the largest market-maker to UK retail brokers, with broad market coverage.
- We have a strong and unique culture with around 90 experienced traders and a proprietary technology platform.
- Our focus on market-making, low fixed cost base and strong risk management have allowed us to remain consistently profitable in a wide range of market conditions.
- Seydler has a strong position in the German small and mid-cap market as designated sponsor to over 200 listed companies.

#### Asset Management

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

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

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



## Simple

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

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

## Expert

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

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

## Prudent

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

- We have a prudent, diversified funding position and we borrow longer than we lend.
- We have maintained a strong capital position through the cycle, with a core tier 1 capital ratio of 13.3% and leverage ratio of 9.8% at 31 July 2013.
- We apply prudent, consistent criteria to our lending and our loan portfolio is predominantly secured, short term and diverse.
- In our trading businesses, exposures are short term and relate to market-making positions.

## Relationship driven

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

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

# Corporate Overview

## Strategy and Key Performance Indicators

Our strategy is to focus on developing our core businesses, where we have a differentiated proposition and benefit from our local expertise and established market positions. The priority remains to maximise the opportunity for each of our three divisions: Banking, Securities and Asset Management,

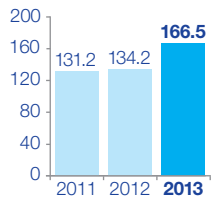
and to maintain the prudent and consistent approach which has enabled us to continue serving our clients and deliver strong financial results in a range of economic conditions.

The group's overall strategic objectives are:

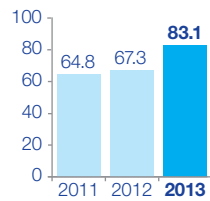
	Description	Progress
<b>Drive sustainable profits</b>	We focus on activities that generate recurring income and adopt a prudent approach to managing our business, to generate sustainable, high quality earnings.	<ul style="list-style-type: none"> <li>• Strong growth in adjusted operating profit and earnings per share despite a continued subdued economic environment.</li> <li>• Strong profit growth in Banking benefiting from loan book growth with improving credit quality.</li> <li>• Winterflood remained solidly profitable despite difficult market conditions in the last two years.</li> <li>• Asset Management returned to profitability following completion of the restructuring in the prior financial year.</li> </ul>
<b>Build client franchises</b>	We develop and maintain strong client relationships that deliver repeat business and recurring income.	<ul style="list-style-type: none"> <li>• Continued good loan book growth of 13%, with consistently high repeat business.</li> <li>• Winterflood maintained its position as the leading market-maker to UK private client brokers.</li> <li>• Good inflows of private client AuM through all distribution channels.</li> </ul>
<b>Remain prudent and efficient</b>	We maintain a strong funding, capital and liquidity position and apply prudent, consistent criteria to our lending to maintain the quality of our balance sheet.	<ul style="list-style-type: none"> <li>• Strengthened our capital position while continuing to deliver good loan book growth.</li> <li>• Maintained a strong funding position with a prudent maturity profile, and a good level of high quality liquidity.</li> <li>• Maintained underwriting discipline and quality of loan book, with further reduction in the bad debt ratio.</li> </ul>
<b>Deliver shareholder returns</b>	We aim to generate sustainable growth in dividends and shareholder returns.	<ul style="list-style-type: none"> <li>• Increased return on equity to 16% with improved contribution from all three divisions.</li> <li>• Increased full year dividend per share by 7%.</li> <li>• Strong share price performance driving 47% total shareholder return.</li> </ul>

## Key performance indicators

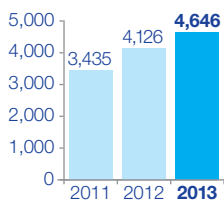
Adjusted operating profit  
£ million



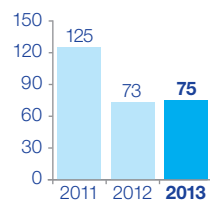
Adjusted earnings per share  
pence



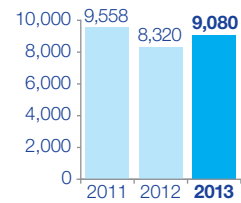
Loan book  
£ million



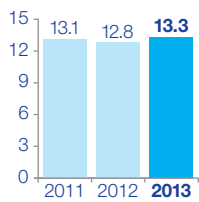
Winterflood income  
£ million



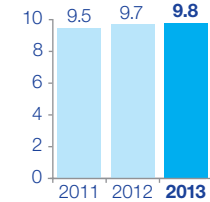
Assets under Management  
£ million



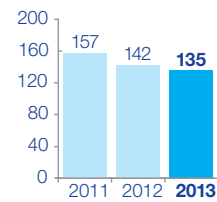
Core tier 1 capital ratio  
per cent



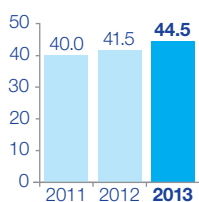
Leverage ratio  
per cent



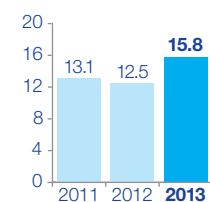
Total funding of loan book  
per cent



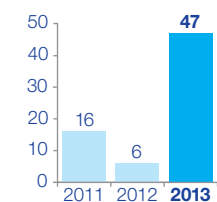
Dividend per share  
pence



Return on equity<sup>1</sup>  
per cent



Total shareholder return  
per cent



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

## Business Review

### Financial Overview



The group has achieved a strong performance in the year, with adjusted operating profit growth of 24% to £166.5 million (2012: £134.2 million) driven by improved contributions from all three divisions. In the Banking division, good loan book growth of 13% and lower bad debts led to another strong performance. In Securities, performance for the year improved slightly although conditions remained challenging. Following a period of restructuring and investment, Asset Management returned to profitability as planned during the year.

### Strong Profit Growth

Adjusted operating income increased 10% to £582.9 million (2012: £531.7 million) reflecting continued good growth in the Banking division as well as higher income in Asset Management. Despite difficult markets for most of the year, Securities income also improved slightly.

Adjusted operating expenses increased 8% to £365.8 million (2012: £339.9 million) as we continue to invest in strengthening the capacity of our businesses while managing costs appropriately as we grow. The increase in the year principally reflects volume related costs and investment in infrastructure and technology in the Banking division. In Asset Management, costs were unchanged notwithstanding the growth in revenue and assets, and in Securities, Winterflood's expenses were broadly stable. Overall, the compensation ratio (total staff costs on adjusted operating income excluding associate income)

remained unchanged at 38% (2012: 38%) and the group's expense/income ratio improved to 63% (2012: 65%).

The group continues to apply consistent underwriting criteria when originating loans, and in the year impairment losses on loans and advances ("bad debts") reduced further to £50.6 million (2012: £57.6 million), despite the growth in the loan book. As a result, the bad debt ratio improved to 1.2% (2012: 1.5%).

Overall, adjusted operating profit for the group increased 24% to £166.5 million (2012: £134.2 million), resulting in an improved operating margin of 28% (2012: 24%) and a return on opening equity of 16% (2012: 12%).

Adjusted operating profit in the Banking division increased 17% to £157.8 million (2012: £135.0 million) reflecting good loan book growth of 13% and the continued

reduction in bad debts. Securities increased slightly overall with adjusted operating profit of £25.7 million (2012: £24.5 million) reflecting a slightly improved performance from Winterflood, and a better performance from Seydler which more than offset a lower contribution from Mako. As expected, Asset Management delivered a small adjusted operating profit of £4.0 million (2012: loss of £4.3 million) reflecting good income growth and disciplined cost management. The group net expenses remained unchanged at £21.0 million (2012: £21.0 million), consistent with the last few years. These include the central functions which support the divisions, such as legal, finance, human resources, audit, compliance, corporate development and risk, and the group's general policy is not to reallocate these costs to the divisions.

### Group Income Statement

	2013 £ million	2012 £ million	Change %
Adjusted operating income	<b>582.9</b>	531.7	10
Adjusted operating expenses	<b>(365.8)</b>	(339.9)	8
Impairment losses on loans and advances	<b>(50.6)</b>	(57.6)	(12)
<b>Adjusted operating profit</b>	<b>166.5</b>	134.2	24
Exceptional income	<b>1.6</b>	5.6	(71)
Amortisation of intangible assets on acquisition	<b>(5.0)</b>	(4.9)	2
<b>Operating profit before tax</b>	<b>163.1</b>	134.9	21
Tax	<b>(42.6)</b>	(33.5)	27
Non-controlling interests	<b>(1.1)</b>	(1.7)	(35)
<b>Profit attributable to shareholders</b>	<b>119.4</b>	99.7	20
Adjusted basic earnings per share	<b>83.1p</b>	67.3p	23
Basic earnings per share	<b>81.6p</b>	68.6p	19
Ordinary dividend per share	<b>44.5p</b>	41.5p	7

Note: Adjusted operating income, expenses, operating profit and earnings per share exclude the effect of exceptional items and amortisation of intangible assets on acquisition, and in the case of earnings per share, the tax effect of such adjustments.

### Divisional Adjusted Operating Profit/(Loss)

	2013		2012		Change %
	£ million	%	£ million	%	
Banking	<b>157.8</b>	<b>84</b>	135.0	87	17
Securities	<b>25.7</b>	<b>14</b>	24.5	16	5
Asset Management	<b>4.0</b>	<b>2</b>	(4.3)	(3)	
<b>Total divisions</b>	<b>187.5</b>	<b>100</b>	155.2	100	21
Group	<b>(21.0)</b>		(21.0)		-
<b>Adjusted operating profit</b>	<b>166.5</b>		134.2		24

## Business Review

### Financial Overview continued



We recorded net exceptional income of £1.6 million (2012: £5.6 million) relating to the reduction of our holding in Mako, which reduced from 27.3% to 21.3% during the year, and reduced further to 16.3% post the period end. Additionally, in line with our normal accounting policy, we recorded charges for amortisation of intangible assets on acquisition of £5.0 million (2012: £4.9 million).

After exceptional income and amortisation of intangible assets on acquisition, operating profit before tax increased 21% to £163.1 million (2012: £134.9 million).

In the 2013 financial year the tax charge was £42.6 million (2012: £33.5 million), up 27% reflecting the increase in operating profit in the year. This corresponds to an effective tax rate of 26% (2012: 25%), above the UK corporation tax rate of 24% (2012: 25%) principally reflecting a write-down of the group's deferred tax assets as the UK corporation tax rate reduced. The substantial majority of the group's earnings are generated in the UK and comprise normal trading income, and as a result the group has a straightforward tax profile with a transparent charge. Typically the group's effective tax rate, before the effect of any non-tax deductible exceptional items, has therefore been broadly consistent with the UK corporation tax rate.

#### Good shareholder returns

The group delivered profit attributable to shareholders of £119.4 million (2012: £99.7 million), an increase of 20% in the year. Basic earnings per share increased 19% to 81.6p (2012: 68.6p), and adjusted basic earnings per share, excluding exceptional income and amortisation of intangible assets on acquisition, increased 23% to 83.1p (2012: 67.3p).

The board is recommending an increase of 2.0p in the final dividend to 29.5p (2012: 27.5p) per share, corresponding to a 7% increase in the total dividend to 44.5p (2012: 41.5p) per share. This reflects the strong profit growth in the period which has allowed the group to maintain progressive dividend growth while strengthening the dividend cover. The final dividend will be paid on 26 November 2013 to shareholders on the register at 18 October 2013.

#### Simple and Transparent Balance Sheet

The group maintains a simple and transparent balance sheet and is focused on maintaining the quality of its assets. During the year total assets increased 8% to £6,835.0 million (31 July 2012: £6,355.8 million) driven by growth in the loan book. Our customer loan book and high quality liquid assets, held to meet the liquidity requirements of our Banking operations, now account for over 80% of the group's total assets.

#### Maintain focus on credit quality of loan book

Loans and advances to customers increased 13% to £4,645.6 million (31 July 2012: £4,125.9 million) and accounted for 68% (31 July 2012: 65%) of the group's total assets. The group is committed to maintaining a high quality loan book by adhering to consistent lending principles underpinned by local underwriting expertise based on deep knowledge of the underlying asset. Around 90% of the loan book is secured on a range of assets, including plant and machinery, property, motor vehicles and invoice receivables, and the group seeks to maintain appropriate diversity within its portfolio to avoid concentration risk.

The group has maintained consistent and prudent loan-to-value ratios and closely monitors these against market movements. The group's lending remains short-term, with over half the loan book on a residual contractual maturity of less than one year, and with an average maturity of 13 months (31 July 2012: 14 months). The discipline applied to every stage of the lending process enables the group to maintain strong credit quality as it grows.

#### Maintain efficiency of other assets and liabilities

The group continues to hold liquidity principally in the form of high quality liquid assets. In the year, cash and loans and



advances to banks increased 26%, or £208.4 million, to £1,025.2 million (31 July 2012: £816.8 million), principally reflecting an increase in deposits at the Bank of England to £935.3 million (31 July 2012: £706.8 million). Overall non-trading debt securities, which include floating rate notes ("FRNs"), certificates of deposit ("CDs") and gilts, reduced to £96.2 million (31 July 2012: £353.0 million).

The group's settlement balances, long and short trading positions and loans to and from money brokers relate to the market-making activities of Winterflood and Seydler. At the balance sheet date, the asset and liability balances were broadly unchanged compared to the prior year at £595.5 million (31 July 2012: £598.5 million) and £491.7 million (31 July 2012: £501.7 million) respectively. As a result, the net position also remained broadly stable at £103.8 million (31 July 2012: £96.8 million).

The group's liabilities principally reflect funding for the loan book in the form of customer deposits and borrowings. Deposits by customers increased 16%, or £567.3 million, to £4,015.4 million (31 July 2012: £3,448.1 million) with good growth in both term retail and corporate deposits.

The group also renewed over £1 billion of facilities that were approaching maturity. Together with the growth in customer deposits, this met the group's funding requirements, and overall borrowings reduced to £1,170.2 million (31 July 2012: £1,322.3 million) as some smaller facilities were not renewed or replaced.

Total equity increased £70.7 million to £840.5 million (31 July 2012: £769.8 million) reflecting profit for the period of £120.5 million, and positive movements in other reserves, partly offset by dividend payments of £61.5 million.

### Strong Funding and Liquidity

The objective of the Treasury function is to provide funding for the group's lending operations, while maintaining a sound level of liquidity. Funding markets over the last 12 months have improved and the group remains well positioned to access both wholesale facilities and deposits.

### Diverse range of funding sources

The group's funding position has remained strong, and total available funding increased 7%, or £412.8 million, to £6,271.9 million (31 July 2012: £5,859.1 million), principally reflecting growth in customer deposits. The group manages its available funding relative to the loan book and in the period this remained strong at 135% (31 July 2012: 142%).

The group has continued to focus on maintaining the diversity and maturity of its funding sources as it grows. Customer

## Group Balance Sheet

	31 July 2013 £ million	31 July 2012 £ million
<b>Assets</b>		
Cash and loans and advances to banks	1,025.2	816.8
Settlement balances, long trading positions and loans to money brokers	595.5	598.5
Loans and advances to customers	4,645.6	4,125.9
Non-trading debt securities	96.2	353.0
Intangible assets	141.6	139.7
Other assets	330.9	321.9
<b>Total assets</b>	<b>6,835.0</b>	<b>6,355.8</b>
<b>Liabilities</b>		
Settlement balances, short trading positions and loans from money brokers	491.7	501.7
Deposits by banks	66.6	88.0
Deposits by customers	4,015.4	3,448.1
Borrowings	1,170.2	1,322.3
Other liabilities	250.6	225.9
<b>Total liabilities</b>	<b>5,994.5</b>	<b>5,586.0</b>
<b>Equity</b>	<b>840.5</b>	<b>769.8</b>
<b>Total liabilities and equity</b>	<b>6,835.0</b>	<b>6,355.8</b>

## Group Funding Overview

	31 July 2013 £ million	31 July 2012 £ million	Change £ million
Deposits by customers	4,015.4	3,448.1	567.3
Drawn and undrawn facilities <sup>1</sup>	1,211.1	1,436.7	(225.6)
Group bond	204.9	204.5	0.4
Equity	840.5	769.8	70.7
<b>Total available funding</b>	<b>6,271.9</b>	<b>5,859.1</b>	<b>412.8</b>

<sup>1</sup> Includes £265.0 million (31 July 2012: £331.9 million) of undrawn facilities and excludes £19.3 million (31 July 2012: £13.0 million) of non-facility overdrafts included in borrowings.

## Business Review

### Financial Overview continued



deposits consist of both corporate deposits, from long-standing, established relationships, and longer-term retail deposits. In the year the group raised net new customer deposits of £567.3 million (31 July 2012: £277.6 million) increasing the total customer deposit base by 16% to £4,015.4 million (31 July 2012: £3,448.1 million). The growth reflects strong demand by corporate depositors, particularly for our new corporate notice account products introduced in the year, and new term retail deposit offerings at the start of the year.

During the year, the group renewed over £1 billion of existing facilities approaching maturity, including securitisations on the premium finance and motor finance loan books of £850.0 million, which together with strong customer deposit growth was sufficient to meet the group's funding requirements. Consequently, some smaller facilities that matured in the period did not need to be replaced and overall drawn and undrawn facilities reduced to £1,211.1 million (31 July 2012: £1,436.7 million).

#### Prudent maturity profile

The group maintains a prudent maturity profile, and in the period our term funding, with a residual maturity of greater than one year, increased to £3,318.8 million (31 July 2012: £2,758.7 million) principally reflecting renewals of existing facilities, including an extension of the maturity on both securitisations. As a result, term funding covered 71% (31 July 2012: 67%) of the

loan book at the balance sheet date.

The weighted average maturity of this term funding, excluding equity, was broadly unchanged at 26 months (31 July 2012: 27 months) and remains significantly ahead of the average maturity of the loan book of 13 months (31 July 2012: 14 months).

#### Sound level of high quality liquidity

The group further strengthened the quality of its treasury assets, while maintaining a prudent level of liquidity overall that is comfortably ahead of regulatory requirements. As a core part of our liquidity risk management, we regularly carry out stress testing using various stress scenarios. As a result, the group remains confident that it holds sufficient liquidity to cover net cash outflows under stressed conditions.

The group has continued to increase its holding of high quality liquid assets, which accounted for over 95% (31 July 2012: 76%) of total treasury assets at the balance sheet date. During the year, these increased to £982.0 million (31 July 2012: £806.9 million) principally through an increase in deposits at the Bank of England to £935.3 million (31 July 2012: £706.8 million). Given low yields in the UK gilt market, gilts that matured in the year were not replaced and as a result the balance reduced to £46.7 million (31 July 2012: £100.1 million), with the proceeds placed into deposits at the Bank of England.

In addition, the group's holding of CDs reduced to £10.1 million (31 July 2012: £130.3 million), as the group chose not to replace those that matured in the low yield environment.

The group has continued to reduce its holding of less liquid FRNs and its residual holding was £39.4 million (31 July 2012: £122.6 million) at 31 July 2013. These remaining FRNs were sold after the period end.

#### Credit ratings

The credit ratings for Close Brothers Group plc and Close Brothers Limited ("CBL"), the group's regulated banking subsidiary, issued by Fitch Ratings ("Fitch") and Moody's Investors Services ("Moody's"), were reaffirmed during the year. For Close Brothers Group plc, these are A/F1 by Fitch and Baa1/P2 by Moody's and for CBL these are A/F1 by Fitch and A3/P2 by Moody's.

#### Strong Capital Position Maintained

In the year, the core tier 1 capital ratio strengthened to 13.3% (31 July 2012: 12.8%) principally reflecting the group's strong profitability, a moderation in loan book growth and the reclassification of Mako to an equity investment.

Core tier 1 capital increased 11%, or £70.7 million, to £691.5 million (31 July 2012: £620.8 million) due to growth in profit attributable to shareholders and positive movements in other reserves, partly offset

by dividend payments. This more than offset the increase in risk weighted assets of 7% to £5,188.5 million (31 July 2012: £4,859.7 million), due to growth in credit and counterparty risk associated with the loan book which was partly offset by a reduction in risk weighted assets for operational risk reflecting lower trading activity in Securities in recent years.

The group remains well positioned ahead of the implementation of Basel III in the European Union under CRD IV. We currently estimate that applying CRD IV on a pro forma, fully loaded basis at 31 July

2013 would result in a net increase in our core tier 1 capital ratio of approximately 0.8%. This is driven by a recently introduced discount to the risk weighting for lending to SMEs which will apply to a significant proportion of the group's risk weighted assets. The new CRD IV regime will apply to our capital ratios to be reported at 31 January 2014.

The strength of the group's capital position is further supported by the strong leverage ratio, which is a transparent, comparable measure not affected by risk weightings. At 31 July 2013, the leverage ratio

increased to 9.8% (31 July 2012: 9.7%) reflecting the strong profit growth in the year. Given its prudent approach, the group also expects to meet the requirements for the new funding and liquidity ratios proposed under CRD IV.

Over the last several years, our strong capital position has enabled us to continue to grow during a period of economic uncertainty and regulatory change. We remain focused on holding an appropriate level of capital and continue to monitor and manage capital resources carefully.

### Group Funding Maturity Profile

	Less than one year £ million	One to two years £ million	Greater than two years £ million	Total £ million
Deposits by customers	2,925.8	879.0	210.6	4,015.4
Drawn and undrawn facilities	21.1	445.0	745.0	1,211.1
Group bond	6.2	–	198.7	204.9
Equity	–	–	840.5	840.5
<b>Total available funding at 31 July 2013</b>	<b>2,953.1</b>	<b>1,324.0</b>	<b>1,994.8</b>	<b>6,271.9</b>
Total available funding at 31 July 2012	3,100.4	1,492.5	1,266.2	5,859.1

### Treasury Assets

	31 July 2013 £ million	31 July 2012 £ million	Change £ million
Gilts	46.7	100.1	(53.4)
Bank of England deposits	935.3	706.8	228.5
<b>High quality liquid assets</b>	<b>982.0</b>	806.9	175.1
Certificates of deposit	10.1	130.3	(120.2)
Floating rate notes	39.4	122.6	(83.2)
<b>Total treasury assets</b>	<b>1,031.5</b>	1,059.8	(28.3)

### Group Capital Position

	31 July 2013 £ million	31 July 2012 £ million
Core tier 1 capital ratio	13.3%	12.8%
Total capital ratio	14.7%	14.5%
Leverage ratio <sup>1</sup>	9.8%	9.7%
Core tier 1 capital	691.5	620.8
Total regulatory capital	762.9	702.9
Risk weighted assets	5,188.5	4,859.7

<sup>1</sup> Tier 1 capital as a percentage of total balance sheet assets, adjusting for certain capital deductions, including intangible assets, and off balance sheet exposures.

# Business Review

## Banking



The strategy of the Banking division continues to be focused on capturing sustainable growth opportunities while maintaining the overall quality of our lending model to drive consistently high returns.

### Strategic Priorities and Progress

The strategic priorities of the division remain unchanged, having enabled us to maintain our strong track record of profitability in all market conditions:

- Sustainable growth through strong customer relationships.
- Maintaining loan book quality through consistent lending model.
- Continued investment to support further growth.

### Overview of Financial Performance

The Banking division achieved another strong performance with the loan book increasing 13% to £4.6 billion (31 July 2012: £4.1 billion) and strong growth in profit.

Adjusted operating income increased 10% to £396.2 million (2012: £361.5 million). This was driven by a £32.6 million increase in net interest and fees on the loan book to £386.6 million (2012: £354.0 million), with good growth across Retail, Commercial and Property. Treasury and other non-lending income contributed £9.6 million (2012: £7.5 million).

Adjusted operating expenses increased by 11% to £187.8 million (2012: £168.9 million), predominantly reflecting volume related costs as the loan book grows, as well as continued investment. The division's ongoing focus on further improving credit management and control has supported the continued reduction in bad debt charges, which fell 12% to £50.6 million

(2012: £57.6 million), despite the growth in the loan book. Overall, adjusted operating profit for the division grew 17% year on year to £157.8 million (2012: £135.0 million), corresponding to an improved operating margin of 40% (2012: 37%) and return on opening equity of 24% (2012: 22%).

### Sustainable Growth Through Strong Customer Relationships

The division's long-standing customer relationships together with our local knowledge and expertise have enabled us to maintain a strong track record of growth in all market conditions. While there have been some signs of competition returning, the market is still fragmented with new entrants typically having relatively small scale. Similarly, government incentives to increase the overall lending supply have had a limited impact and overall our competitive landscape is broadly unchanged.

Overall we continue to see good demand for specialist, tailored finance and, during the year, we had strong levels of new business, grew our customer numbers, and maintained high levels of repeat lending. As a result, the loan book grew by 13% to £4.6 billion (31 July 2012: £4.1 billion) with good growth across Retail, Commercial and Property.

The Retail loan book increased 12% to £1,906.0 million (31 July 2012: £1,707.8 million) driven by strong growth in motor finance, which provides point of sale finance largely for second hand cars. Despite rapid

growth in the new car finance market, the motor finance loan book grew 18% to £1,278.3 million (31 July 2012: £1,086.8 million) reflecting increased volumes from existing dealerships as well as growth in the larger dealerships business. The premium finance loan book was broadly flat at £627.7 million (31 July 2012: £621.0 million), reflecting continued lower demand in commercial lines.

In Commercial, the loan book increased 13% to £1,845.7 million (31 July 2012: £1,635.9 million). This was mainly driven by growth in the asset finance loan book to £1,482.3 million (31 July 2012: £1,327.2 million), up 12%, with good growth across the sectors. The competitive environment remains fragmented and we have also been able to take advantage of the opportunities created as other banks have withdrawn from our markets, such as expanding our broker distribution network. In invoice finance, despite continued competition, we generated solid new business during the year, and the loan book grew 18% to £363.4 million (31 July 2012: £308.7 million).

Property benefited from continued strong demand and low levels of competition. The loan book increased 14% to £893.9 million (31 July 2012: £782.2 million) reflecting solid new business volumes in both residential development loans and bridging finance.

### Maintaining Loan Book Quality Through Consistent Lending Model

While the external economic environment remains subdued, we have continued to benefit from our consistent lending principles and underwriting discipline. As the business continues to grow we remain focused on the quality of our loan book, supported by secured lending against asset classes in which we have specialist knowledge.

The net interest margin, which includes net interest income and other lending related income, remained strong at 8.8% (2012: 9.4%) albeit lower than the prior year. This moderation reflects growth in lower margin, lower risk products, as well as lower default and settlement fee income as the credit quality of the loan book continues to improve. Other income, which includes net fees and commissions as well as operating lease income, continues to account for around 24% (2012: 26%) of total net interest and fee income.

We continuously focus on maintaining the credit quality of the loan book as it grows, and we have invested in improving our credit management systems while continuing to underwrite around 90% of

loans manually, which supports our strong credit performance. We also benefit from our local knowledge, with our businesses given end-to-end responsibility for loans from origination to collection. This helps to maintain our low bad debt ratio which remains at the lower end of the longer-term range. During the year the bad debt ratio reduced to 1.2% (2012: 1.5%) reflecting continued improvement in the overall credit quality of the loan book across Retail, Commercial and Property.

As a result of these strong margins and low impairments, the division has maintained consistently high returns throughout the cycle, with the return on net loan book (adjusted operating profit before tax on average net loans and advances to customers) consistent at 3.6% (2012: 3.6%).

### Continued Investment to Support Further Growth

The division continues to invest to support growth, building our sales capacity through new hires while enhancing technology to manage risk and optimise efficiency in our systems. Adjusted operating expenses in the year increased 11% to £187.8 million (2012: £168.9 million), largely due to volume driven costs as the loan book grows.

These included higher staff costs, reflecting an increase in headcount to support our local, high-touch model, and an increase in performance related compensation, in line with the growth in adjusted operating profit.

In addition, information technology costs increased modestly in the year, to support the implementation and ongoing development of efficient management and control functions across the division. We also continually adapt our customer proposition in response to changing client demands and have, for example, also

invested in enhancing our lending systems and point of sale capabilities during the year. As a result overall investment spend, including associated depreciation and amortisation from the prior year investment, increased slightly year on year.

Overall, the expense/income ratio and the compensation ratio remained stable at 47% (2012: 47%) and 27% (2012: 27%) respectively.

We continue to see good opportunities for growth across our lending businesses and will continue to maintain a disciplined approach to controlling costs, prioritising investment spend to best support our customers and loan book growth.

### Key Financials

	2013 £ million	2012 £ million	Change %
Adjusted operating income	<b>396.2</b>	361.5	10
Net interest and fees on loan book <sup>1</sup>	<b>386.6</b>	354.0	9
Retail	<b>152.6</b>	144.9	5
Commercial	<b>173.4</b>	161.1	8
Property	<b>60.6</b>	48.0	26
Treasury and other non-lending income	<b>9.6</b>	7.5	28
Adjusted operating expenses	<b>(187.8)</b>	(168.9)	11
Impairment losses on loans and advances	<b>(50.6)</b>	(57.6)	(12)
<b>Adjusted operating profit</b>	<b>157.8</b>	135.0	17

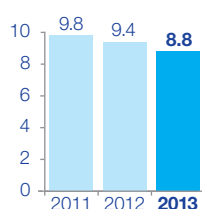
<sup>1</sup> Includes £294.0 million (2012: £263.7 million) net interest income and £92.6 million (2012: £90.3 million) other income. Other income includes net fees and commissions, operating lease income, and other miscellaneous income. For further information on our operating leases, please refer to note 17.

### Loan Book Analysis

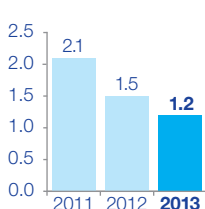
	31 July 2013 £ million	31 July 2012 £ million	Change %
<b>Retail</b>	<b>1,906.0</b>	1,707.8	12
Motor finance	<b>1,278.3</b>	1,086.8	18
Premium finance	<b>627.7</b>	621.0	1
<b>Commercial</b>	<b>1,845.7</b>	1,635.9	13
Asset finance	<b>1,482.3</b>	1,327.2	12
Invoice finance	<b>363.4</b>	308.7	18
<b>Property</b>	<b>893.9</b>	782.2	14
<b>Closing loan book</b>	<b>4,645.6</b>	4,125.9	13

### Key Performance Indicators

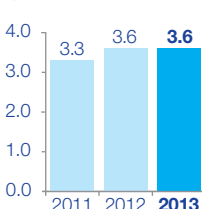
Net interest margin<sup>1</sup>  
per cent



Bad debt ratio<sup>2</sup>  
per cent



Return on net loan book<sup>3</sup>  
per cent



Return on opening equity<sup>4</sup>  
per cent



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

## Business Review

### Securities



Within the Securities division, our strategic focus continues to be on maintaining our leading market positions in all trading conditions.

#### Strategic Priorities and Progress

During the year we have delivered on our strategic priorities:

- Maximising revenue opportunities in variable market conditions.
- Maintaining trading capacity and leading market position.
- Remaining well positioned for any sustained recovery.

#### Overview of Financial Performance

Trading conditions at the start of the year were difficult for Winterflood, with low equity market trading volumes driven by continued investor uncertainty and negative sentiment. However, Winterflood benefited from the increase in investor confidence and equity market rally in the second half of the financial year, and as a result its performance improved slightly on the prior year. An increase in Seydler's performance more than offset a lower contribution from Mako, resulting in an improved performance for the division overall with adjusted operating profit up 5% to £25.7 million (2012: £24.5 million). The operating margin and return on opening equity, both of which exclude associate income from Mako, improved to 24% (2012: 18%) and 20% (2012: 13%) respectively, reflecting the higher combined profitability of Winterflood and Seydler.

During the 2012 financial year we agreed the phased sale of the group's investment in Mako to the management team. During the 2013 financial year, the group reduced its holding in Mako from 27.3% to 21.3%, and post the period end to 16.3%. As a result, Mako has been reclassified to an available for sale equity investment and going forward will no longer generate associate income. Overall for the year, income from Mako was £0.9 million (2012: £7.2 million) reflecting associate income in the first half prior to reclassification.

#### Maximising Revenue Opportunities in Variable Market Conditions

The priority for Winterflood is to preserve the strengths of our core business model that we have developed over the last 25 years, including our comprehensive stock and market coverage, our commitment to high quality technology, and our experienced staff, all of which have driven our strong track record and leading market position. At the same time, we seek to leverage the core capabilities of our business model to maximise revenue and profit opportunities.

In the last financial year, Winterflood's adjusted operating income increased 2% to £74.6 million (2012: £73.2 million) reflecting a consistent trading performance overall with eight (2012: 13) loss days out of a total 253 (2012: 253) trading days, despite periods of volatility. Low volumes at the start of the year were offset by a market wide improvement in the second half leading to overall average bargains per day remaining broadly stable with the prior year at 46,610 (2012: 46,829). Trading activity remained concentrated in large cap stocks as investors continue to focus on yield with limited risk appetite for less liquid, AIM and small cap stocks. As a result, income per bargain also remained broadly in line with the prior year, at £6.33 (2012: £6.18).

Seydler has continued to experience low equity volumes for most of the year. However, through its market leading position and growing designated sponsoring client base, it has capitalised on the increased demand for equity and debt capital market issuances amongst smaller companies in Germany, and as a result, overall adjusted operating income increased 47% to £30.8 million (2012: £21.0 million).

#### Maintaining Trading Capacity and Leading Market Position

Winterflood has maintained its leading market position in market-making to retail brokers in the UK. Winterflood has a low fixed cost structure, which allows it to manage costs and maximise profitability while maintaining its trading capacity to benefit from any increase in market activity. During the year, adjusted operating expenses remained broadly unchanged at £57.7 million (2012: £57.2 million) reflecting a marginal increase in revenues. Consequently, adjusted operating profit increased slightly to £16.9 million (2012: £16.0 million).

Seydler also remains focused on efficient cost management, and notwithstanding a significant increase in its revenues, adjusted operating expenses increased £3.2 million to £22.9 million (2012: £19.7 million) reflecting growth in performance related variable costs. Overall, its adjusted operating profit increased to £7.9 million (2012: £1.3 million).

Overall, for the division this corresponded to an improved expense/income ratio of 76% (2012: 82%) and a compensation ratio of 45% (2012: 46%).

### Remaining Well Positioned for any Sustained Recovery

Winterflood's broad market coverage, capacity and expertise allow it to respond to changes in retail investor demand and maintain its leading market position in all market conditions. It continuously seeks to expand coverage and access additional sources of order flow and revenue. For example, during the year, Winterflood became a member of the London Stock Exchange's Order book for Retail Bonds providing retail investors with greater access to, and deeper liquidity in, fixed income markets. It also became a market-maker on the pan-European regulated exchange Equiduct to capture further opportunities in Europe.

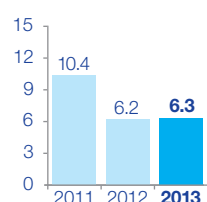
The recent years of significant macro-economic weakness and investor uncertainty have rigorously tested our business model. Having delivered solid and consistent profitability during this period, with the core strengths of our model and our capacity intact, we remain confident that we are well positioned for any sustained improvement in trading conditions.

### Key Financials

	2013 £ million	2012 £ million	Change %
Adjusted operating income	<b>106.3</b>	101.4	5
Winterflood	<b>74.6</b>	73.2	2
Seydler	<b>30.8</b>	21.0	47
Mako (associate income after tax)	<b>0.9</b>	7.2	(88)
Adjusted operating expenses	<b>(80.6)</b>	(76.9)	5
Winterflood	<b>(57.7)</b>	(57.2)	1
Seydler	<b>(22.9)</b>	(19.7)	16
<b>Adjusted operating profit</b>	<b>25.7</b>	24.5	5
Winterflood	<b>16.9</b>	16.0	6
Seydler	<b>7.9</b>	1.3	
Mako (associate income after tax)	<b>0.9</b>	7.2	(88)

### Key Performance Indicators

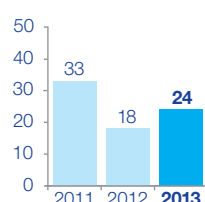
Winterflood income per bargain  
£



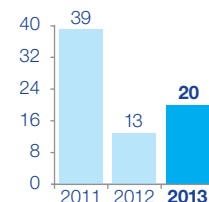
Winterflood average bargains per day  
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Operating margin<sup>1</sup>  
per cent



Return on opening equity<sup>2</sup>  
per cent



1 Adjusted operating profit on adjusted operating income after excluding associate income.

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

## Business Review

### Asset Management



Following significant investment and restructuring, the Asset Management division returned to profitability in the year.

#### Strategic Priorities and Progress

We have developed strong client propositions, a range of distribution channels and a scalable business model. The division is now well positioned for further growth having performed well against its strategic priorities in the year:

- Driving organic private client inflows.
- Maximising revenue by leveraging our investment propositions.
- Driving scale and operating leverage.

#### Overview of Financial Performance

The Asset Management division returned to profitability during the financial year.

Adjusted operating income increased 12% to £78.1 million (2012: £69.6 million). Following a period of significant investment, we have stabilised the cost base, with adjusted operating expenses flat at £74.1 million (2012: £73.9 million) despite the higher income in the year.

Income on Assets under Management ("AuM") was up 11% to £76.3 million (2012: £68.5 million), reflecting 9% growth in AuM to £9.1 billion (31 July 2012: £8.3 billion) and an improved revenue margin. Other income, which includes the one-off gain on the sale of the division's residual investment in a private equity fund reported in the first half, was £1.8 million (2012: £1.1 million).

Overall, the division delivered an adjusted operating profit of £4.0 million, up from an adjusted operating loss of £4.3 million in

2012. As a result, the operating margin improved to 5% (2012: (6%)) and the return on opening equity increased to 10% (2012: (2%)).

#### Driving Organic Private Client Inflows

Against a backdrop of continued economic uncertainty and regulatory change, the division performed well in the year, generating strong inflows which reflect the breadth of our distribution capabilities and the quality of our wealth management propositions.

Overall, AuM increased 9% to £9.1 billion at 31 July 2013 (31 July 2012: £8.3 billion), driven by positive market movements of £972 million, reflecting a strong market performance in the year.

Gross inflows were £1.2 billion, over 20% greater than the prior year. This reflects strong inflows across all investment propositions and from all core distribution areas, including our own financial advisers and bespoke portfolio managers as well as third party IFAs.

However, these were more than offset by total outflows of £1.4 billion in the year, reflecting both client drawdowns in the normal course of business as well as specific outflows, totalling around £470 million, which included three lower margin mandates and the maturity of our legacy structured funds. As a result, overall net flows were negative at £212 million.

#### Maximising Revenue by Leveraging our Investment Propositions

We offer a range of wealth management propositions to UK private clients covering financial planning advice and institutional quality investment management. The positive reaction to our propositions from new and existing clients and advisers is reflected in the strong gross inflows, revenue growth and margin expansion in the year.

Income on AuM increased by 11% to £76.3 million (2012: £68.5 million), reflecting an increase in the overall revenue margin to 88 basis points (2012: 77 basis points). This is largely attributable to the greater proportion of higher margin private client assets compared to the prior year.

Total advised AuM grew 9% to £5.1 billion (31 July 2012: £4.6 billion) largely due to positive market movements. Income from advice and other services increased 15% to £35.2 million (2012: £30.6 million) reflecting the full benefit of the prior year acquisition as well as stronger initial fee income. This corresponds to an improved revenue margin of 73 basis points (2012: 68 basis points).

Total managed AuM grew 16% to £6.2 billion (31 July 2012: £5.3 billion), also due to positive market movements. Although overall net flows were negative, inflows were stronger as we continue to benefit from the breadth of our distribution capabilities throughout the UK, supported by our strong investment performance track record. Investment management income increased 8% to £41.1 million (2012: £37.9 million), with the revenue margin improving to 71 basis points (2012: 62 basis points), benefiting from a higher margin asset base following outflows of lower margin assets over the last two financial years.

We also increased assets both managed and advised. These assets grew 32% to £2.2 billion (2012: £1.7 billion), and now represent 43% (2012: 36%) of total advised assets. This increase reflects strong inflows into our integrated advice and investment management propositions from both new and existing clients.

Our multi-asset Close Discretionary Funds offer a range of investment styles and risk levels. All five direct portfolio funds marked their three year anniversary in September 2013 and have outperformed their respective IMA sector benchmarks since



inception, benefiting from their defensive positioning in weaker markets and their multi-asset approach. Performance during the year was more mixed as our income and conservative funds underperformed against a rising market due to our cautious approach. The majority of our bespoke portfolios have consistently outperformed their ARC peer groups over a five year period.

### Driving Scale and Operating Leverage

The division has undergone significant transformation over a three year period and, at the end of the 2013 financial year, is operating as a single, integrated business. We have integrated our acquired businesses onto our core IT infrastructure and systems and we now have a scalable model which offers increased efficiency and client service as the business grows.

With the major investment spend completed, we have created a more stable and scalable cost base, with operating expenses unchanged at £74.1 million (2012: £73.9 million) in the year, despite the growth in assets and revenue. This equates to an improvement in the expense/income ratio to 95% (2012: 106%).

Looking ahead, we expect the revenue margin to continue to increase as we attract inflows from high margin private clients and as we increase the proportion of clients receiving both advice and investment management services. We expect the operating margin to continue to increase from improved front and back office productivity and increased operating leverage. As a result, we are on track to reach our medium-term targets set out in 2012: to achieve a revenue margin of around 100 basis points and an operating margin of 15% by the 2015 financial year.

### Key Financials

	2013 £ million	2012 £ million	Change %
Adjusted operating income	<b>78.1</b>	69.6	12
Income on AuM	<b>76.3</b>	68.5	11
Advice and other services <sup>1</sup>	<b>35.2</b>	30.6	15
Investment management	<b>41.1</b>	37.9	8
Other income <sup>2</sup>	<b>1.8</b>	1.1	64
Adjusted operating expenses	<b>(74.1)</b>	(73.9)	-
<b>Adjusted operating profit/(loss)</b>	<b>4.0</b>	(4.3)	

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

### Movement in Assets under Management

	£ million
At 1 August 2012	8,320
Inflows	1,201
Outflows	(1,413)
Net outflows	(212)
Market movement	972
<b>At 31 July 2013</b>	<b>9,080</b>
Change	9%

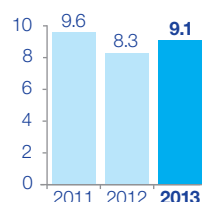
### Assets under Management by Type

	2013 £ million	2012 £ million	Change %
<b>Total AuM</b>	<b>9,080</b>	8,320	9
Advised AuM <sup>1</sup>	<b>5,067</b>	4,639	9
Managed AuM <sup>2</sup>	<b>6,193</b>	5,332	16
Both advised and managed AuM	<b>2,180</b>	1,651	32

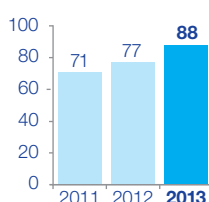
<sup>1</sup> All personal and corporate advised and self directed client assets, including those which are also managed by Close Brothers.  
<sup>2</sup> All client assets which are invested in Close Brothers' investment products, including funds, separately managed accounts and bespoke high net worth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

### Key Performance Indicators

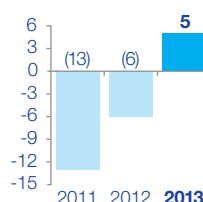
Assets under Management<sup>1</sup>  
£ billion



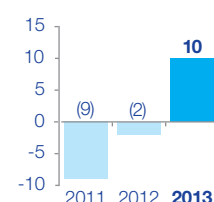
Revenue margin<sup>2</sup>  
bps



Operating margin  
per cent



Return on opening equity<sup>3</sup>  
per cent



<sup>1</sup> Growth in AuM reflects market movements of £1.0 billion offset by net outflows of £0.2 billion.  
<sup>2</sup> Income from advice and other services and investment management over average AuM.  
<sup>3</sup> Adjusted operating profit after tax and non-controlling interests on opening equity.

# Business Review

## Principal Risks and Uncertainties

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


- Adhering to our prudent and established business model outlined on pages 8 and 9;
- Following an integrated risk management approach as set out 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. While 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 below 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 risks 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
<p><b>Economic environment</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>• Reduced demand for the group's products and services;</li> <li>• Higher bad debts resulting from customers inability to repay loans and lower asset values for security held against those loans; and</li> <li>• Reduced investor risk appetite reducing trading income for our Securities division.</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>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.</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> The economic environment has not changed materially and each of our divisions has continued to trade profitably. However, the outlook remains uncertain.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>Further commentary on the attributes and resilience of the group's business model is shown on pages 8 and 9 of the Corporate Overview.</p> </div>

Risk/uncertainty	Risk mitigation and management	Change
<p><b>Credit losses</b> 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.</p>	<p>Our lending businesses apply consistent and conservative lending criteria to our loan underwriting. In addition to mitigate credit risk we have:</p> <ul style="list-style-type: none"> <li>• Robust processes that facilitate the assessment of the credit quality and covenant of the underlying borrower;</li> <li>• 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</li> <li>• Timely and rigorous collections and arrears management processes.</li> </ul> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p> 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.</p> <div data-bbox="1070 656 1522 869" style="border: 1px solid black; padding: 5px;"> <p>Further commentary on the credit quality of our loan book is outlined on page 14. Further details on loans and advances to customers and debt securities are in notes 12 and 13 on pages 82 and 83 of the Financial Statements.</p> </div>
<p><b>Regulatory change</b> 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.</p>	<p>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 straightforward business model, transparent approach and strong liquidity and capital positions mean 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.</p>	<p> 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.</p> <div data-bbox="1070 1899 1522 2089" style="border: 1px solid black; padding: 5px;"> <p>The group's approach to regulatory change during the year is discussed in the Risk Committee report on pages 38 and 39. Further detail on the group's capital, funding and liquidity position is outlined on pages 15 and 16.</p> </div>

## Business Review

### Principal Risks and Uncertainties continued

Risk/uncertainty	Risk mitigation and management	Change
<p><b>Employees</b></p> <p>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.</p>	<p>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.</p> <p>The group has succession plans in place for its key employees and remains committed to developing its employees.</p>	<p>—</p> <p>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.</p> <p>Further detail on the employee survey and our investment in our people is outlined in Corporate Responsibility on pages 44 to 46 of Governance.</p>
<p><b>Technology</b></p> <p>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.</p>	<p>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.</p> <p>During the year we have continued to update our IT infrastructure including migrating data centres to specialist third party providers and enhancing data security.</p>	<p>—</p> <p>We continue to invest in our IT infrastructure to ensure we are well placed to respond to new technology and cyber threats.</p> <p>Further detail on the technology related investment in the Banking division is outlined on page 19.</p>
<p><b>Competition</b></p> <p>We operate in competitive markets and increased competition has the potential to impact on our performance.</p> <p>Government backed funding schemes have the potential to alter the competitive environment for our lending activities.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>• Speed and flexibility of service;</li> <li>• Local presence with experienced staff;</li> <li>• Product choice; and</li> <li>• Pricing.</li> </ul>	<p>↑</p> <p>We have begun to see increasing competition in parts of our Banking business, while in Securities and Asset Management the markets remain highly competitive.</p> <p>Further commentary on the market environment for the Banking division is outlined on page 18.</p>
<p><b>Funding</b></p> <p>The group requires access to funding, principally to provide liquidity and support lending in its Banking businesses.</p>	<p>The group's funding and liquidity are actively managed within clearly defined risk appetites.</p> <p>During the year we have accessed:</p> <ul style="list-style-type: none"> <li>• Retail funding markets;</li> <li>• Corporate deposits;</li> <li>• Interbank funding; and</li> <li>• Securitisations.</li> </ul> <p>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.</p>	<p>↓</p> <p>The group has continued to access a wide range of funding markets during the year. The outlook for further funding access remains positive.</p> <p>Further commentary on funding and liquidity is provided on pages 15 and 16 of the Business Review. Further financial analysis of our funding at 31 July 2013 is shown in note 21 on page 91 of the Financial Statements.</p>

Risk/uncertainty	Risk mitigation and management	Change
<p><b>Execution of strategy</b> 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.</p> <p>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.</p>	<p>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.</p> <p>Our plans are to predominately grow organically with significant due diligence and performance hurdles set before acquisitions are considered.</p> <p>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.</p>	<p> 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.</p> <div data-bbox="1070 629 1525 734" style="border: 1px solid black; padding: 5px;"> <p>Further commentary on the group's strategy is outlined on pages 10 and 11 of the Corporate Overview.</p> </div>
<p><b>Exposure to markets</b> The group is 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, 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>Our Securities businesses primarily act as 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.</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 109.</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. A sensitivity analysis on foreign currency exposures is shown on page 109.</p>	<p> The group's approach is consistent with prior years and the risk is considered unchanged.</p> <div data-bbox="1070 1077 1525 1205" style="border: 1px solid black; padding: 5px;"> <p>Further detail on the group's exposure to market risk is outlined in note 33 on pages 109 and 110 of the Financial Statements.</p> </div>

## Governance

### Board of Directors



**Strone Macpherson**  
Chairman

#### Appointment to the board

Strone was appointed a director in March 2003, senior independent director in 2004, deputy chairman in 2006 and chairman in June 2008. He is chairman of the Nomination and Governance Committee.

#### Experience

Strone is also chairman of British Empire Securities and General Trust plc, a governor of Heriot-Watt University and a trustee of the King's Fund. Formerly he was a director of Flemings, chairman of Tribal Group plc and of JP Morgan Smaller Companies Investment Trust plc, executive deputy chairman of Misys plc and a non-executive director of AXA UK plc and of Kleinwort Benson Private Bank Limited.



**Elizabeth Lee**  
Group Head of Legal and Regulatory Affairs

#### Appointment to the board

Elizabeth was appointed a director in August 2012 with responsibility for legal and regulatory affairs.

#### Experience

Elizabeth joined Close Brothers as general counsel in September 2009 and was also company secretary until January 2013. Formerly she was with Lehman Brothers and General Electric's financial services businesses.



**Jonathan Howell**  
Finance Director

#### Appointment to the board

Jonathan was appointed to the board as finance director in February 2008 when he joined Close Brothers.

#### Experience

Jonathan was previously finance director of London Stock Exchange Group plc from 1999. Prior to that he was at Price Waterhouse where he qualified as a chartered accountant. In May 2013, he was appointed a non-executive director of The Sage Group plc.



**Ray Greenshields**  
Independent Non-executive Director

#### Appointment to the board

Ray was appointed a director in November 2008 and is chairman of the Risk Committee.

#### Experience

Ray is senior adviser to Standard Life Assurance and chairman of Octopus VCT 3 plc. Formerly he was chairman of Bestinvest Group, a director of Standard Life Assurance Limited, managing director of Barclays Wealth Management, chief executive officer of Zurich Financial Services UK and International Life, and managing director of AMP Financial Services.



**Douglas Paterson**  
Independent Non-executive Director

#### Appointment to the board

Douglas was appointed a director in July 2004 and is chairman of the Audit Committee.

#### Experience

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



**Preben Prebensen**  
Chief Executive

**Appointment to the board**

Preben was appointed to the board as chief executive in April 2009 when he joined Close Brothers.

**Experience**

Preben previously spent his career in a number of senior positions at JP Morgan over 23 years, as well as being chief executive of Wellington Underwriting plc from 2004 to 2006, and then chief investment officer and a member of the group executive committee at Catlin Group Limited.



**Stephen Hodges**  
Managing Director and Banking  
Chief Executive

**Appointment to the board**

Stephen was appointed a director in August 1995 with responsibility for the Banking division and became managing director in November 2002.

**Experience**

Stephen spent eight years at Hambros before joining the Banking division of Close Brothers in 1985.



**Shonaid Jemmett-Page**  
Independent Non-executive Director

**Appointment to the board**

Shonaid was appointed a director in August 2012.

**Experience**

Shonaid is a non-executive director of GKN plc, Amlin plc, APR Energy plc, Origo Partners plc and Greencoat UK Wind PLC. Formerly she was chief operating officer of CDC Group plc, a non-executive director of Havelock Europa plc, held executive positions with Unilever plc and was a financial sector audit partner at KPMG.



**Bruce Carnegie-Brown**  
Senior Independent Director

**Appointment to the board**

Bruce was appointed a director in June 2006 and senior independent director in June 2008. He is chairman of the Remuneration Committee.

**Experience**

Bruce is chairman of Aon UK Limited, senior independent director of Catlin Group Limited and a non-executive director of Moneysupermarket.com Group PLC. Formerly he was with 3i Group, Marsh & McLennan and JP Morgan.



**Geoffrey Howe**  
Independent Non-executive Director

**Appointment to the board**

Geoffrey was appointed a director in January 2011.

**Experience**

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

## Governance

### Executive Committee



**Preben Prebensen**  
Chief Executive



**Elizabeth Lee**  
Group Head of Legal and  
Regulatory Affairs



**Stephen Hodges**  
Managing Director and  
Banking Chief Executive



**Jonathan Howell**  
Finance Director



**Julian Palfreyman**  
Winterflood Chief Executive



**Martin Andrew**  
Asset Management Chief Executive



**Tazim Essani**  
Group Head of Corporate Development



**Rebekah Etherington**  
Group Head of Human Resources



# Governance

## Report of the Directors

The directors present their report and the audited financial statements for the year ended 31 July 2013.

### Business Review and Principal Activities

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

The principal subsidiary undertakings at 31 July 2013 and their principal activities are listed in note 26 on page 94 of the Financial Statements.

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

	Pages
Chairman's and Chief Executive's Statement	4 to 7
Business Model	8 and 9
Strategy and Key Performance Indicators	10 and 11
Business Review	12 to 23
Principal Risks and Uncertainties	24 to 27
Board of Directors	28 and 29
Corporate Governance	33 to 43
Corporate Responsibility	44 to 46
Report of the Board on Directors' Remuneration	47 to 60

### Results and Dividends

The consolidated results for the year are shown on page 62. The directors recommend a final dividend for the year of 29.5p (2012: 27.5p) on each ordinary share which, together with the interim dividend of 15.0p (2012: 14.0p), makes an ordinary distribution for the year of 44.5p (2012: 41.5p) per share. The final dividend, if approved by shareholders at the 2013 Annual General Meeting ("AGM"), will be paid on 26 November 2013 to shareholders on the register at 18 October 2013.

### Directors

Biographical details of the current directors of the Company at the date of this report appear on pages 28 and 29. Shonaid Jemmett-Page and Elizabeth Lee were appointed to the board on 1 August 2012. Jamie Cayzer-Colvin retired from the board on 22 November 2012 after five years' service; all other directors held office throughout the year.

In accordance with the UK Corporate Governance Code, all directors offer themselves for re-election at the 2013 AGM with the exception of Douglas Paterson who is retiring from the board after nine years' service.

### Directors' interests

The directors' interests in the share capital of the Company at 31 July 2013 are set out on page 56.

### Powers and appointment of directors

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

### Directors' indemnity

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

### Company Secretary

On 1 July 2013, Nicholas Jennings, a chartered accountant, was appointed company secretary. He succeeded Emily Upton who had succeeded Elizabeth Lee, who stepped down from the role on 23 January 2013, but remains an executive director and group head of legal and regulatory affairs.

### Share Capital

At 31 July 2013 the Company had 150.6 million ordinary shares in issue with a nominal value of 25p each. Details of changes in the Company's ordinary share capital during the year are given in note 23 on page 91 of the Financial Statements. On a show of hands, each member has the right to one vote at general meetings of the Company. On a poll, each member is entitled to one vote for every share held. The shares carry no rights to fixed income. No person has any special rights of control over the Company's share capital and all shares are fully paid.

During the year the Company issued 25,531 ordinary shares of 25p each in satisfaction of option exercises. Full details of options exercised, the weighted average option exercise price and the weighted average market price at the date of exercise can be found in note 31 on pages 99 and 100 of the Financial Statements.

### Restrictions on the transfer of shares

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

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

### New issues of share capital

Under section 551 of the Companies Act 2006, the directors may allot equity securities only with the express authorisation of shareholders which may be given in general meeting, but which cannot last more than five years. Under section 561 of the Companies Act, the board may also not allot shares for cash (otherwise than pursuant to an employee share scheme) without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by a special resolution of the shareholders.

The existing authorities given to the Company at the last AGM to allot shares will expire at the conclusion of the forthcoming AGM. Details of the resolutions renewing these authorities are included in the Notice of AGM.

### Purchase of Own Shares

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

# Governance

## Report of the Directors continued

The existing authority given to the Company at the last AGM to purchase Treasury Shares of up to 10% of its issued share capital will expire at the conclusion of the next AGM.

The board considers it would be appropriate to renew this authority and intends to seek shareholder approval to purchase Treasury Shares of up to 10% of its issued share capital at the forthcoming AGM in line with current investor sentiment.

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

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

During the financial year the Company transferred 639,000 shares out of treasury, to satisfy share option awards, for a total consideration of £1.7 million. It did not purchase any Treasury Shares. The maximum number of Treasury Shares held at any time during the year was 3.5 million with a nominal value of £0.9 million.

### Employee Share Trust

Bedell Trustees Limited is the trustee of the Close Brothers Group Employee Share Trust, an independent trust, which holds shares for the benefit of employees and former employees of the group. The trustee has agreed to satisfy a number of awards under the employee share plans. As part of these arrangements the Company funds the trust, from time to time, to enable the trustee to acquire shares to satisfy these awards, details of which are set out in note 31 on pages 99 and 100 of the Financial Statements.

During the year, the employee share trust did not make any market purchases of ordinary shares.

### Substantial Shareholdings

Details on substantial shareholdings in the Company are set out on page 43.

### Significant Contracts

A change of control of the Company, following a takeover bid, may cause a number of agreements to which the Company is party to take effect, alter or terminate. These include the Company bonds due 2017, certain insurance policies, bank facility agreements and employee share plans.

The group had committed facilities totalling £1.2 billion at 31 July 2013 which contain clauses which require lender consent for any change of control. Should consent not be given, a change of control would trigger mandatory repayment of £1.1 billion of the facilities.

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

### Risk Management

The group has procedures in place to identify, monitor and evaluate the significant risks it faces. The group's risk management objectives and policies are set out on pages 37 to 39 and in note 33 on pages 102 to 111 of the Financial Statements.

### Supplier Payment Policy

All banking, securities and investment transactions are settled in accordance with applicable terms and conditions of business agreed with the counterparty. The average payment period for all other approved expenses was 10 days (2012: 19 days).

### Charitable and Political Donations

The group made charitable donations in the year amounting to £228,000 (2012: £160,000). Further details are set out in the Corporate Responsibility report on pages 44 to 46. No political donations were made during the year (2012: £nil).

### Resolutions at the AGM

The Company's AGM will be held on 21 November 2013. Resolutions to be proposed at the AGM include the renewal of the directors' authority to allot shares, the disapplication of pre-emption rights, authority for the Company to purchase its own shares and the re-election of all the directors standing for re-election.

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

### Auditor

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

### Disclosure of Information to Auditor

Each of the persons who are directors at the date of approval of this Annual Report confirms that:

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

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

By order of the board

**Nicholas Jennings**  
Company Secretary

24 September 2013

## Governance Corporate Governance



Strone Macpherson,  
Chairman

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

To accomplish this the board has held nine regular meetings this year and prior to each board meeting receives reports, not only on the results of each of the three divisions and key performance indicators, but also detailed updates on the progress and implementation of the agreed strategies for each division. The board has the opportunity to discuss the reports and challenge each of the divisional chief executives, who attend all or part of the board meetings, directly on the progress and implementation of their divisional strategy. In addition, in June 2013 the board attended two strategy days dedicated to discussing and reviewing the group's long-term strategy with executive management.

The group's overarching strategy is set and so the board's focus this year has been on reviewing its implementation by the

businesses. Within the Banking division there has been a review of its operating model and of its IT infrastructure. In relation to the Securities division the focus has been on its core competencies. In Asset Management the board has monitored its restructuring programme which has been completed.

The board has also spent time monitoring a series of reviews, undertaken to test the resilience of the group's systems. It has reviewed regulatory developments, arising from the creation of the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA"), the successor bodies to the Financial Services Authority ("FSA"), and the potential impact of proposals from the European Union.

We are committed to the principles established in the UK Corporate Governance Code ("the Code") issued by the Financial Reporting Council ("FRC") in June 2010 and this report will explain and demonstrate how the group has complied with the Code.

**Strone Macpherson**  
Chairman

24 September 2013

# Governance

## Corporate Governance continued

### Compliance

The Code issued by the FRC in June 2010, has been applied by the Company throughout the financial year. In September 2012, the FRC updated the Code, publishing a revised UK Corporate Governance Code ("the Revised Code"). The Revised Code is not applicable to the Company in the year under review, but the Company has begun the process of reviewing its procedures to enable the board to report, as required, under the Revised Code for the financial year ending 31 July 2014.

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

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

A copy of the Code can be found on the FRC's website: [www.frc.org.uk](http://www.frc.org.uk).

### The Board

#### Leadership of the board

The board's primary role is to provide leadership, ensure that the Company is appropriately managed and delivers long-term shareholder value. It sets the group's strategic objectives and provides direction for the group as a whole. A number of key decisions are reserved for and may only be made by the board, which enables the board and executive management to operate within a clear governance framework. These specific responsibilities are set out in a schedule of matters reserved to the board which is published on the Company's website and are summarised opposite:

### Governance Framework

#### Board governance structure



### Executive Committee

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

### Board and committee meeting attendance 2012/2013

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

	Board <sup>1</sup>		Audit Committee		Remuneration Committee		Risk Committee		Nomination and Governance Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
<b>Executive director</b>										
Preben Prebensen	11	<b>11</b>								
Jonathan Howell	11	<b>10</b>								
Stephen Hodges	11	<b>11</b>								
Elizabeth Lee <sup>2</sup>	10	<b>10</b>								
<b>Non-executive director</b>										
Strone Macpherson	11	<b>10</b>							3	<b>3</b>
Douglas Paterson	11	<b>8</b>	5	<b>5</b>	5	<b>5</b>	4	<b>4</b>	3	<b>3</b>
Bruce Carnegie-Brown	11	<b>10</b>	5	<b>5</b>	5	<b>5</b>	4	<b>4</b>	3	<b>3</b>
Ray Greenshields	11	<b>10</b>	5	<b>5</b>	5	<b>5</b>	4	<b>4</b>	3	<b>3</b>
Geoffrey Howe	11	<b>10</b>	5	<b>3</b>	5	<b>5</b>	4	<b>3</b>	3	<b>2</b>
Shonaid Jemmett-Page <sup>3</sup>	9	<b>9</b>	5	<b>5</b>	5	<b>5</b>	4	<b>4</b>	3	<b>3</b>
Jamie Cayzer-Colvin <sup>4</sup>	4	<b>3</b>								

<sup>1</sup> Of the 11 board meetings held during the year, two were ad hoc meetings, held to approve appointments to the board and its committees of which all directors were aware. Messrs Howell, Macpherson, Paterson and Cayzer-Colvin were each unable to attend one of these ad hoc meetings.

<sup>2</sup> Elizabeth Lee did not attend the ad hoc board meeting at which she was appointed a director.

<sup>3</sup> Shonaid Jemmett-Page did not attend the ad hoc board meeting at which she was appointed a director, or that at which she was appointed to the board's committees.

<sup>4</sup> Jamie Cayzer-Colvin attended the three regular meetings held prior to his resignation from the board.

- Setting and monitoring strategy;
- Oversight of regulatory compliance and internal control;
- Ensuring adequate financial resources;
- Acquisitions and disposals over certain thresholds;
- Approval of communications to shareholders;
- Board membership and other appointments; and
- Corporate governance matters.

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

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

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

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

- Board appointments;
- IT infrastructure;
- Control function reviews;
- The implications of the new regulatory regime;
- The Banking division's operating model; and
- Corporate governance matters.

All directors, other than Douglas Paterson, also attended a dedicated two day strategy session in June 2013 which focused on strategy development and execution.

#### Board size, composition and independence

During the majority of the financial year the board comprised 10 members: the chairman, four executive directors and, following the resignation of Jamie Cayzer-Colvin on 22 November 2012, five independent non-executive directors. The structure of the board continues to ensure that no individual or group of individuals is able to dominate the decision making process and no undue reliance is placed on any individual.

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

The board has assessed the independence of each of the current five non-executive directors and is of the opinion that each acts in an independent and objective manner and therefore, under the Code, is independent and free from any relationship that could affect their judgement. The board's opinion was determined by considering for each non-executive director:

- Whether they are independent in character and judgement;
- How they conduct themselves in board and committee meetings;

- Whether they have any interests which may give rise to an actual or perceived conflict of interest; and
- Whether they act in the best interests of the Company and of all its shareholders at all times.

The Company has therefore complied with the Code provision that at least half the board, excluding the chairman, should comprise independent non-executive directors. Each non-executive director is required to confirm at least annually, whether any circumstances exist which could impair their independence.

Following the appointment of Elizabeth Lee and Shonaid Jemmett-Page to the board and the retirement of Jamie Cayzer-Colvin, the board comprises eight male and two female members. The board is committed to ensuring a diverse pool of candidates is considered for any vacancies that may arise and that they are filled by the most qualified candidates based on merit, having regard to the benefits of diversity.

#### Meetings and attendance

The board has regular scheduled meetings. During the year there were nine scheduled board meetings and two ad-hoc board meetings called to deal with specific time critical matters. No additional board meetings were convened to deal with operational issues. Details of attendance at board meetings can be found on page 34.

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

The annual schedule of board meetings is decided a substantial time in advance in order to ensure the availability of each of the directors. In the event that directors are unable to attend meetings due to conflicts in their schedule, they receive papers in the normal manner and have the opportunity to relay their comments in advance of the meeting, as well as follow up with the chairman if necessary. The same process applies in respect of the various board committees.

#### Chairman and chief executive

The roles of the chairman and chief executive are separate and there is a clear division of responsibilities between the two roles. In accordance with the Code, there is a written statement of the division of responsibilities which has been reviewed and approved by the board. The chairman is Strone Macpherson. His other significant commitments are set out in his biography on page 28. The board is satisfied that his other commitments do not restrict him from carrying out his duties effectively.

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

# Governance

## Corporate Governance continued

The group chief executive is Preben Prebensen who is primarily responsible for the day-to-day management of the group's business. His other responsibilities include proposing and developing strategic objectives for the group, managing the group's risk exposures in line with board policies, implementing the decisions of the board and facilitating appropriate and effective communication with shareholders and regulatory bodies.

### Senior independent director

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

### Powers of directors

The directors are responsible for the management of the Company. They may exercise all powers of the Company, subject to any directions given by special resolution and the articles of association. The directors have been authorised to allot and issue ordinary shares and to make market purchases of the Company's ordinary shares by virtue of resolutions passed at the Company's 2012 AGM.

### Board evaluation

In accordance with the requirements of the Code, the board determined that the annual evaluation of the board, of its committees and its individual directors should be undertaken externally in 2013, being three years since the previous external evaluation. Dr. Long of Boardroom Review, who conducted evaluations in 2009 and 2010, was again appointed to carry out the evaluation following a selection process. Boardroom Review provides no other services to the company.

The evaluation took the form of one-to-one meetings, observation of meetings of the board and of the Audit Committee, and the review of board and committee information. Dr. Long presented an independent view of board strengths and future challenges, which were considered by the chairman and discussed by the board individually and collectively.

The evaluation explored three key aspects of board and committee effectiveness: the board environment, the work of the board and the use of time. Overall, the conclusions from the evaluation were positive and identified a number of board strengths. Future challenges for the board include:

- Future board composition;
- The balance of formal and informal time;
- Awareness of shareholder views;
- A changing competitive landscape;
- An evolving audit and risk agenda; and
- Changing remuneration structures.

These initiatives will be developed during the course of this financial year.

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

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

### Appointment of directors

The appointment of directors is governed by the Company's articles of association, the Companies Act 2006 and other applicable regulations and policies. Directors may be elected by shareholders in general meeting or appointed by the board of directors in accordance with the provisions of the articles of association. The articles of association may be amended by special resolution of the shareholders and were last amended in November 2009.

In accordance with the Code all directors are subject to re-election at the AGM. The board will only recommend to shareholders that executive and non-executive directors be proposed for re-election at an AGM after evaluating the performance of the individual directors. Following the performance evaluations, the board will be recommending that all directors standing for re-election be re-elected by shareholders and confirms that each director continues to be effective and demonstrates commitment to their role.

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

### Induction and professional development

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

There is a central training programme in place for the directors which is reviewed and considered by the board. In addition, the chairman discusses and agrees any specific requirements as part of each non-executive director's half year and year end reviews. During the year, training took the form of informal meetings with senior management, in-depth business reviews, attendance at external seminars and FCA forums and briefings from both internal and external advisers covering topics such as:

- The roles and responsibilities of the Audit and Risk committees;
- Accounting and disclosure; and
- The new regulatory structure.

Training and development records are maintained by the company secretary and reviewed annually by the chairman and each individual director.

The company secretary is responsible for ensuring that the board procedures and applicable rules and regulations are observed. All directors have direct access to the services and advice of the company secretary. Directors are able to take independent external professional advice to assist with the performance of their duties at the Company's expense.

## Risk and Control Framework

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

Identification, measurement and management of risk are 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.

The key principles underlying risk management in the group are:

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

## Risk Management Framework

First line of defence	Second line of defence	Third line of defence
<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;</li> <li>• Adequacy of mitigation plans; and</li> <li>• Group risk profile.</li> </ul> <p><b>Key features</b></p> <ul style="list-style-type: none"> <li>• Overarching "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>

# Governance

## Corporate Governance continued



Ray Greenshields, Chairman of the Risk Committee

### Risk Committee Chairman's overview

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

The year has seen some particular challenges for the Committee in its oversight of risk management. Global economic conditions have continued to be difficult. The regulatory environment has also evolved with the move to "twin peaks" regulation, and our regulators continue to seek assurance as to the robustness of risk management and the financial viability of financial institutions in a stressed environment.

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

### Membership and meetings

The Committee comprises me as chairman, Douglas Paterson and Bruce Carnegie-Brown who chair the Audit and Remuneration Committees respectively, Geoffrey Howe and Shonaid Jemmett-Page who joined the Committee with effect from 1 August 2012. Each of the Committee members is independent and attended all of the four meetings held during the year, other than Geoffrey Howe who was unable to attend one of them.

In addition to the members of the Committee, standing invitations are extended to the chairman, the executive directors, chief risk officer, head of compliance and the head of internal audit. All of them attend meetings as a matter of practice and have supported and informed the Committee's discussions. The company secretary acts as secretary to the Committee.

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

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

### Responsibilities

The role of the Committee in summary is to:

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

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



### Activity in 2013 financial year

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

The group has reviewed and enhanced conduct risk management framework throughout the organisation with measures including:

- Developing a Conduct Risk Appetite;
- Embedding the product review and assessment process to ensure that products are regularly reviewed and remain fit for purpose;
- Developing Conduct Risk Management Information; and
- Embedding Conduct Risk into the organisation's culture, values and behaviours.

Specific reviews have been delivered to the Risk Committee that have improved its ability to consider the major drivers of risk in the group. These include:

- Monitoring changes to the regulatory environment. We devote considerable time to current and emerging regulatory challenges to ensure the group is well placed to implement new regulation. This included a deep dive on the Retail Distribution Review including preparation for implementation and the impact on the business model.
- Control processes over our relationships with third parties to ensure outsourcing arrangements are appropriately controlled and the financial stability of third party is monitored.
- A review of the IT control environment. In response to the high profile IT difficulties experienced elsewhere in the industry, the group commissioned an independent review of its control environment. We continue to enhance the controls in place over potential external threats to our IT environment e.g. cyber threats.

As part of our assurance the Committee requested PricewaterhouseCoopers LLP ("PwC") as an independent organisation to review the group's Risk Management Framework during the year. The review confirmed that we are well placed compared to best market practice.

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

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

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

### Remuneration

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

### Looking ahead to 2013/2014

Key priorities for the coming year include:

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

### Ray Greenshields

Chairman of the Risk Committee

24 September 2013

# Governance

## Corporate Governance continued



Douglas Paterson, Chairman of the Audit Committee

### Audit Committee Chairman's overview

The Audit Committee has continued to support the board in its oversight of financial reporting and internal controls. The Committee's key responsibilities are to:

- Monitor the integrity of the group's external financial reporting, particularly the financial statements ensuring any significant financial judgements are appropriate;
- Review the adequacy of the group's internal controls; and
- Monitor and review the activities and performance of both internal and external audit.

In addition to these core responsibilities, the Committee has allocated time to monitoring the numerous accounting, regulatory and corporate governance changes that the group is expected to face in the near future. To assist the Committee, a formal training session covering these changes was held during the year.

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

### Membership and meetings

The Committee comprises me as chairman, Bruce Carnegie-Brown and Ray Greenshields who chair the Remuneration and Risk committees respectively, Geoffrey Howe and Shonaid Jemmett-Page who joined the Committee with effect from 1 August 2012. Each of the Committee members is independent and attended all of the five meetings held during the year, other than Geoffrey Howe who was unable to attend two of them. The meetings held were scheduled to coincide with the financial reporting cycle of the group.

The qualifications of the members of the committee are outlined in their biographies on pages 28 and 29. Both I as chairman and Shonaid Jemmett-Page are deemed to have recent and relevant experience by the board. Shonaid Jemmett-Page will take over as Audit Committee chair with effect from 21 November 2013 and has been involved in all meetings and correspondence during the year to ensure a smooth transition.

In addition to the members of the Committee, standing invitations are extended to the chairman and the executive directors, all of whom attend meetings as a matter of practice.

I meet with the group finance director, the heads of internal audit, risk and compliance and the group financial controller in advance of each of the scheduled meetings to agree the agenda and receive full briefing on relevant issues. This group also attends the meetings by invitation together with other senior executives as required. The external audit partner also attends all of the Committee meetings and meets in private with the Committee on each occasion. In addition I have had regular contact with the lead audit partner throughout the year.

### Activity in 2013 financial year

The Committee has focused on the following key areas:

#### Financial reporting

- Reviewed the group's annual and interim reports, with particular emphasis on the key accounting judgements made by management;
- Reviewed the group's interim management statements and the interim and preliminary results announcements together with the associated results presentation to analysts;
- Received written reports highlighting the key accounting issues faced by the group in advance of the half year and full year accounting period ends. In particular we reviewed and agreed managements conclusions on credit provisioning, and the classification of Mako as "held for sale" and subsequently as an "available for sale" equity investment given the expectation and actual loss of significant influence; and
- Reviewed a preliminary assessment and impact analysis of the impairment changes within the proposed IFRS 9.

#### Compliance and internal control

- Reviewed and approved the annual compliance team plan during the year. Following the November 2012 Audit Committee meeting it was agreed that the board Risk Committee would oversee compliance activity from January 2013;
- Reviewed the initial version of a group accounting manual setting out in detail the group's accounting approach and policies. The Committee challenged management on how the manual would be used in practice and complied with across the group;
- Reviewed an annual update on the group's tax affairs and endorsed the group's tax policy; and
- Reviewed and agreed enhancements to the group's internal "whistleblowing" policy.

#### Internal and external audit oversight

- Reviewed and challenged the annual plans of both internal and external audit;
- Assessed the effectiveness and independence of the external auditor;
- Reviewed each of the 19 internal audit reports issued in the year and received regular management information on the status of outstanding actions from previous reports;

- Reviewed recommendations and expectations published by the Basel Committee on Banking Supervision and the Chartered Institute of Internal Auditing regarding internal audit;
- Reviewed and challenged the effectiveness of the co-source internal auditor relationship; and
- Reviewed, debated and approved an updated policy on non-audit fees.

#### Internal audit

As well as reviewing the internal audit plan for the forthcoming year, the Committee receives a report from the head of internal audit at each meeting. This report summarises the results of all the audits conducted as well as status reports on progress on implementation of agreed actions arising from prior reports receiving full explanations for any overdue actions. The head of internal audit meets the Committee privately at each meeting as well as meeting with me regularly throughout the year.

Since 2009, the group has operated a co-source internal audit function to supplement our own internal resource with PwC to ensure it has access to the full range of audit expertise across the group's activities. The Committee continues to keep this arrangement under review ensuring the right balance of internal and external resource is retained and that the internal audit function is operating effectively. During the year under review, a further investment in IT technology to support the internal audit function was approved by the Committee.

#### External audit

The Committee reviews the independence and objectivity, qualifications and effectiveness of the external audit on an annual basis. The Committee also considers whether to recommend the reappointment of the auditor to the board.

The Committee's annual evaluation of the auditor focused on the following areas:

- The experience and expertise of the audit team;
- The scope of the work planned and carried out and the quality of written reports presented to the Committee; and
- The quality of dialogue between the auditor, the Committee and senior management.

This process was supported by a presentation to the Committee based on a survey of management across the group. We also reviewed and approved an updated policy on the provision of non-audit services by the external auditor. The key provision of this policy is that permission to engage the external auditor will always be refused where a significant threat to independence and/or objectivity is perceived. However, the Committee continues to see benefit for the group in engaging with Deloitte LLP where:

- Work is closely related to the audit work;
- A detailed understanding of the group is required; and
- Use of Deloitte LLP provides higher quality and/or better value service than elsewhere in the market.

The policy also requires that any non-audit fee of over £100,000 is pre authorised by the Committee and that I am consulted on any fees over £10,000.

During the year, non-audit fees amounted to £0.6 million, a similar level to the prior year and were 35% of the overall audit fee (2012: 32%). Non-audit fees in the year were:

	£ million
Tax advice:	
Compliance	0.2
Consultancy	0.1
Assurance work on securitisation funding	0.1
Other assurance	0.2
	0.6

At the beginning of the financial year, the Committee received an estimate of the expected non-audit fees for the year. The Committee concluded that all of those fees and those subsequently approved fell within its criteria for engaging Deloitte LLP and does not believe they pose a threat to the auditor's independence or objectivity.

Deloitte LLP or its predecessor firm has audited the group since it was first listed in 1984, but has only acted as the group's sole auditor since 2008. Although a full audit tender was not carried out, a detailed proposal was reviewed at that time prior to Deloitte LLP's appointment as sole auditor to the group. At the conclusion of last year's audit the lead audit partner stood down having completed five years in the role.

The Committee has concluded that Deloitte LLP continues to be independent and objective and that their audit is effective. As a result we have concluded that no audit tender is necessary at this time. We will continue to keep this under review and the current intention is that an audit tender will take place no later than the completion of the new lead partner's five year term in accordance with the FRC's published transitional arrangements following the changes to the Revised Code published in September 2012.

#### Douglas Paterson

Audit Committee chairman

24 September 2013

# Governance

## Corporate Governance continued

### Nomination and Governance Committee

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

#### Membership and meetings

The Committee comprises me as chairman, Bruce Carnegie-Brown, Ray Greenshields and Douglas Paterson who chair the Remuneration, Risk and Audit committees respectively, Geoffrey Howe and Shonaid Jemmett-Page who joined the Committee with effect from 1 August 2012. Each of the Committee members is independent and attended all of the three meetings held during the year, other than Geoffrey Howe who was unable to attend one of them. All the members of the Committee are independent non-executive directors. In addition, the chief executive and, where appropriate, the group head of human resources, attend meetings by invitation.

The company secretary acts as secretary to the Committee.

#### Responsibilities

The Committee's primary responsibilities are:

- Considering the appointment or retirement of directors; before an appointment is made, the skills, knowledge and experience required for a particular appointment are evaluated and external advisers may be used to facilitate the search for suitable candidates;
- Regularly reviewing the structure, size and composition of the board;
- Considering the leadership needs of the group and considering succession planning for directors and other senior executives; and
- Assessing the contribution of non-executive directors.

#### Work in 2013

During the year the Committee focused on:

- Executive management and succession planning;
- Reviewing the board's succession plans to ensure that an appropriate balance of skills and experience is maintained;
- The nomination of new directors; and
- Board evaluation.

On 1 August 2012, the Committee recommended the appointment of Elizabeth Lee, who at the time was general counsel and company secretary, to the board as an executive director in the new position of group head of legal and regulatory affairs. As a financial services organisation, the continued increase in the significance of legal and regulatory affairs was such that the Committee believed it appropriate to have this represented at board level. The Committee also determined that, from a governance perspective, it was desirable that the roles of executive director and company secretary should not be vested in the same person. Accordingly it recommended to the board that Elizabeth Lee give up her dual role which occurred in January 2013 with the appointment of a new company secretary.

The Committee also recommended the appointment of Shonaid Jemmett-Page to the board as an independent non-executive director, having determined from its search of candidates with an audit and financial background that she had the right technical and commercial skills, breadth of experience including with FSA regulated entities, and capacity to take on the role given other commitments and recent experience outside core audit. An external search consultancy, Russell Reynolds, was used but advertising was not required in this instance. Russell Reynolds has no other connection with the Company.

The Committee considered the benefits of diversity, including gender, during its deliberations on these positions, which were filled by the most qualified candidates based on merit. These appointments have widened further the range of insights and perspectives brought to the board's deliberations.

### Strone Macpherson

Chairman of the Nomination and Governance Committee

24 September 2013

### Remuneration Committee

Details of the role and work of the Committee are set out in the Report of the Board on Directors' Remuneration on pages 47 to 60.

### Conflicts of Interest

The articles of association include provisions giving the directors authority to approve conflicts of interest and potential conflicts of interest as permitted under the Companies Act 2006.

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

### Investor Relations

The group has a comprehensive investor relations ("IR") programme to ensure that current and potential shareholders, as well as financial analysts, are kept well informed of the group's performance and have appropriate access to management to understand the company's business and strategy.

The board believes it is important to maintain open and constructive relationships with all shareholders. The IR team, reporting to the finance director, are responsible for managing a structured programme of meetings, calls and presentations around the financial reporting calendar as well as throughout the year. The chief executive and finance director meet with the group's major institutional shareholders on a regular basis. In addition, the chairman and senior independent director are also available to meet with major shareholders and discuss any concerns, particularly in relation to corporate governance and remuneration.

Furthermore, all shareholders have the opportunity to raise questions with the board at the AGM, either in person or by submitting written questions in advance. The chairman of each of the board committees attends the AGM and all other directors are expected to attend the meeting.

The board is regularly updated on the IR programme. An IR report, summarising share price performance, share register composition, analyst research and feedback from investor meetings, is produced for each board meeting.

All results announcements, annual reports, regulatory news announcements, presentations, webcasts and other relevant documents are available on the IR section of the group website ([www.closebrothers.com/investor-relations](http://www.closebrothers.com/investor-relations)). The group's investor briefcase app for iPads and iPhones also offers analysts and investors access to financial reports, presentations and news releases.

## Substantial Shareholdings

The Company has been notified to 13 September 2013 under the provisions of the Disclosure and Transparency Rules of the following significant interests in the voting rights of the Company.

	Ordinary shares millions	Voting rights %
Lloyds Banking Group	11.6	7.87
Prudential	10.0	6.81
Standard Life Investments	8.9	6.02
Caledonia Investments	7.3	4.96
Schroders	6.4	4.33
Artemis Investment Management	5.9	4.01
Norges Bank	4.5	3.09

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

## Going Concern

The group's business activities, together with the factors likely to affect its future development and performance and its summarised financial position are set out in the Chairman's and Chief Executive's Statement and Business Review on pages 4 to 7 and 12 to 23 respectively. The principal risks and uncertainties the group currently faces, along with the ways the group seeks to manage those risks, are described on pages 24 to 27 of the Business Review.

The group has a strong, proven and conservative business model and a diversified range of financial services businesses and has traded profitably during the year. It is well positioned in each of its core businesses, well capitalised, soundly funded and has adequate access to liquidity.

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

## Statement of Directors' Responsibilities

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

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

In preparing the parent company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

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

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

## Responsibility statement

We confirm that to the best of our knowledge:

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

By order of the board

**Nicholas Jennings**  
Company Secretary

24 September 2013

# Governance

## Corporate Responsibility

### Corporate Responsibility Strategy

As a financial services organisation serving businesses and individuals, we are strongly committed to the highest standards of practice in dealing with environmental, social and governance (“ESG”) issues. This underpins our Corporate Responsibility (“CR”) strategy which is focused on four pillars, and our strategic priorities for each of these are as follows:

#### Employees

- Treat all employees equally, promoting a culture of integrity and strong employee engagement, and providing opportunities for talent development.

#### Responsible finance

- Ensuring all stakeholders are treated fairly, operating with the highest ethical standards in all our dealings.

#### Environment

- Measuring and minimising our impact on the environment.

#### Community

- Supporting the local communities where we do business through volunteering, skill sharing and charitable donations.

The ESG risks faced by the group are relatively limited, however we remain focused on continually monitoring the effects. The group has identified the three most significant ESG risks are employees, responsible finance and community. The group has a risk management framework, based on three lines of defence, for managing all risks facing the group, including significant ESG risks. Business management are responsible for ensuring that all key risks have been identified, assessed and evaluated and that appropriate controls are in place to mitigate them. More detail can be found on page 37 in the Governance report.

The group has a CR committee which is chaired by the Head of Human Resources (“HR”), who sits on the Group Executive Committee (“ExCo”). The ExCo and board receive updates throughout the year on ESG related matters, particularly on employee, governance and responsible finance. Additionally, we have regional CR committees that report to the group CR committee on relevant matters. The group and local committees meet regularly throughout the year and are responsible for communication of the group’s CR efforts and strategic priorities to raise awareness across the divisions. This year, the primary focus has been on the contribution to communities and charitable work.

The group is committed to promoting good ethical and governance standards and fully complies with the UK Corporate Governance Code (see pages 33 and 34).

### Employees

The group seeks to treat all employees fairly, promoting a culture of integrity and strong employee engagement. Our aim is to create a work environment which encourages talent retention and provides opportunities for talent development.

The Group Head of HR and the divisional chief executives have overall oversight for employee related matters. Employee related key risk indicators are produced by each business and reviewed at local risk and compliance committees and reported to the group risk and compliance committee on a monthly basis. As a result, we believe we have adequate measures in place to monitor and manage potential related risks. Further detail on the

mitigation and management of risks is set out in the Principal Risks and Uncertainties on page 26.

### Employee engagement

The group promotes employee engagement through various initiatives including focus groups across our businesses. During the year, 83% of employees participated in the group employee opinion survey, the results of which were shared with ExCo and the board. We are pleased that the survey identified that 90% of our employees are satisfied or very satisfied with their jobs and 87% feel actively engaged and would recommend the group as a place to work.

The results showed that we have continued to build on the strengths that were identified in the 2010 survey, which were customer focus, leadership and job enablers. Results in all these areas have improved, which is a significant achievement given the previous high scores. In particular, we achieved improvements in scores for leadership and the fair treatment of our customers. We have also made significant improvements on the development areas identified in the 2010 survey, principally career development and communication, as a result of the steps we took following the previous survey. Action planning is underway at a divisional level to continue to build on these encouraging results.

### Diversity and equal opportunity

The group is committed to providing equal opportunities throughout its recruitment processes and to existing employees, promoting a culture of diversity amongst the workforce.

Each of our divisions has a Recruitment and Equal Opportunity policy which provides a framework for consistent fair treatment of employees regardless of race, gender, age, disability, sexual orientation or religion. We seek to eliminate any harassment or bullying from the workplace and additionally fair consideration is given to all applications for employment. Feedback from staff in our recent employee opinion survey indicates our approach is working well in practice with positive responses to questions about fair treatment of staff and a culture that does not tolerate bullying or harassment.

### Training and education

Our focus remains on maintaining the expertise and skill of our people and we encourage training and education to all staff throughout their career. All employees receive annual performance reviews and as part of the programme for skills management, line managers develop training plans with their direct reports to address skill gaps or to strengthen existing skills. A suite of management development programmes is available to ensure staff with line management responsibility have the skills they need to perform that role effectively and a core curriculum of personal and soft skills training is available to support staff in developing their capability in the role. In addition, our customer facing staff receive regular update training to ensure they are aware of the latest regulatory developments which affect their business areas. The group also has a mentoring programme which offers career mentoring and advice from a more senior member of staff, often in a different part of the group.

During the year, we have introduced a school leaver programme, Aspire, within the Banking division to recruit and develop high calibre individuals with strong academic achievement to increase our pipeline of talent for the future. Aspire offers a structured training programme with direct experience within our Banking businesses.

### Employee benefits

All of the group's UK based permanent and fixed term employees are offered pension and life assurance. All employees have access to an Employee Assistance Programme which provides confidential support and information on a wide variety of everyday issues. The group continues to offer a Save as You Earn scheme, which allows employees to participate in the success and growth of the group and at 31 July 2013 the group had approximately one third (31 July 2012: one third) of its UK based employees participating. The group offers a tax efficient childcare voucher scheme, and additionally a cycle to work scheme offering a discount on the cost of new bikes and accessories while promoting a healthier lifestyle and a cleaner environment. All employees and their families have access to health assessments at a discounted rate.

### Responsible Finance

The group seeks to ensure that all its stakeholders including customers, shareholders, employees and suppliers are treated fairly, and with the highest ethical standards. Due to the nature of the group's businesses, the group has direct relationships with many stakeholders and therefore there is a risk that negative behaviour could impact the group's reputation and the outcome for its customers. In order to manage and mitigate this, the group seeks to instil a culture of treating customers and other stakeholders fairly, and that all employees recognise their responsibilities towards this objective. The group has a wide range of policies to establish a framework for best practice for our businesses, and for employee conduct and behaviour ensuring strong relationships characterised by trust, transparency and integrity.

Consistent with a responsible approach to finance, the board has adopted a tax policy governing all group businesses. A key principle of this policy is that tax liabilities should reflect the commercial substance of the group's activities, and by taking this approach the group seeks to maintain a low risk tax profile. Substantially all the group's trading is within the UK and therefore subject to UK corporation tax, and for each of the past five financial years the group's tax expense has been above the headline UK corporation tax rate (after adjustments for impairments and business disposals, associate profits recognised on a post-tax basis, the impact of write-down of deferred tax assets, and a small impact from profits subject to overseas tax rates).

It is the responsibility of all employees to adhere to the group's policies on treating customers fairly. The group head of compliance is responsible for establishing group policies and maintaining overall oversight of issues. The heads of compliance within the divisions are responsible for implementing and monitoring relevant policies and ensuring that they are followed by all employees. Training is delivered by a variety of methods, including online and face to face, across many areas including anti-money laundering, anti bribery and corruption, market abuse and conduct risk. Records of attendance and completion are maintained by compliance.

### Conduct risk

Treating customers fairly ("TCF") principles continue to be fully embedded within the group's culture. The employee opinion survey carried out during the year showed 96% of employees believe we treat customers fairly.

In light of the FCA's increased focus on the front end processes firms use to create and issue new products, we have ensured that relevant policies, for example the Business Initiatives Policy, are robust and are followed properly. These consider the client associated risks that can arise across a product lifecycle, including ensuring the documentation is clear, fair and not misleading and pricing is fair.

Product design and governance is managed through the risk and compliance committees which seek to ensure that customer's interests are appropriately protected. Additionally, existing products are reviewed on a regular basis to ensure that they remain fit for purpose.

The board and executive management receive comprehensive information to enable them to determine that new products are being developed in an appropriate manner and that trends identified through complaints are investigated.

### Complaint handling

Each division within the group operates a transparent complaints handling process which is accessible to all customers. We endeavour to address all concerns promptly and effectively. We also seek to identify the root cause of complaints to ensure any lessons learnt are suitably addressed.

### Anti-bribery and corruption

The group conducts its business to the highest ethical standards and seeks to mitigate the risks of financial crime. The group's Anti-Bribery and Corruption policy applies to all employees and sets out minimum standards and best practice for business conduct. This policy is communicated to staff at induction and update training is provided periodically. The group adheres to the Bribery Act 2010 and compliance, risk and internal audit ensure compliance across the group.

### Whistleblowing

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

### Anti-money laundering

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

### Supplier relationships

All transactions are settled in accordance with applicable terms and conditions of business agreed with the counterparty. More detail can be found on page 32 in the Report of the Directors. An outsourcing policy is maintained across the group to ensure that the risks associated with the use of third party services are managed appropriately and that controls are in place to protect our customers and fulfil our regulatory obligations.

# Governance

## Corporate Responsibility continued

### Environment

The group recognises its responsibilities in measuring and minimising the impact of our business activities on the environment. We do not believe the group has material exposure to environmental risks due to the nature of its business activities. However, we remain committed to monitoring and minimising any impact of such risks such as greenhouse gas emissions, waste and recycling.

It is the responsibility of each of our businesses to manage and minimise the impact of their activities on the local environment. Any significant environmental related issues across the group are highlighted by divisions as appropriate and discussed at ExCo meetings when necessary.

### Energy consumption and carbon emissions

The group remains committed to reducing greenhouse gas emissions. At the group's head office, a management information system has been implemented to more accurately monitor data. We also use an external specialist to provide advice on the energy markets and the most appropriate green energy rates, in addition to bespoke data reporting monitoring trends and highlighting changes in usage. Energy management is prioritised by our mechanical and engineering contractors and is consistently reviewed to assess where further practical efficiencies can be introduced.

During the year, the Banking division, carried out a review of all its energy providers and as a result of the findings, it has now moved to a more "green" provider. The initial phase of the change has been completed across several of the division's buildings and it plans to complete the roll out across all the division's offices over the course of the next year.

### Waste reduction and recycling

In addition to energy management initiatives, the group seeks to improve efficiency of its waste reduction, recycling and water and paper usage. The group's head office monitors the waste, recycling and water usage from data collected by third party contractors.

Group headquarters has increased its recycling volumes by 32% in the year which has saved 1,803 trees and avoided 301 cubic metres of landfill.

### Occupational health and safety

We remain committed to providing a safe and healthy workplace. Each division has a Health and Safety policy and a representative who is responsible for communicating this policy to all staff. Given the nature of our business, the rates of injury are low, and there were no work related fatalities.

### Community

The group remains committed to supporting the local communities where we do business through volunteering, skill sharing and charitable donations. Community related matters are managed and coordinated by the group CR committee. We have regular dialogue and an active programme of events for contributing to the communities. The group and local divisional CR committees are responsible for communicating initiatives and promoting awareness across the group.

Various initiatives take place across the group to support communities. As an example, within the Banking division, one of our businesses purchases fruit baskets for the office from a supplier who plants one fruit tree in Malawi for every basket we purchase and during the year, approximately 180 fruit trees were planted.

### Charitable donations

As part of the employee opinion survey completed through the year, employees were given the option to vote for a charitable partner for the group. Cancer Research UK received the majority of votes and therefore the group has appointed them as our group charitable partner. A number of our businesses within the group also partner with specific charities – for example, our motor finance business supports the motor charity BEN as well as the Motor Neurone Disease charity; our premium finance business has an ongoing relationship with The Prince's Trust; and Winterflood Securities voted for Macmillan Cancer Support as their divisional charity in the employee opinion survey.

The group continued its successful Matched Giving fundraising scheme for the fourth consecutive year encouraging members of staff to get involved in the voluntary sector and to help fundraise through personal participation in events. The group matches 50% of the fundraised amount up to a maximum of £250 per person.

Through a wide variety of fundraising events, including staff auctions, pub quizzes and dress down days, the group raised a total of £228,000 (2012: £160,000) for charitable causes, of which total matched funding schemes contributed 24% (2012: 36%).

### Employee volunteering

During the year the group introduced a Matching for Voluntary Time scheme where the group makes a contribution per hour of voluntary time given to charity by its employees.

In addition, the group continues to run the reading to children scheme, working as a partner to a school in Tower Hamlets, London, where staff volunteer their time to read with primary school children once a week.

### Give As You Earn ("GAYE")

Employees are encouraged to donate to charity through the GAYE payroll giving scheme. During the year, the participation in the scheme has remained broadly stable at around 10% (2012: 10%) of all UK employees. The group has maintained its Payroll Giving Quality Mark Gold Award since 2011 in recognition of the strong participation rate.



## Governance

# Report of the Board on Directors' Remuneration



Bruce Carnegie-Brown, Chairman of the Remuneration Committee

This report sets out the remuneration and other applicable information for those persons who served as a director during the 2013 financial year. It has been prepared in accordance with the relevant provisions of Schedule 8 to the Accounting Regulations under the Companies Act 2006 and has been approved by the board. The report also meets the relevant requirements of the Listing Rules of the FCA and describes how the board has applied the principles relating to directors' remuneration in the UK Corporate Governance Code. It will be presented to shareholders for approval at the AGM on 21 November 2013.

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

### Chairman's Statement

I am pleased to present the report on directors' remuneration for the 2013 financial year.

### Background

Close Brothers is a financial services group which makes loans, trades securities and provides financial advice and investment management services. Each of our businesses is a specialist in its field, and our simple and prudent business model underpins a long track record of financial performance in a range of market conditions.

We have included a number of the changes that will be required under the government reforms on remuneration reporting ahead of full adoption next year in order to assist with simplicity and transparency and to clearly highlight the key remuneration considerations. This report has been split into four sections: the Chairman's Statement; the Governance section which covers the key responsibilities and activities of the Committee; the Directors' Remuneration Policy section which covers remuneration policy; and the Annual Report on Remuneration which outlines how the remuneration policy has been implemented this year.

### Our Approach to Remuneration

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

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

## Governance

### Report of the Board on Directors' Remuneration continued

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

The Committee continues to believe the remuneration policies balance the requirements of all key stakeholders and the mix of fixed and variable remuneration is structured to ensure that employees are not incentivised to take disproportionate risks for short-term gain. The shareholder “share” of adjusted operating profit, calculated as the dividend and retained earnings as a percentage of adjusted operating profit before bonus and after tax, has increased over the last three years from 42% to 62% for

the 2013 financial year. The ratio of total compensation to adjusted operating income for the 2013 financial year is 38%, flat to the 2012 financial year. 86% of employees across the group received bonuses of £25,000 or less for the 2013 financial year.

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

The FSA amended the approach for applying proportionality under the Remuneration Code in September 2012. This change enabled the group to revert to the prior bonus deferral structure which had been agreed with shareholders in 2009. Under this structure, any bonus earned over 100% of base salary is deferred into group shares. However, we have retained the three year deferral period and the malus conditions introduced in 2011. The Committee feels this structure is more appropriate for the group, and it removes the complexity of the structure we were required to implement for 2011 and 2012. This is outlined in more detail on page 51.

#### Summary of Major Decisions on Remuneration

Role	Chief Executive	Managing Director and Banking Chief Executive	Finance Director	Group Head of Legal and Regulatory Affairs
	<b>Preben Prebensen</b>	<b>Stephen Hodges</b>	<b>Jonathan Howell</b>	<b>Elizabeth Lee</b>
Previous salary	£500,000	£450,000	£380,000	£340,000
<b>Salary with effect from 1 August 2013</b>	<b>£513,000</b>	<b>£462,000</b>	<b>£390,000</b>	<b>£350,000</b>
% salary increase	2.6%	2.7%	2.6%	2.9%
<b>2013 bonus</b>	<b>£1,500,000</b>	<b>£1,320,000</b>	<b>£1,100,000</b>	<b>£250,000</b>
2013 bonus as a % of 2013 salary	300%	293%	289%	74%
<b>2013 LTIP award</b>	<b>£950,000</b>	<b>£772,000</b>	<b>£740,000</b>	<b>£350,000</b>
2013 LTIP award as a % of 2013 salary	190%	172%	195%	103%

The Committee also assessed the vesting of the Strategic Goals element of the LTIP award vesting in October 2013 at 80%. The rationale for this is outlined on page 55.

I hope that you will find this report on the directors' remuneration useful, understandable and clear. I will be available to answer questions at the forthcoming AGM on 21 November 2013.

#### **Bruce Carnegie-Brown**

Chairman of the Remuneration Committee

## Governance

### The Remuneration Committee

#### Objectives and responsibilities

The Committee's key objectives are to:

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

The Committee's main responsibilities are to:

- Review and determine the total remuneration packages of executive directors and other senior executives in consultation with the chairman and chief executive and within the terms of the agreed policy;
- Approve the design and targets of any performance related pay schemes operated by the group;
- Review the design of all employee share incentive plans;
- Ensure that contractual terms on termination and any payments made are fair to the individual and the group, that failure is not rewarded and that a duty to mitigate risk is fully recognised;
- Review any major changes in employee benefits structures throughout the group;

- Select, appoint and determine terms of reference for independent remuneration consultants to advise the Committee on remuneration policy and levels of remuneration;
- Ensure that the remuneration structures in the group are compliant with the rules and requirements of regulators, and all relevant legislation;
- Ensure that provisions regarding disclosure of remuneration are fulfilled; and
- Seek advice from group control functions to ensure remuneration structures and annual bonuses are appropriately aligned to the group's risk appetite.

#### Membership

During the year the Committee's members were Bruce Carnegie-Brown, Ray Greenshields, Geoffrey Howe, Shonaid Jemmett-Page and Douglas Paterson. Each member of the Committee is independent. The chairman of the board, chief executive, group head of human resources and the group head of reward attend meetings. The company secretary or nominee acts as secretary to the Committee. A record of attendance at meetings during the year ended 31 July 2013 is set out on page 34.

#### Activities during the year

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

Meeting	Standing agenda items	Other agenda items
12 September 2012	<ul style="list-style-type: none"> <li>• Performance testing results for the 2009 LTIP, the 2009 Matching Share Award ("MSA") and the 2003/2004 Executive Share Option Scheme "H" options.</li> </ul>	<ul style="list-style-type: none"> <li>• Assessment of vesting of the Strategic Goals element of the 2009 LTIP and MSA vesting in 2012; and</li> <li>• Review of the LTIP performance targets for the 2012 LTIP awards.</li> </ul>
17 January 2013	<ul style="list-style-type: none"> <li>• Review of regulatory and legislative changes and developments.</li> </ul>	<ul style="list-style-type: none"> <li>• Review of approach to employee sales incentive schemes in the group;</li> <li>• Update on long term divisional incentive plan; and</li> <li>• Review of implementation proposal for pensions auto-enrolment.</li> </ul>
15 April 2013	<ul style="list-style-type: none"> <li>• Review of the anticipated compensation spend including variable remuneration for the 2013 financial year;</li> <li>• Annual review and approval of Code Staff<sup>1</sup>;</li> <li>• Annual review and approval of the group remuneration policy; and</li> <li>• Review of regulatory and legislative changes and developments.</li> </ul>	<ul style="list-style-type: none"> <li>• Update on approach to employee sales incentive schemes in the group.</li> </ul>
1 July 2013	<ul style="list-style-type: none"> <li>• Review of the initial proposals for the financial year 2013 compensation review;</li> <li>• Review and approval of impact of risk on bonus pools and individual bonus decisions;</li> <li>• Review whether or not to exercise malus<sup>2</sup> adjustment for awards vesting in 2013; and</li> <li>• Review of regulatory and legislative changes and developments.</li> </ul>	<ul style="list-style-type: none"> <li>• Review and approval of changes to Code Staff<sup>1</sup> remuneration structure; and</li> <li>• Update on approach to employee sales incentive schemes in the group.</li> </ul>
25 July 2013	<ul style="list-style-type: none"> <li>• Determination of 2009 LTIP award grants for 2013;</li> <li>• Review of LTIP performance target ranges for 2013 grants;</li> <li>• Review and approval of final bonus pools;</li> <li>• Review and approval of salary and bonus awards to the executive directors and Code Staff<sup>1</sup> within the group; and</li> <li>• Review of regulatory and legislative changes and developments.</li> </ul>	<ul style="list-style-type: none"> <li>• Assessment of vesting of the Strategic Goals element of the 2010 LTIP award vesting in October 2013.</li> </ul>

<sup>1</sup> Code Staff are the group's employees whose professional activities have a material impact on the firm's risk profile.

<sup>2</sup> Malus is the provision under which deferred awards are subject to forfeiture or may be reduced after grant in certain adverse circumstances.

## Governance

### Report of the Board on Directors' Remuneration continued

#### Directors' Remuneration Policy Remuneration Policy

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

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 long-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.

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

The majority of employees in the group have the potential to receive a performance related element of pay as part of their overall compensation package. This element is based on a combination of the overall assessment of the performance of the business and the individual. Employees have individual objectives against which their personal performance is rated. These objectives 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 Committee on behalf of group risk,

compliance and internal audit to ensure that any concerns highlighted by the control functions during the year are appropriately addressed in individual remuneration proposals. The Committee also receives a report highlighting the employees and/or teams who demonstrate the highest standards with respect to conduct and the group's values during the year to ensure that their contribution is recognised where appropriate.

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

The Committee has oversight of individual remuneration and termination packages for "Code Staff". Code Staff are the group's employees whose professional activities have a material impact on the firm's risk profile. The Committee also approves changes to compensation structures for groups of individuals and mandates the involvement of group risk in determining new structures to ensure that they are appropriately aligned to the risk profile of the business in which they operate.

The pay and employment conditions of employees within the Company are taken into consideration when setting the pay of the executive directors; for example key factors when determining the increases in base salaries for directors, if appropriate, include the average and overall increases for the entire employee population.

The chairman of the board and chairman of the Committee consult key shareholders to discuss the remuneration for the executive directors when appropriate. Shareholder input was sought, and approval gained, prior to the change to the current remuneration structure in 2009. Shareholder input was also sought on the changes to the risk management objectives in the current LTIP plan in 2012.

## Remuneration Policy for Executive Directors

Element	Objective	Policy	Delivery
Base salary	<ul style="list-style-type: none"> <li>Attract and retain high calibre employees.</li> <li>Reflect the employee's role and experience.</li> </ul>	<ul style="list-style-type: none"> <li>Set annually based on individual role and experience, pay for the broader employee population, and external factors, where applicable.</li> </ul>	<ul style="list-style-type: none"> <li>Paid monthly in cash.</li> <li>Reviewed annually by the Committee, effective from 1 August.</li> </ul>
Annual bonus	<ul style="list-style-type: none"> <li>Reward good performance.</li> <li>Motivate employees to support the group's goals, strategies and values over both the medium and long term.</li> <li>Align the interests of senior employees and executives with those of key stakeholders, including shareholders, and increase retention for senior employees, through the use of deferrals.</li> </ul>	<ul style="list-style-type: none"> <li>Set annually based on the achievement of pre-determined objectives.</li> <li>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.</li> <li>Individual bonuses are differentiated based on both financial and non-financial performance, including adherence to relevant risk and control frameworks.</li> <li>The annual bonus for executive directors is capped at 300% of base salary.</li> </ul>	<ul style="list-style-type: none"> <li>Annual bonus up to 100% of base salary is delivered in cash.</li> <li>Annual bonus above 100% of base salary is deferred into group shares vesting one third per year over three years.</li> <li>The deferred awards will be forfeited if the executive director leaves employment in certain circumstances or is dismissed for cause before the relevant vesting date. The deferred awards may also be reduced and/or the deferral period increased in certain additional circumstances, in line with the malus provisions. Following vesting, these shares may be called for at any time up to 12 months from the date of vesting. When the shares are called for, the executive director is entitled to the gross value of accumulated dividends in respect of the shares held under the deferred awards prior to calling.</li> </ul>
Long Term Incentive Plan ("LTIP")	<ul style="list-style-type: none"> <li>Motivate executives to achieve the group's longer-term strategic objectives.</li> <li>Aid the attraction and retention of key staff.</li> <li>Align executive interests with those of shareholders.</li> </ul>	<ul style="list-style-type: none"> <li>Executive directors are eligible to receive an annual award of shares with a face value of up to 200% of base salary.</li> </ul>	<ul style="list-style-type: none"> <li>Awards vest after three years subject to achieving absolute total shareholder return ("TSR") growth, adjusted earnings per share ("EPS") growth and risk management objectives performance targets.</li> <li>The LTIP awards are subject to forfeiture and malus<sup>1</sup> conditions.</li> </ul>
Share Matching Plan ("SMP")	<ul style="list-style-type: none"> <li>Align the interests of executives with those of shareholders through building a shareholding.</li> <li>Assist executives to build up required shareholdings.</li> </ul>	<ul style="list-style-type: none"> <li>Executive directors can choose to invest up to the value of 100% of base salary from their bonus into Close Brothers Group plc shares ("Invested Shares") for three years.</li> <li>Invested Shares will be matched with free matching shares ("Matching Shares") for every Invested Share.</li> <li>The Committee has determined the matching ratio for the 2013 award for executive directors will remain at two Matching Shares for each Invested Share.</li> </ul>	<ul style="list-style-type: none"> <li>The Invested Shares will be released in full at the end of the three year deferral.</li> <li>The Matching Shares are subject to performance conditions over the three year deferral period.</li> <li>The performance conditions for the 2013 Matching Share awards will be the same as the performance conditions in respect of the 2013 LTIP awards.</li> <li>Both the Invested Shares and the Matching Shares are subject to forfeiture and malus<sup>1</sup> conditions.</li> </ul>
Shareholding	<ul style="list-style-type: none"> <li>Align the interests of executives with those of shareholders.</li> </ul>	<ul style="list-style-type: none"> <li>Preben Prebensen, Stephen Hodges and Jonathan Howell are required to build and maintain a shareholding of 200% of base salary over a reasonable timeframe. Elizabeth Lee is required to build a shareholding of 100% of base salary, given that she is in a control function and a lower proportion of her remuneration is variable.</li> </ul>	

<sup>1</sup> Malus is the condition under which deferred awards are subject to forfeiture or may be reduced after grant in certain adverse circumstances.

## Governance

### Report of the Board on Directors' Remuneration continued

#### Long Term Incentives

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

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

#### 2009 LTIP

This 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 Committee decides annually the actual size of individual awards. The awards vest after three years, subject to achieving the performance targets outlined below.

The performance measures for the LTIP awards are as follows:

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

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

The Committee undertook an extensive review during the year of the adjusted EPS and absolute TSR growth targets and determined that the targets for the grants being made this year under the 2009 LTIP award are unchanged from last year as outlined in the table below. The Committee believes these are appropriately stretching and effectively align the executives' interests with those of shareholders.

Element	Threshold vesting (25% vests)	Maximum vesting (100% vests)
Absolute TSR	+ 10% p.a.	+ 20% p.a. or greater
Adjusted EPS	RPI + 3% p.a.	RPI + 10% p.a. or greater

There is straight-line vesting between the threshold and maximum targets.

#### 1995 Executive Share Option Scheme ("1995 Scheme")

Under the 1995 Scheme 50% of each grant of outstanding options has been subject to a performance condition requiring average EPS growth of RPI +4% per annum over any three year period during the 10 year life of the option. The remaining 50% has been subject to the achievement of a performance condition requiring the Company's EPS growth over any five year period during the life of the option to be in the top 25% of FTSE 100 companies. No awards have been granted under this scheme since 2004.

#### SAYE scheme

Executive directors are eligible to participate in the SAYE scheme on the same terms as other employees under which options are granted for a fixed contract period of three or five years, usually at a discount of 20% to the mid-market price at the time of grant. The group intends to operate this plan during the 2014 financial year.

#### External Appointments

Any external appointments require board approval. Jonathan Howell was appointed as a non-executive director of The Sage Group plc on 15 May 2013. Jonathan Howell received £12,826 in fees from The Sage Group plc during the Close Brothers financial year 2013. None of the other executive directors held any external directorships during the year.

#### Executive Directors' Service Contracts

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

	Date of agreement	Notice period
Stephen Hodges	22 January 2001	12 months notice from the Company 12 months notice from director
Jonathan Howell	8 October 2007	12 months notice from the Company 12 months notice from director
Elizabeth Lee	1 August 2012	12 months notice from the Company 12 months notice from director
Preben Prebensen	9 February 2009	12 months notice from the Company 12 months notice from director

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

## Annual Report on Remuneration

### Advice

During the year under review and up to the date of this report, the Committee consulted and took advice from the following advisers and executives:

- PwC;
- Slaughter and May;
- Chairman of the board;
- Chief executive;
- Group head of human resources;
- Group head of reward; and
- Group chief risk officer.

Where the Committee seeks advice from employees this never relates to their own remuneration.

PwC also provided consultancy services and Slaughter and May legal services to the group during the financial year. PwC are a member of, and adhere to, the Remuneration Consultants Group voluntary Code of Conduct. The Committee has satisfied themselves that the advice received from all parties named above was objective and independent.

### Overview of Directors' Remuneration for the 2013 Financial Year

The key elements of the remuneration structure for the year ended 31 July 2013 are set out in this section. In addition, it sets out what and how directors were paid during the year and the rationale for those payments.

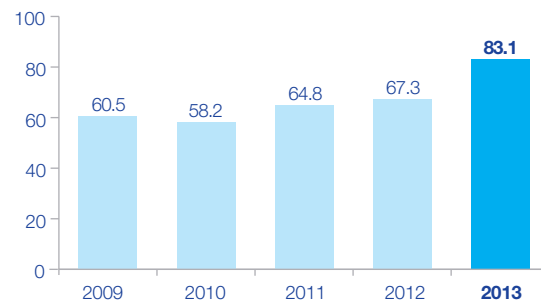
#### Link between reward and performance

The group'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 book 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 a 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 executive directors for the financial year, as outlined in the "Annual bonus" section.

The following table shows the adjusted EPS for the past five years.

#### Adjusted basic earnings per share pence



#### Base salary and benefits

The Committee has reviewed the base salaries for the executive directors based on individual role and experience, pay for the broader employee population, and external factors, where applicable. The average salary increase from 1 August 2013 awarded across the group overall was 3.0%. Given these average increases across the group, and the fact that the executive directors have received no increase in salary since August 2011, the executive directors received the salary increases below with effect from 1 August 2013.

	Annual base salary		Increase %
	From 1 August 2013	1 August 2012 to 31 July 2013	
Preben Prebensen	<b>£513,000</b>	£500,000	2.6
Stephen Hodges	<b>£462,000</b>	£450,000	2.7
Jonathan Howell	<b>£390,000</b>	£380,000	2.6
Elizabeth Lee	<b>£350,000</b>	£340,000	2.9

#### Annual bonus

The annual bonus policy which was applied during the year is described on page 51. Bonus payments made in respect of the 2013 financial year were determined by reference to a number of financial and non-financial metrics, which include risk and compliance measures.

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

## Governance

### Report of the Board on Directors' Remuneration continued

Adjusted operating profit before tax for the 2013 financial year was £166.5 million, a 24% increase on the prior year and an increase of 43% on continuing operations over three years. Further details of the key financial metrics are on page 11.

Adjusted operating profit before tax for the Banking division for the 2013 financial year was £157.8 million, a 17% increase on the prior year. Details of the Banking Division performance are on pages 18 and 19.

Given the strong financial results for 2013 and his own exceptional performance, the Committee has determined that

Preben Prebensen should receive the maximum level of bonus this year. Given the strong performance of the Banking division and his own exceptional performance, Stephen Hodges will receive a bonus equivalent to 293% of base salary. Given the strong financial key performance indicators, the strong balance sheet position and his own strong performance, Jonathan Howell will receive a bonus of 289% of base salary. Elizabeth Lee has performed very well in her first year as a director with regulatory, legal and compliance being well managed and will receive a bonus of £250,000.

Bonus payments are not pensionable.

The following table shows the annual bonus and deferrals for the 2013 and 2012 financial years.

	2013 financial year bonus			2012 financial year bonus			Increase/ decrease in bonus from prior year %
	Total bonus	Immediate cash	Deferred shares <sup>1</sup>	Total bonus	Immediate cash	Shares and deferred <sup>2</sup>	
Preben Prebensen	<b>£1,500,000</b>	<b>£500,000</b>	<b>£1,000,000</b>	£1,350,000	£384,000	£966,000	11
Stephen Hodges	<b>£1,320,000</b>	<b>£450,000</b>	<b>£870,000</b>	£1,200,000	£332,640	£867,360	10
Jonathan Howell	<b>£1,100,000</b>	<b>£380,000</b>	<b>£720,000</b>	£1,000,000	£288,800	£711,200	10
Elizabeth Lee	<b>£250,000</b>	<b>£250,000</b>	–	£180,000	£90,000	£90,000	39

<sup>1</sup> Deferred Shares as outlined in the Remuneration Policy for Executive Directors on page 51.

<sup>2</sup> This included the Non-deferred Share Awards, Deferred Cash Bonus Plan and Deferred Annual Bonus Plan.

The Deferred Share and Non-deferred Share Awards for the 2012 financial year were satisfied using market purchased shares held in Treasury and the number of shares awarded to the executive was determined by reference to the average mid-market share price of the Company's shares for the five business days following the announcement of the group's financial results on 25 September 2012 (inclusive) which was 839.6p per share.

#### LTIP awards

The following table shows the LTIP award grants for the last three financial years.

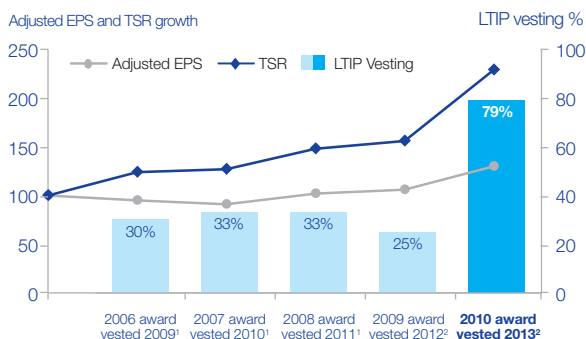
	2013 award face value	2012 award face value	2011 award face value	2013 award as a percentage of 2013 salary	2012 award as a percentage of 2012 salary	2011 award as a percentage of 2011 salary
Preben Prebensen	<b>£950,000</b>	£950,000	£950,000	<b>190%</b>	190%	200%
Stephen Hodges	<b>£772,000</b>	£772,000	£772,000	<b>172%</b>	172%	200%
Jonathan Howell	<b>£740,000</b>	£740,000	£740,000	<b>195%</b>	195%	200%
Elizabeth Lee	<b>£350,000</b>	£312,500	£312,500	<b>103%</b>	92%	92%

Note: The details of the actual share awards made under these awards are shown in the table on pages 58 and 59.



The following shows the level of LTIP vesting following performance testing for the last five years.

### Historical vesting of LTIP awards compared to adjusted EPS and TSR



- The 2004 LTIP vesting was subject to two thirds adjusted EPS and one third TSR.
- The 2009 LTIP vesting was subject to one third adjusted EPS, one third absolute TSR and one third Strategic Goals.

Note: This graph shows the vesting percentage of the LTIP compared with the adjusted EPS rebased to 100 at 31 July 2008, and the TSR based on £100 invested in Close Brothers Group plc on 31 July 2008.

Year awarded	Year vested	Vesting percentage			
		Adjusted EPS	TSR	Goals	Total
2006 <sup>1</sup>	2009	–	90%	n/a	30%
2007 <sup>1</sup>	2010	–	100%	n/a	33%
2008 <sup>1</sup>	2011	–	100%	n/a	33%
2009 <sup>2</sup>	2012	–	–	76%	25%
2010 <sup>2</sup>	2013	66%	92%	80%	79%

- The 2004 LTIP vesting was subject to two thirds adjusted EPS and one third TSR.
- The 2009 LTIP vesting was subject to one third adjusted EPS, one third absolute TSR and one third Strategic Goals.

For the three year period to 31 July 2013, the compounded annual adjusted EPS growth was 11% per annum, and the TSR was 19% per annum, meaning these elements of the 2010 LTIP award will vest at 66% and 92% respectively. The Strategic Goals were assessed at 80% by the Committee. More details on the rationale for the assessment are provided below. Accordingly, the 2010 LTIP award will vest at 79% in October 2013.

### Details of the assessment of the Strategic Goals

#### Strategic priorities

The group strategy is clearly defined, understood and supported. The Banking division has maintained its prudent business model and achieved good loan growth of 17% compound per annum while maintaining loan book quality over the past three years. Winterflood has maintained its leadership position and has remained profitable despite difficult conditions. Seydler has returned a strong performance this year from capital markets transactions. Asset Management has returned to profitability as forecast and we are on track to meet our medium-term targets.

#### People

The people management in the Company is very professional. There has been strong progress this year and management has continued to improve talent and succession planning. The Company received strong employee opinion survey scores this year, particularly on engagement, and there were significant improvements in scores in all key areas highlighted for improvement in the 2010 survey.

### Capital and balance sheet management

Over the last three years, the capital model has allowed the Company to support strong loan book growth as well as the investment in Asset Management. The ICAAP and ILAA processes were completed smoothly. Funding is well diversified, and liquidity continues to be conservatively managed.

### Risk, compliance and controls

The governance framework for control functions has been significantly upgraded in all divisions over the past three years. The group has developed strong alignment between business and control functions. Surveys evidence very strong scores for the risk and compliance committees across the group.

### Financial key performance indicators

The adjusted operating profit growth and the increase in the return on equity this year have been strong, with adjusted operating profit increasing 43%, or 13% compound annual growth, since 2010. Adjusted EPS on continuing operations is up by the same percentage. During the year the dividend increased by 7% and dividend cover increased to 1.9 times. The group's return on equity has increased to 16% this year.

### Chief Executive Officer Pay Compared to General Employee Pay for the Financial Year 2013

The following table shows how the pay of the chief executive increased compared to the general employee population for the 2013 financial year.

	Average change in salary for 2013 (from 1 August 2012) <sup>1</sup>	Average change in benefits for 2013 (from 1 August 2012) <sup>2</sup>	Average change in annual bonus for 2013 <sup>3</sup>
Preben Prebensen	–	–	11%
All Employee population	2%	3%	9%

- Calculated as the average percentage increase in salary for those eligible for an increase at 1 August 2012.
- Calculated as the average percentage increase in benefits for those eligible for a salary increase at 1 August 2012.
- The percentage increase in the average bonus calculated as the total bonus spend divided by the average headcount for financial years 2012 and 2013.

### Relative Importance of Spend on Pay

The following table shows the total remuneration paid compared to the total distributions to shareholders.

	2013 £ million	2012 £ million	Change %
Remuneration paid	<b>218.6</b>	197.9	10%
Distributions to shareholders <sup>1</sup>	<b>64.7</b>	59.9	8%

- Interim dividend paid and final dividend proposed for the financial year.

### Pensions

The executive directors all receive a monthly cash pension allowance equivalent to 22.5% of base salary.

Close Brothers operated a defined benefits pension plan, the Close Brothers (1979) Pension Plan ("the Plan"), which closed to future accruals effective 5 April 2012. Stephen Hodges, the only executive director that was an active member now receives a monthly cash pension allowance equivalent to 22.5% of base salary, as outlined above.

Stephen Hodges transferred his benefits out of the Plan to a personal arrangement on 6 September 2012.

## Governance

### Report of the Board on Directors' Remuneration continued

Stephen Hodges participated in the Plan which provides that the normal pensionable age is 65 for benefits accrued after 31 January 2011, the pension at normal pensionable age is two thirds of final pensionable salary subject to completion of 30 years' service and there is a 50% widow's pension on death. Pensionable salary for executive directors who participated in the group's defined benefits pension scheme was set at their salary at 1 August 2001 plus increases to reflect RPI to a maximum of 2% per annum from 1 August 2002. The scheme was closed to new entrants in August 1996.

The table below summarises pension benefits from the group's defined benefits pension scheme for Stephen Hodges. Since the member's benefits were transferred out of the Plan during the year the end of year transfer value and accrued pension figures are zero. The transfer value at the beginning of the year was calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 and represented potential liabilities of the group's defined benefits pension scheme in respect of the relevant executive director and does not necessarily represent a sum paid or payable to the executive director.

#### Defined pension benefits – audited

The following table shows the pension benefits of the executive director who participated in the group's defined benefits pension scheme:

	Transfer value of accrued pension <sup>1</sup>			At 31 July 2013 £'000	Accrued pension	
	At 31 July 2012 £'000	Director's contributions £'000	Actual increase excluding director's contributions £'000		Increase during the year £'000	At 31 July 2013 £'000
Stephen Hodges	5,278	–	–	–	–	–

<sup>1</sup> The accrued pension at 31 July 2012 was £183,000 and represented the deferred pension to which the director was entitled to at 31 July 2012. There was no increase to the pension during the year.

A transfer value of £4,875,000 was paid from the Plan to a personal arrangement on 6 September 2012 which was calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 and was in lieu of all benefits payable or prospectively payable to Stephen Hodges and his dependants as a result of his membership of the Plan. There was no real increase to the transfer value from 31 July 2012.

#### Directors' Interests

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

	Ordinary shares	
	31 July 2013	1 August 2012
Bruce Carnegie-Brown	20,000	20,000
Ray Greenshields	3,000	3,000
Stephen Hodges	618,549	618,549
Geoffrey Howe	5,000	5,000
Jonathan Howell	195,797	164,756
Shonaid Jemmett-Page <sup>1</sup>	300	–
Elizabeth Lee <sup>1</sup>	14,185	8,378
Strone Macpherson	13,300	13,300
Douglas Paterson	14,000	14,000
Preben Prebensen	272,180	234,324

<sup>1</sup> Shonaid Jemmett-Page and Elizabeth Lee were both appointed as directors on 1 August 2012.

There were no changes in notifiable interests between 31 July 2013 and 13 September 2013.

#### Executive directors' shareholdings against share ownership requirements

	Actual share ownership as a percentage of salary at 31 July 2013	Share ownership requirement as a percentage of salary	Shareholding requirement met
Stephen Hodges	1,436%	200%	Yes
Jonathan Howell	538%	200%	Yes
Elizabeth Lee <sup>1</sup>	44%	100%	No
Preben Prebensen	569%	200%	Yes

<sup>1</sup> Elizabeth Lee was appointed as a director on 1 August 2012 and is able to build the shareholding requirement over a reasonable timeframe.

#### Chairman and Non-executive Directors Terms of Engagement

The chairman and the non-executive directors are engaged under letters of appointment for terms not exceeding three years, which are renewable by mutual agreement and terminable on one months notice. In respect of the services of Jamie Cayzer-Colvin prior to his retirement as a non-executive director on 22 November 2012, Caledonia Investments plc was paid £17,111.

The letters of appointment of the chairman and non-executive directors are available for inspection at the Company's registered office on request.

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

The following table shows non-executive fees for the year to 31 July 2013. These are reviewed annually and were last increased with effect from 1 December 2010.

	Non-executive fees	
	2013	2012
Chairman	£200,000	£200,000
Non-executive director	£55,000	£55,000
<b>Supplements</b>		
Senior independent director	£10,000	£10,000
Chairman of Audit Committee	£20,000	£20,000
Chairman of Remuneration Committee	£20,000	£20,000
Chairman of Risk Committee	£20,000	£20,000
Committee membership <sup>1</sup>	£5,000	£5,000

<sup>1</sup> No fees are payable to the chairman, or for membership of, the Nomination and Governance Committee.

With effect from 1 August 2013, the chairman's fee will increase to £210,000, the fee for non-executive directors to £60,000 and the supplemental fee for the chairman of the Audit, Remuneration and Risk committees to £25,000.

## Directors' Remuneration – Audited

The following table shows the remuneration of each director for the year to 31 July 2013.

	Salaries and fees £'000	Allowances <sup>1</sup> £'000	Other benefits <sup>2</sup> £'000	Annual bonus		Total		Company pension contributions <sup>3</sup>	
				Cash	Deferred shares	2013	2012	2013	2012
				£'000	£'000	£'000	£'000	£'000	£'000
<b>Executive director</b>									
Stephen Hodges	450	113	2	450	870	<b>1,885</b>	1,724	–	70
Jonathan Howell	380	97	2	380	720	<b>1,579</b>	1,480		
Elizabeth Lee <sup>4</sup>	340	89	–	250	–	<b>679</b>	564		
Preben Prebensen	500	130	2	500	1,000	<b>2,132</b>	1,983		
<b>Non-executive director</b>									
Bruce Carnegie-Brown	95					<b>95</b>	95		
Jamie Cayzer-Colvin <sup>5</sup>	17					<b>17</b>	66		
Ray Greenshields	85					<b>85</b>	85		
Geoffrey Howe	70					<b>70</b>	62		
Shonaid Jemmett-Page <sup>6</sup>	70					<b>70</b>	–		
Strone Macpherson	200					<b>200</b>	200		
Douglas Paterson	85					<b>85</b>	85		
	<b>2,292</b>	<b>429</b>	<b>6</b>	<b>1,580</b>	<b>2,590</b>	<b>6,897</b>	<b>6,344</b>	<b>–</b>	<b>70</b>

1 The four executive directors received an allowance in lieu of a company car (£18,000 for Preben Prebensen and £12,000 for the other three executive directors) and a cash allowance in lieu of employer pension contributions equal to 22.5% of base salary.

2 This is healthcare cover.

3 The defined benefits pension plan was closed to future accruals effective 5 April 2012.

4 Elizabeth Lee was appointed a director on 1 August 2012.

5 Jamie Cayzer-Colvin retired as a director on 22 November 2012.

6 Shonaid Jemmett-Page was appointed a director on 1 August 2012.

## Directors' Deferred Share Awards ("DSA"), LTIP Awards, Share Matching Plan ("SMP"), and Non-Deferred Share Awards ("NDSA")

The DSA forms part of the annual performance related bonus award.

The DSA, LTIP and SMP consist of the right for an executive to call for shares in the Company from the employee benefit trust or treasury shares, at nil cost, together with a cash amount representing accrued notional dividends thereon. The DSA, LTIP and SMP awards may be forfeited if the executive director leaves employment in certain circumstances preceding the vesting date. They may be called for at any time up to 12 months from the date of vesting, with the exception of the 2009 DSA which has a five year calling period, and the 2009 LTIP which was immediately released on vesting. The value of the awards is charged to the group's income statement in the year to which the award relates for the DSA and Invested SMP awards, and spread over the vesting period for the LTIP and Matched SMP awards.

The NDSA formed part of the annual bonus award for financial years 2011 and 2012 but has now been discontinued. This award vested immediately so the entitlements do not lapse in any circumstances unless they are not called prior to the end of the calling period. There was, however, a requirement to hold these shares for six months from the date of the award. Following the end of the holding period they may be called for at any time up to 12 months from the end of the holding period. The value of the awards was charged to the group's income statement in the year to which the award relates.

The DSA, LTIP, SMP and NDSA awards held by each director at 31 July 2013 are outlined in the following table. The LTIP awards are held under the 2009 LTIP and are subject to the performance criteria described in this report under "2009 LTIP" on page 52. The Matched SMP Awards are subject to the same performance criteria.

# Governance

## Report of the Board on Directors' Remuneration continued

### Directors' DSA, LTIP, SMP and NDSA Awards – Audited

	Held at 1 August 2012	Awarded	Called	Lapsed	Held at 31 July 2013	Value at 31 July 2013 £	Market price on award p	Market price on calling p	Dividends paid on vested shares £	Earliest vesting date
<b>Stephen Hodges</b>										
2012 NDSA	–	39,619	39,619	–	–	–	839.6	1,016.5	18,709	2 April 2013
	–	<b>39,619</b>	<b>39,619</b>	–	–	–			<b>18,709</b>	
2009 DSA	46,406				<b>46,406</b>	<b>484,943</b>	793.0			1 October 2011
2010 DSA	35,638		35,638		–	–	743.6	1,016.5	48,309	7 October 2012
2011 DSA	3,383		1,126		<b>2,257</b>	<b>23,586</b>	684.6	1,016.5	1,038	4 October 2012
	<b>85,427</b>	–	<b>36,764</b>	–	<b>48,663</b>	<b>508,529</b>			<b>49,347</b>	
2009 LTIP <sup>1</sup>	105,339		26,686	78,653	–	–	699.0	839.9	43,291	18 November 2012
2010 LTIP	101,499				<b>101,499</b>	<b>1,060,665</b>	760.6			19 October 2013
2011 LTIP	112,767		–		<b>112,767</b>	<b>1,178,415</b>	684.6			4 October 2014
2012 LTIP	–	91,949			<b>91,949</b>	<b>960,867</b>	839.6			2 October 2015
	<b>319,605</b>	<b>91,949</b>	<b>26,686</b>	<b>78,653</b>	<b>306,215</b>	<b>3,199,947</b>			<b>43,291</b>	
2010 SMP-Invested	49,422				<b>49,422</b>	<b>516,460</b>	743.6			7 October 2013
2010 SMP-Matched	98,844				<b>98,844</b>	<b>1,032,920</b>	743.6			7 October 2013
2011 SMP-Invested	47,362				<b>47,362</b>	<b>494,933</b>	684.6			4 October 2014
2011 SMP-Matched	94,724				<b>94,724</b>	<b>989,866</b>	684.6			4 October 2014
2012 SMP-Invested	–	24,069			<b>24,069</b>	<b>251,521</b>	839.6			2 October 2015
2012 SMP-Matched	–	48,138			<b>48,138</b>	<b>503,042</b>	839.6			2 October 2015
	<b>290,352</b>	<b>72,207</b>	–	–	<b>362,559</b>	<b>3,788,742</b>				
<b>Jonathan Howell</b>										
2012 NDSA	–	34,398			<b>34,398</b>	<b>359,459</b>	839.6			2 April 2013
	–	<b>34,398</b>	–	–	<b>34,398</b>	<b>359,459</b>			–	
2009 DSA	45,397				<b>45,397</b>	<b>474,399</b>	793.0			1 October 2011
2010 DSA	30,931		30,931		–	–	743.6	1,017.8	41,929	7 October 2012
	<b>76,328</b>	–	<b>30,931</b>	–	<b>45,397</b>	<b>474,399</b>			<b>41,929</b>	
2009 LTIP <sup>1</sup>	103,049		26,106	76,943	–	–	699.0	839.9	42,350	18 November 2012
2010 LTIP	97,292				<b>97,292</b>	<b>1,016,701</b>	760.6			19 October 2013
2011 LTIP	108,093				<b>108,093</b>	<b>1,129,572</b>	684.6			4 October 2014
2012 LTIP	–	88,138			<b>88,138</b>	<b>921,042</b>	839.6			2 October 2015
	<b>308,434</b>	<b>88,138</b>	<b>26,106</b>	<b>76,943</b>	<b>293,523</b>	<b>3,067,315</b>			<b>42,350</b>	
2010 SMP-Invested	48,414				<b>48,414</b>	<b>505,926</b>	743.6			7 October 2013
2010 SMP-Matched	96,828				<b>96,828</b>	<b>1,011,853</b>	743.6			7 October 2013
2011 SMP-Invested	43,822				<b>43,822</b>	<b>457,940</b>	684.6			4 October 2014
2011 SMP-Matched	87,644				<b>87,644</b>	<b>915,880</b>	684.6			4 October 2014
2012 SMP-Invested	–	11,911			<b>11,911</b>	<b>124,470</b>	839.6			2 October 2015
2012 SMP-Matched	–	23,822			<b>23,822</b>	<b>248,940</b>	839.6			2 October 2015
	<b>276,708</b>	<b>35,733</b>	–	–	<b>312,441</b>	<b>3,265,009</b>				
<b>Elizabeth Lee</b>										
2009 LTIP <sup>1</sup>	44,726		11,331	33,395	–	–	699.0	839.9	18,381	18 November 2012
2010 LTIP	41,086				<b>41,086</b>	<b>429,349</b>	760.6			19 October 2013
2011 LTIP	45,648				<b>45,648</b>	<b>477,022</b>	684.6			4 October 2014
2012 LTIP	–	37,221			<b>37,221</b>	<b>388,959</b>	839.6			2 October 2015
	<b>131,460</b>	<b>37,221</b>	<b>11,331</b>	<b>33,395</b>	<b>123,955</b>	<b>1,295,330</b>			<b>18,381</b>	
2010 SMP-Invested	3,363				<b>3,363</b>	<b>35,143</b>	743.6			7 October 2013
2010 SMP-Matched	3,363				<b>3,363</b>	<b>35,143</b>	743.6			7 October 2013
2011 SMP-Invested	14,042				<b>14,042</b>	<b>146,739</b>	684.6			4 October 2014
2011 SMP-Matched	14,042				<b>14,042</b>	<b>146,739</b>	684.6			4 October 2014
2012 SMP-Invested	–	10,720			<b>10,720</b>	<b>112,024</b>	839.6			2 October 2015
2012 SMP-Matched	–	10,720			<b>10,720</b>	<b>112,024</b>	839.6			2 October 2015
	<b>34,810</b>	<b>21,440</b>	–	–	<b>56,250</b>	<b>587,812</b>				

<sup>1</sup> As outlined on page 55, the 2009 LTIP vested at 25.3%.

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

	Held at 1 August 2012	Awarded	Called	Lapsed	Held at 31 July 2013	Value at 31 July 2013 £	Market price on award p	Market price on calling p	Dividends paid on vested shares £	Earliest vesting date
<b>Preben Prebensen</b>										
2012 NDSA	–	32,635			<b>32,635</b>	<b>341,036</b>	839.6			2 April 2013
	<b>–</b>	<b>32,635</b>	<b>–</b>	<b>–</b>	<b>32,635</b>	<b>341,036</b>				
2010 DSA	45,052				<b>45,052</b>	<b>470,793</b>	743.6			7 October 2012
	<b>45,052</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>45,052</b>	<b>470,793</b>				
2009 LTIP <sup>1</sup>	135,967		34,445	101,522	–	–	699.0	839.9	55,877	18 November 2012
2010 LTIP	124,902				<b>124,902</b>	<b>1,305,226</b>	760.6			19 October 2013
2011 LTIP	138,768				<b>138,768</b>	<b>1,450,126</b>	684.6			4 October 2014
2012 LTIP	–	113,150			<b>113,150</b>	<b>1,182,418</b>	839.6			2 October 2015
	<b>399,637</b>	<b>113,150</b>	<b>34,445</b>	<b>101,522</b>	<b>376,820</b>	<b>3,937,770</b>			<b>55,877</b>	
2010 SMP-Invested	63,879				<b>63,879</b>	<b>667,536</b>	743.6			7 October 2013
2010 SMP-Matched	127,758				<b>127,758</b>	<b>1,335,071</b>	743.6			7 October 2013
2011 SMP-Invested	69,384				<b>69,384</b>	<b>725,063</b>	684.6			4 October 2014
2011 SMP-Matched	138,768				<b>138,768</b>	<b>1,450,126</b>	684.6			4 October 2014
2012 SMP-Invested	–	59,553			<b>59,553</b>	<b>622,329</b>	839.6			2 October 2015
2012 SMP-Matched	–	119,106			<b>119,106</b>	<b>1,244,658</b>	839.6			2 October 2015
	<b>399,789</b>	<b>178,659</b>	<b>–</b>	<b>–</b>	<b>578,448</b>	<b>6,044,783</b>				

<sup>1</sup> As outlined on page 55, the 2009 LTIP vested at 25.3%.

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

### Directors' Share Option Entitlements – Audited

	Held at 1 August 2012	Granted	Exercised	Lapsed	Held at 31 July 2013	Exercise price p	Market price on exercise p	Exercisable from	Exercisable to
<b>Stephen Hodges</b>									
2003 <sup>1</sup>	56,724		56,724		–	710.2	967.1	7 October 2006	6 October 2013
2003 <sup>1</sup>	56,724				<b>56,724</b>	710.2		7 October 2008	6 October 2013
2011 SAYE	1,645				<b>1,645</b>	547.0		1 December 2014	31 May 2015
	<b>115,093</b>	<b>–</b>	<b>56,724</b>	<b>–</b>	<b>58,369</b>				
<b>Elizabeth Lee</b>									
2010 SAYE	1,525				<b>1,525</b>	590.0		1 December 2013	31 May 2014
<b>Preben Prebensen</b>									
2010 SAYE	1,525				<b>1,525</b>	590.0		1 December 2013	31 May 2014

<sup>1</sup> The figures shown reflect the adjustment to share option entitlements arising from the special dividend payment made on 6 November 2007.

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

### Matching Share Award (“MSA”) – Audited

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

The third of four annual tranches of Preben Prebensen’s MSA vests in September 2013, with vesting subject to the 2010 LTIP performance conditions. As outlined in the section “2009 LTIP” on page 55, this will vest at 79%.

	Held at 1 August 2012	Awarded	Called	Lapsed	Held at 31 July 2013	Value at 31 July 2013 £	Market price on award p	Market price on calling p	Dividends paid on vested shares £	Earliest vesting date
<b>Preben Prebensen</b>										
2009 MSA <sup>1</sup>	65,902		16,673	49,229	–	–	643.0	845.9	26,695	September 2012
2009 MSA	65,902				<b>65,902</b>	688,676	643.0			September 2013
2009 MSA	65,902				<b>65,902</b>	688,676	643.0			September 2014
	<b>197,706</b>	<b>–</b>	<b>16,673</b>	<b>49,229</b>	<b>131,804</b>	<b>1,377,352</b>			<b>26,695</b>	

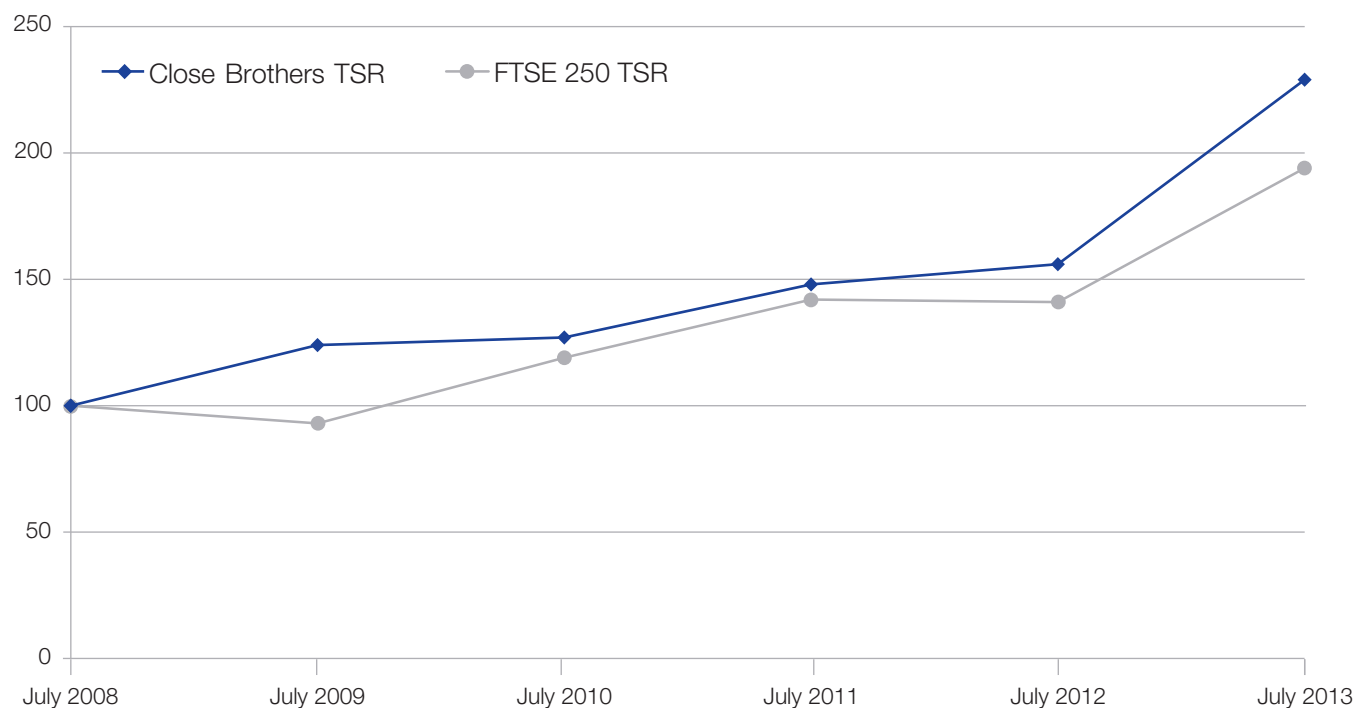
<sup>1</sup> As outlined on page 55, the 2009 MSA vested at 25.3%, in line with the 2009 LTIP.

## Governance

### Report of the Board on Directors' Remuneration continued

#### Total Shareholder Return

The graph below shows a comparison of TSR for the Company's shares for the five years ended 31 July 2013 against the TSR for the companies comprising the FTSE 250 Index. TSR has been calculated assuming that all dividends are reinvested on their ex-dividend date. The index has been selected because the Company has been a constituent of the index throughout the period.



Source: Thomson Reuters Datastream.

Note: This graph shows the value, by 31 July 2013, of £100 invested in Close Brothers Group plc on 31 July 2008 compared with the value of £100 invested in the FTSE 250 Index. The other points plotted are the values at intervening financial year ends.

The closing mid-market price of the Company's shares on 31 July 2013 was 1,045p and the range during the year was 743p to 1,107p.

#### Approval

This report was approved by the board of directors on 24 September 2013 and signed on its behalf by:

#### **Bruce Carnegie-Brown**

Chairman of the Remuneration Committee

# Financial Statements Report of the Auditor

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

We have audited the financial statements of Close Brothers Group plc ("the Company") for the year ended 31 July 2013 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1 to 33. The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditor

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

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 July 2013 and of the group's profit for the year then ended;
- The group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

### Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- The directors' statement, contained within Corporate Governance, in relation to going concern;
- The part of the Corporate Governance relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- Certain elements of the Report of the Board on Directors' Remuneration.

### Robert Topley (Senior statutory auditor)

for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom

24 September 2013

# Financial Statements

## Consolidated Income Statement

for the year ended 31 July 2013

	Notes	2013 £ million	2012 £ million
Interest income	4	<b>450.2</b>	412.2
Interest expense	4	<b>(150.7)</b>	(141.3)
Net interest income		<b>299.5</b>	270.9
Fee and commission income	4	<b>189.0</b>	167.0
Fee and commission expense	4	<b>(26.4)</b>	(21.1)
Gains less losses arising from dealing in securities		<b>80.3</b>	78.8
Share of profit of Mako	27	<b>0.9</b>	7.2
Other income		<b>39.6</b>	28.9
Non-interest income		<b>283.4</b>	260.8
Operating income		<b>582.9</b>	531.7
Administrative expenses	4	<b>(365.8)</b>	(339.9)
Impairment losses on loans and advances	12	<b>(50.6)</b>	(57.6)
Total operating expenses before exceptional income and amortisation of intangible assets on acquisition		<b>(416.4)</b>	(397.5)
<b>Operating profit before exceptional income and amortisation of intangible assets on acquisition</b>		<b>166.5</b>	134.2
Exceptional income	5	<b>1.6</b>	5.6
Amortisation of intangible assets on acquisition	16	<b>(5.0)</b>	(4.9)
<b>Operating profit before tax</b>		<b>163.1</b>	134.9
Tax	7	<b>(42.6)</b>	(33.5)
Profit after tax		<b>120.5</b>	101.4
Profit attributable to non-controlling interests		<b>1.1</b>	1.7
Profit attributable to shareholders		<b>119.4</b>	99.7
<b>Basic earnings per share</b>	9	<b>81.6p</b>	68.6p
Diluted earnings per share	9	<b>80.2p</b>	67.5p
Interim dividend per share paid	10	<b>15.0p</b>	14.0p
<b>Final dividend per share</b>	10	<b>29.5p</b>	27.5p



## Consolidated Statement of Comprehensive Income for the year ended 31 July 2013

	2013 £ million	2012 £ million
Profit after tax for the year	<b>120.5</b>	101.4
<b>Other comprehensive income/(expense) that may be reclassified to income statement</b>		
Currency translation gains/(losses)	<b>4.0</b>	(2.2)
Gains/(losses) on cash flow hedging	<b>4.8</b>	(2.9)
(Losses)/gains on financial instruments classified as available for sale:		
Gilts	<b>(0.1)</b>	1.5
Floating rate notes	<b>1.1</b>	10.5
Equity shares	<b>1.9</b>	0.1
Transfer to income statement of realised currency translation gains	<b>(7.4)</b>	(7.3)
Other losses	<b>-</b>	(3.8)
Tax relating to items that may be reclassified	<b>(1.5)</b>	(2.5)
<b>Other comprehensive income/(expense) for the year, net of tax</b>	<b>2.8</b>	(6.6)
<b>Total comprehensive income for the year</b>	<b>123.3</b>	94.8
<b>Attributable to</b>		
Non-controlling interests	<b>1.1</b>	1.7
Shareholders	<b>122.2</b>	93.1
	<b>123.3</b>	94.8

# Financial Statements

## Consolidated Balance Sheet

at 31 July 2013

	Note	2013 £ million	2012 £ million
<b>Assets</b>			
Cash and balances at central banks		935.4	706.8
Settlement balances		471.0	442.0
Loans and advances to banks	11	89.8	110.0
Loans and advances to customers	12	4,645.6	4,125.9
Debt securities	13	124.9	406.4
Equity shares	14	71.4	52.9
Loans to money brokers against stock advanced		52.1	68.7
Derivative financial instruments	15	56.8	50.6
Investment in Mako	27	–	21.8
Intangible assets	16	141.6	139.7
Property, plant and equipment	17	89.7	75.0
Deferred tax assets	18	24.7	28.0
Prepayments, accrued income and other assets	19	132.0	128.0
<b>Total assets</b>		<b>6,835.0</b>	<b>6,355.8</b>
<b>Liabilities</b>			
Settlement balances and short positions	20	475.3	465.5
Deposits by banks	21	66.6	88.0
Deposits by customers	21	4,015.4	3,448.1
Loans and overdrafts from banks	21	37.6	205.0
Debt securities in issue	21	1,055.3	1,040.0
Loans from money brokers against stock advanced		16.4	36.2
Derivative financial instruments	15	48.4	44.2
Accruals, deferred income and other liabilities	19	202.2	181.7
Subordinated loan capital	22	77.3	77.3
<b>Total liabilities</b>		<b>5,994.5</b>	<b>5,586.0</b>
<b>Equity</b>			
Called up share capital	23	37.7	37.6
Share premium account		283.7	283.4
Retained earnings		515.9	454.3
Other reserves		(0.5)	(9.2)
<b>Total shareholders' equity</b>		<b>836.8</b>	<b>766.1</b>
<b>Non-controlling interests</b>		<b>3.7</b>	<b>3.7</b>
<b>Total equity</b>		<b>840.5</b>	<b>769.8</b>
<b>Total liabilities and equity</b>		<b>6,835.0</b>	<b>6,355.8</b>

Approved and authorised for issue by the Board of Directors on 24 September 2013 and signed on its behalf by:

**P.S.S. Macpherson**  
Chairman

**P. Prebensen**  
Chief Executive

## Consolidated Statement of Changes in Equity

for the year ended 31 July 2013

	Called up share capital £ million	Share premium account £ million	Retained earnings £ million	Other reserves				Total attributable to equity holders £ million	Non- controlling interests £ million	Total equity £ million
				Available for sale movements reserve £ million	Share- based payments reserve £ million	Exchange movements reserve £ million	Cash flow hedging reserve £ million			
At 1 August 2011	37.6	283.0	416.2	(2.5)	(23.0)	18.1	(3.0)	726.4	1.9	728.3
Profit for the year	–	–	99.7	–	–	–	–	99.7	1.7	101.4
Other comprehensive (expense)/income	–	–	(3.8)	9.0	–	(9.5)	(2.3)	(6.6)	–	(6.6)
Total comprehensive income/(expense) for the year	–	–	95.9	9.0	–	(9.5)	(2.3)	93.1	1.7	94.8
Exercise of options	–	0.1	–	–	–	–	–	0.1	–	0.1
Dividends paid	–	–	(58.3)	–	–	–	–	(58.3)	(0.1)	(58.4)
Shares purchased	–	–	–	–	(10.3)	–	–	(10.3)	–	(10.3)
Shares issued	–	0.3	–	–	–	–	–	0.3	–	0.3
Shares released	–	–	–	–	8.3	–	–	8.3	–	8.3
Other movements	–	–	0.5	–	6.0	–	–	6.5	0.2	6.7
At 31 July 2012	37.6	283.4	454.3	6.5	(19.0)	8.6	(5.3)	766.1	3.7	769.8
Profit for the year	–	–	119.4	–	–	–	–	119.4	1.1	120.5
Other comprehensive income/(expense)	–	–	–	2.6	–	(3.4)	3.6	2.8	–	2.8
Total comprehensive income/(expense) for the year	–	–	119.4	2.6	–	(3.4)	3.6	122.2	1.1	123.3
Exercise of options	–	0.2	–	–	–	–	–	0.2	–	0.2
Dividends paid	–	–	(61.5)	–	–	–	–	(61.5)	(0.1)	(61.6)
Shares purchased	–	–	–	–	–	–	–	–	–	–
Shares issued	0.1	0.1	–	–	–	–	–	0.2	–	0.2
Shares released	–	–	–	–	5.7	–	–	5.7	–	5.7
Other movements	–	–	3.7	–	0.2	–	–	3.9	(1.0)	2.9
<b>At 31 July 2013</b>	<b>37.7</b>	<b>283.7</b>	<b>515.9</b>	<b>9.1</b>	<b>(13.1)</b>	<b>5.2</b>	<b>(1.7)</b>	<b>836.8</b>	<b>3.7</b>	<b>840.5</b>

# Financial Statements

## Consolidated Cash Flow Statement

for the year ended 31 July 2013

	Note	2013 £ million	2012 £ million
<b>Net cash inflow from operating activities</b>	32(a)	<b>206.9</b>	63.4
<b>Net cash outflow from investing activities</b>			
Dividends received from Mako		-	8.7
Purchase of:			
Assets let under operating leases		<b>(40.6)</b>	(29.4)
Property, plant and equipment – other		<b>(4.1)</b>	(8.8)
Intangible assets – software		<b>(13.1)</b>	(13.9)
Equity shares held for investment		<b>(0.3)</b>	(0.3)
Subsidiaries and non-controlling interest	32(b)	<b>(5.0)</b>	(5.1)
Sale of:			
Property, plant and equipment		<b>13.6</b>	4.6
Equity shares held for investment		<b>6.7</b>	0.2
Subsidiaries and Mako	32(c)	<b>4.8</b>	12.6
		<b>(38.0)</b>	(31.4)
<b>Net cash inflow before financing</b>		<b>168.9</b>	32.0
<b>Financing activities</b>			
Issue of ordinary share capital, net of transaction costs	32(d)	<b>0.4</b>	0.4
Purchase of own shares for employee share award schemes		-	(10.3)
Equity dividends paid		<b>(61.5)</b>	(58.3)
Dividends paid to non-controlling interests		<b>(0.1)</b>	(0.1)
Interest paid on subordinated loan capital and debt financing		<b>(18.6)</b>	(18.6)
Net increase/(decrease) in cash		<b>89.1</b>	(54.9)
Cash and cash equivalents at beginning of year		<b>928.3</b>	983.2
<b>Cash and cash equivalents at end of year</b>	32(e)	<b>1,017.4</b>	928.3

## Company Balance Sheet at 31 July 2013

	Note	2013 £ million	2012 £ million
<b>Fixed assets</b>			
Intangible assets	16	0.1	0.1
Property, plant and equipment	17	1.1	1.7
Investments in subsidiaries	26	287.0	287.0
Interest free loan to subsidiary		192.7	251.1
		<b>480.9</b>	539.9
<b>Current assets</b>			
Cash at bank		0.6	0.4
Amounts owed by subsidiaries		335.9	300.9
Other investments		4.6	4.8
Corporation tax receivable		4.4	8.5
Deferred tax assets	18	2.5	2.1
Other debtors		12.5	9.1
		<b>360.5</b>	325.8
<b>Creditors: Amounts falling due within one year</b>			
Accruals and deferred income		7.5	7.1
Provisions	19	11.8	8.9
Other creditors		1.3	1.3
		<b>20.6</b>	17.3
<b>Net current assets</b>		<b>339.9</b>	308.5
<b>Total assets less current liabilities</b>		<b>820.8</b>	848.4
Creditors: Amounts falling due after more than one year:			
Debt securities in issue		204.9	204.5
<b>Net assets</b>		<b>615.9</b>	643.9
<b>Capital and reserves</b>			
Share capital	23	37.7	37.6
Share premium account		283.7	283.4
Profit and loss account	24	306.1	340.2
Other reserves	24	(11.6)	(17.3)
<b>Shareholders' funds</b>		<b>615.9</b>	643.9

Approved and authorised for issue by the Board of Directors on 24 September 2013 and signed on its behalf by:

**P.S.S. Macpherson**  
Chairman

**P. Prebensen**  
Chief Executive

# Financial Statements

## The Notes

### 1. Significant accounting policies

#### (a) Reporting entity

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

The company financial statements (“the company accounts”) have been prepared and approved by the directors in accordance with Section 395 of the Companies Act 2006, the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 and with applicable UK Generally Accepted Accounting Practice. The company has taken advantage of the exemption in Section 408 of the Companies Act 2006 not to present its company income statement and related notes.

#### (b) Compliance with International Financial Reporting Standards

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

At the balance sheet date the group adopted IAS 1 “Presentation of items of other comprehensive income”, requiring entities to distinguish between those items that may be reclassified to profit or loss and those items that may not be reclassified to profit and loss, which had become effective during the year. The adoption of this amendment did not have a material impact on the financial statements of the group.

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

	Effective for annual periods beginning on or after
IAS 19 “Employee benefits”	1 January 2013
IFRS 7 “Disclosures: Offsetting financial assets and financial liabilities”	1 January 2013
IFRS 13 “Fair value measurement”	1 January 2013
IFRS Annual improvements 2009 – 2011	1 January 2013
IFRS 10 “Consolidated financial statements”	1 January 2014
IFRS 11 “Joint arrangements”	1 January 2014
IFRS 12 “Disclosure of interests in other entities”	1 January 2014
IAS 27 “Separate financial statements”	1 January 2014
IAS 28 “Investments in associates”	1 January 2014
IAS 32 “Presentation: Offsetting financial assets and financial liabilities”	1 January 2014
IFRS 9 “Financial instruments”	1 January 2015

The impact of the revised IAS 19 “Employee benefits” on the group’s financial statements is discussed in note 30, all other future standards and amendments are still under review.

#### (c) Basis of preparation

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

The financial statements have been prepared on a going concern basis as disclosed in Corporate Governance.

#### (d) Consolidation

##### Subsidiaries

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

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

### Associates

The consolidated accounts also incorporate the financial statements of entities that are neither subsidiaries nor joint ventures but over which the company has significant influence (“associates”), using the equity method of accounting. This applies where the company and the group hold 20% or more of an entity’s voting rights, unless it can be clearly demonstrated that no significant influence exists.

The group’s share of an associate’s results is included in the consolidated income statement from the date it becomes an associate to the date it stops being so. Under the equity method of accounting, the investment in an associate is initially recognised at cost. This carrying amount subsequently increases for the group’s share of any profit and decreases for the group’s share of any losses or distributions received. The carrying amount is reviewed annually for impairment.

### (e) Assets held for sale

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

### (f) Foreign currency translation

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

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

### (g) Revenue recognition

#### Interest

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

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

#### Fees and commissions

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

#### Dividends

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

#### Gains less losses arising from dealing in securities

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

### (h) Exceptional items

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

# Financial Statements

## The Notes

### 1. Significant accounting policies continued

#### (i) Financial assets and liabilities (excluding derivatives)

##### Classification

The group classifies its financial assets into the following measurement categories: (i) financial assets held at fair value through profit or loss; (ii) loans and receivables; and (iii) available for sale. Financial liabilities are classified as either held at fair value through profit or loss, or at amortised cost using the effective interest method.

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

##### Financial assets and liabilities held at fair value through profit or loss

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

Financial assets and liabilities may be designated at fair value through profit or loss when:

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

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

##### Loans and receivables

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

##### Available for sale

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

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

##### Derecognition

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

#### (j) Impairment of financial assets

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

##### Financial assets at amortised cost

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

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

For loans and receivables, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the original effective interest rate. As the loan amortises over its life, the impairment loss may amortise. All impairment losses are reviewed at least at each reporting date. If subsequently the amount of the loss decreases as a result of a new event, the relevant element of the outstanding



impairment loss is reversed. Interest on impaired financial assets is recognised at the original effective interest rate applied to the carrying amount as reduced by an allowance for impairment.

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

#### **Financial assets carried at fair value**

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

#### **(k) Settlement accounts**

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

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

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

#### **(m) Finance leases, operating leases and hire purchase contracts**

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

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

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

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

#### **(o) Securitisation transactions**

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

#### **(p) Offsetting financial instruments**

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

#### **(q) Derivatives and hedge accounting**

In general, derivatives are used to minimise the impact of interest, currency rate and equity price changes to the group's financial instruments. They are carried on the consolidated balance sheet at fair value which is obtained from quoted market prices in active markets, including recent market transactions and discounted cash flow models.

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

# Financial Statements

## The Notes

### 1. Significant accounting policies continued

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

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

#### (r) Intangible assets

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

Computer software	3 to 5 years
Intangible assets on acquisition	8 to 20 years

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

#### (s) Property, plant and equipment

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

Long leasehold property	40 years
Short leasehold property	Over the length of the lease
Fixtures, fittings and equipment	3 to 5 years
Assets held under operating leases	5 to 15 years
Motor vehicles	5 years

#### (t) Share capital

##### Share issue costs

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

##### Dividends on ordinary shares

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

##### Treasury shares

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

#### (u) Employee benefits

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

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

Under the defined benefit scheme eligible employees' retirement receipts are defined by factors such as salary, length of service and age. The liabilities of the group's defined benefit scheme, which was closed to new entrants in 1996 and to future accrual in 2012, are measured using the projected unit credit method and discounted at a rate that reflects the current rate of return on high quality corporate bonds with a term that matches that of the liabilities. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the consolidated income statement over the members' expected average remaining working lives. The net deficit or surplus on the plan, comprising the present value of the defined benefit obligations less the fair value of plan assets and any unrecognised actuarial gains and losses, is carried on the consolidated balance sheet.

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

#### (v) Share-based payments to employees

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

The costs of the awards granted under the annual bonus plan are based on the salary of the individual at the time the award is made. The value of the share award at the grant date is charged to the group's consolidated income statement in the year to which the award relates.

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

#### (w) Provisions and contingent liabilities

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

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

#### (x) Taxes, including deferred taxes

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

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

#### (y) Cash and cash equivalents

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

#### (z) Segment reporting

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

# Financial Statements

## The Notes

### 2. Critical accounting estimates and judgements

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

#### (a) Impairment of loans and advances

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

Individual impairment losses are determined as the difference between the carrying value and the present value of estimated future cash flows, discounted at the loans' original effective interest rate. Impairment losses determined on a portfolio basis are calculated using a formulaic approach which allocates a loss rate dependent on the overdue period. Loss rates are based on the discounted expected future cash flows and are regularly benchmarked against actual outcomes to ensure they remain appropriate.

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

#### (b) Fair value of financial instruments

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

Some of the group's financial instruments are carried at fair value, with changes in fair value either reported within the consolidated income statement or within equity until the instrument is sold or becomes impaired. An analysis of financial instruments carried at fair value by valuation hierarchy and particulars of valuation techniques used is included in note 33 and the accounting policy set out in note 1(i).

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

#### (c) Effective interest rate

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

#### (d) Goodwill impairment

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

#### (e) Share-based awards

The cost of the group's long-term equity based incentive schemes are determined using commonly accepted valuation techniques. Fair values for market-based performance conditions use models which take into account the exercise price of the option, the current share price, the risk free interest rate, the expected volatility of the company's share price over the life of the option/award and other relevant factors. For non-market based performance conditions, vesting conditions are not taken into account when measuring fair value, but are reflected by adjusting the number of shares in each award such that the amount recognised reflects the number that are expected to, and then actually vest. Details of the above variables can be found in note 31.

### 3. Segmental analysis

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

Divisions charge market prices for services rendered to other parts of the group. Funding charges between segments are determined by the Banking division's Treasury operation taking into account commercial demands. More than 90% of all the group's activities, revenue and assets are located in the UK.

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
<b>Summary Income Statement for the year ended 31 July 2013</b>					
Net interest income/(expense)	300.9	(1.0)	(0.8)	0.4	299.5
Non-interest income	95.3	107.3	78.9	1.9	283.4
Operating income	396.2	106.3	78.1	2.3	582.9
Administrative expenses	(168.8)	(78.7)	(72.6)	(22.6)	(342.7)
Depreciation and amortisation	(19.0)	(1.9)	(1.5)	(0.7)	(23.1)
Impairment losses on loans and advances	(50.6)	-	-	-	(50.6)
Total operating expenses	(238.4)	(80.6)	(74.1)	(23.3)	(416.4)
<b>Adjusted operating profit/(loss)<sup>1</sup></b>	<b>157.8</b>	<b>25.7</b>	<b>4.0</b>	<b>(21.0)</b>	<b>166.5</b>
Exceptional income	-	1.6	-	-	1.6
Amortisation of intangible assets on acquisition	(0.6)	-	(4.4)	-	(5.0)
<b>Operating profit/(loss) before tax</b>	<b>157.2</b>	<b>27.3</b>	<b>(0.4)</b>	<b>(21.0)</b>	<b>163.1</b>
Tax	(40.2)	(7.1)	0.2	4.5	(42.6)
Non-controlling interests	(0.9)	-	-	(0.2)	(1.1)
Profit/(loss) after tax and non-controlling interests	116.1	20.2	(0.2)	(16.7)	119.4
External operating income/(expense)	408.4	106.3	79.6	(11.4)	582.9
Inter segment operating (expense)/income	(12.2)	-	(1.5)	13.7	-
Segment operating income	396.2	106.3	78.1	2.3	582.9

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

# Financial Statements

## The Notes

### 3. Segmental analysis continued

The following table provides further detail on operating income:

	2013 £ million	2012 £ million
<b>Banking</b>		
Retail	152.6	144.9
Commercial	173.4	161.1
Property	60.6	48.0
Treasury and other non-lending income	9.6	7.5
<b>Securities</b>		
Market-making and related activities	106.3	101.4
<b>Asset Management</b>		
Advice and other services	35.2	30.6
Investment management	41.1	37.9
Other income	1.8	1.1
<b>Group</b>	<b>2.3</b>	<b>(0.8)</b>
<b>Operating income</b>	<b>582.9</b>	<b>531.7</b>

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
<b>Summary Balance Sheet at 31 July 2013</b>					
<b>Assets</b>					
Cash and loans and advances to banks	984.4	24.8	15.3	0.7	1,025.2
Settlement balances, long trading positions and loans to money brokers	–	595.5	–	–	595.5
Loans and advances to customers	4,645.6	–	–	–	4,645.6
Non-trading debt securities	96.2	–	–	–	96.2
Investment in Mako	–	–	–	–	–
Intangible assets	51.2	28.7	61.6	0.1	141.6
Other assets	251.8	30.6	24.9	23.6	330.9
<b>Total assets</b>	<b>6,029.2</b>	<b>679.6</b>	<b>101.8</b>	<b>24.4</b>	<b>6,835.0</b>
<b>Liabilities</b>					
Settlement balances, short trading positions and loans from money brokers	–	491.7	–	–	491.7
Deposits by banks	66.6	–	–	–	66.6
Deposits by customers	4,014.8	0.6	–	–	4,015.4
Borrowings	954.0	11.4	–	204.8	1,170.2
Other liabilities	148.4	37.4	45.5	19.3	250.6
Intercompany balances	294.9	40.5	24.6	(360.0)	–
<b>Total liabilities</b>	<b>5,478.7</b>	<b>581.6</b>	<b>70.1</b>	<b>(135.9)</b>	<b>5,994.5</b>
<b>Equity</b>	<b>550.5</b>	<b>98.0</b>	<b>31.7</b>	<b>160.3</b>	<b>840.5</b>
<b>Total liabilities and equity</b>	<b>6,029.2</b>	<b>679.6</b>	<b>101.8</b>	<b>24.4</b>	<b>6,835.0</b>
<b>Other segmental information for the year ended 31 July 2013</b>					
Property, plant, equipment and intangible asset expenditure	55.9	1.3	0.5	0.1	57.8
Employees (average number)	1,654	304	578	65	2,601

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

<sup>1</sup> Adjusted operating profit/(loss) is stated before exceptional income, amortisation of intangible assets on acquisition and tax.

# Financial Statements

## The Notes

### 3. Segmental analysis continued

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



#### 4. Operating profit before tax

	2013 £ million	2012 £ million
<b>Interest income</b>		
Cash and balances at central banks	4.4	3.1
Loans and advances to banks	0.1	0.2
Loans and advances to customers	442.0	395.5
Other interest income	3.7	13.4
	<b>450.2</b>	412.2
<b>Interest expense</b>		
Deposits by banks	0.4	2.0
Deposits by customers	86.1	75.1
Borrowings	63.2	61.7
Other interest expense	1.0	2.5
	<b>150.7</b>	141.3
<b>Net interest income</b>	<b>299.5</b>	270.9

	2013 £ million	2012 £ million
<b>Fee and commission income</b>		
Banking	79.3	77.2
Asset Management	84.4	74.4
Securities	25.3	15.4
	<b>189.0</b>	167.0
<b>Fee and commission expense</b>	<b>(26.4)</b>	(21.1)
<b>Net fee and commission income</b>	<b>162.6</b>	145.9

Fee income and expense (other than amounts calculated using the effective interest rate method) on financial instruments that are not at fair value through profit or loss were £79.3 million (2012: £77.2 million) and £16.6 million (2012: £13.3 million) respectively.

Fee income and expense arising from trust and other fiduciary activities amounted to £84.4 million (2012: £74.4 million) and £8.5 million (2012: £6.8 million) respectively.

	2013 £ million	2012 £ million
<b>Administrative expenses</b>		
Staff costs:		
Wages and salaries	179.8	167.7
Social security costs	23.7	21.5
Share-based awards	6.8	3.5
Pension costs	8.3	5.2
	<b>218.6</b>	197.9
Depreciation and amortisation	23.1	19.4
Other administrative expenses	124.1	122.6
	<b>365.8</b>	339.9

Operating lease rentals payable, of which £1.3 million (2012: £1.1 million) relate to plant and machinery, amounted to £10.4 million (2012: £10.3 million).

# Financial Statements

## The Notes

### 5. Exceptional income

On 16 September 2011, the group announced the phased sale of its then 49.9% investment in Mako to the Mako management team. On 30 April 2013, a third phase of the disposal completed reducing our shareholding from 27.3% to 21.3%, with a further disposal in August 2013 reducing our shareholding to 16.3%. The £1.6 million exceptional income in the year principally reflects realised foreign exchange gains offset by a revaluation on reclassification of Mako from an associate to an available for sale equity investment. The £5.6 million exceptional income in the year to 31 July 2012 principally reflects realised foreign exchange gains on the second phase of disposal. See note 27 for further details.

### 6. Information regarding the auditor

	2013 £ million	2012 £ million
<b>Fees payable</b>		
Audit of the company's annual accounts	0.2	0.2
Audit of the company's subsidiaries pursuant to legislation	0.9	1.1
Other services pursuant to legislation	0.2	0.1
Tax services	0.3	0.2
Other services	0.1	0.3
	<b>1.7</b>	1.9

The auditor of the group is Deloitte LLP.

### 7. Tax expense

	2013 £ million	2012 £ million
<b>Tax charged/(credited) to the income statement</b>		
Current tax:		
UK corporation tax	42.2	34.9
Foreign tax	3.3	0.5
Adjustments in respect of previous years	(7.8)	(0.5)
	<b>37.7</b>	34.9
Deferred tax:		
Deferred tax credit for the current year	(2.0)	(1.5)
Adjustments in respect of previous years	6.9	0.1
	<b>42.6</b>	33.5

### Tax on items not charged/(credited) to the income statement

Current tax relating to:		
Financial instruments classified as available for sale	0.2	3.3
Share-based transactions	(0.5)	(0.3)
Deferred tax relating to:		
Cash flow hedging	1.2	(0.6)
Financial instruments classified as available for sale	0.1	(0.2)
Share-based transactions	(2.9)	0.3
	<b>(1.9)</b>	2.5

### Reconciliation to tax expense

UK corporation tax for the year at 23.7% (2012: 25.3%) on operating profit	38.6	34.2
Impairment of associate and investment assets	-	0.3
Gain on sale of subsidiary and associate	(0.4)	(1.1)
Effect of different tax rates in other jurisdictions	0.5	(0.8)
Share of associate consolidated profit after tax	(0.2)	(1.8)
Disallowable items and other permanent differences	1.3	0.9
Deferred tax impact of reduced UK corporation tax rate	3.7	2.2
Prior year tax provision	(0.9)	(0.4)
	<b>42.6</b>	33.5

The effective tax rate for the year is 26.1% (2012: 24.8%) which is above the UK corporation tax rate of 23.7% (2012: 25.3%) principally due to a write-down in the group's deferred tax assets due to a reduction in the standard UK corporation tax rate applicable for future periods.

## 8. Acquisitions

### 2012 acquisitions

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

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

## 9. Earnings per share

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

	2013	2012
<b>Earnings per share</b>		
Basic	<b>81.6p</b>	68.6p
Diluted	<b>80.2p</b>	67.5p
Adjusted basic <sup>1</sup>	<b>83.1p</b>	67.3p
Adjusted diluted <sup>1</sup>	<b>81.7p</b>	66.3p

<sup>1</sup> Excludes exceptional income, amortisation of intangible assets on acquisition and their tax effects.

	2013 £ million	2012 £ million
<b>Profit attributable to shareholders</b>	<b>119.4</b>	99.7
Adjustments:		
Exceptional income	<b>(1.6)</b>	(5.6)
Amortisation of intangible assets on acquisition	<b>5.0</b>	4.9
Tax effect of adjustments	<b>(1.1)</b>	(1.1)
<b>Adjusted profit attributable to shareholders</b>	<b>121.7</b>	97.9

	2013 million	2012 million
<b>Average number of shares</b>		
<b>Basic weighted</b>	<b>146.4</b>	145.4
Effect of dilutive share options and awards	<b>2.5</b>	2.2
<b>Diluted weighted</b>	<b>148.9</b>	147.6

## 10. Dividends

	2013 £ million	2012 £ million
<b>For each ordinary share</b>		
Final dividend for previous financial year paid in November 2012: 27.5p (2011: 26.5p)	<b>39.7</b>	38.1
Interim dividend for current financial year paid in April 2013: 15.0p (2012: 14.0p)	<b>21.8</b>	20.2
	<b>61.5</b>	58.3

A final dividend relating to the year ended 31 July 2013 of 29.5p, amounting to an estimated £42.9 million, is proposed. This final dividend, which is due to be paid on 26 November 2013, is not reflected in these financial statements.

# Financial Statements

## The Notes

### 11. Loans and advances to banks

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	Total £ million
<b>At 31 July 2013</b>	<b>78.5</b>	<b>0.2</b>	<b>–</b>	<b>3.6</b>	<b>7.5</b>	<b>89.8</b>
At 31 July 2012	95.8	3.2	3.5	7.5	–	110.0

### 12. Loans and advances to customers

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Impairment provisions £ million	Total £ million
<b>At 31 July 2013</b>	<b>78.2</b>	<b>1,414.1</b>	<b>1,344.9</b>	<b>936.7</b>	<b>868.8</b>	<b>64.8</b>	<b>(61.9)</b>	<b>4,645.6</b>
At 31 July 2012	25.4	1,146.1	1,352.6	777.9	861.3	32.9	(70.3)	4,125.9

	2013 £ million	2012 £ million
<b>Impairment provisions on loans and advances to customers</b>		
At 1 August	<b>70.3</b>	93.7
Charge for the year	<b>50.6</b>	57.6
Amounts written off net of recoveries	<b>(59.0)</b>	(81.0)
<b>At 31 July</b>	<b>61.9</b>	70.3

#### Loans and advances to customers comprise

Hire purchase agreement receivables	<b>2,040.5</b>	1,725.6
Finance lease receivables	<b>415.6</b>	362.7
Other loans and advances	<b>2,189.5</b>	2,037.6
<b>At 31 July</b>	<b>4,645.6</b>	4,125.9

At 31 July 2013, the fair value of the loans and advances to customers materially equates to their carrying value.

At 31 July 2013, gross impaired loans were £201.0 million (31 July 2012: £233.6 million) and equate to 4% (31 July 2012: 6%) of the gross loan book before impairment provisions. The majority of the group's lending is secured and therefore the gross impaired loans quoted do not reflect the expected loss.

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

	2013 £ million	2012 £ million
Gross investment in finance leases and hire purchase agreement receivables due:		
Within one year	<b>1,108.3</b>	939.2
Between one and five years	<b>1,766.1</b>	1,522.3
After more than five years	<b>6.8</b>	12.4
	<b>2,881.2</b>	2,473.9
Unearned finance income	<b>(410.1)</b>	(369.3)
Present value of minimum lease and hire purchase agreement payments	<b>2,471.1</b>	2,104.6
Of which due:		
Within one year	<b>956.4</b>	774.8
Between one and five years	<b>1,508.9</b>	1,318.3
After more than five years	<b>5.8</b>	11.5
	<b>2,471.1</b>	2,104.6

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £4,152.5 million (2012: £3,520.0 million). The average effective interest rate on finance leases approximates to 11.1% (2012: 11.6%). The fair value of finance lease receivables and hire purchase agreements equates to the net book value. The present value of minimum lease and hire purchase agreement payments reflects the fair value of finance lease and hire purchase agreement receivables before deduction of impairment provisions.

### 13. Debt securities

	Held for trading £ million	Available for sale £ million	Loans and receivables £ million	Total £ million
Long trading positions in debt securities	28.7	–	–	28.7
Certificates of deposit	–	–	10.1	10.1
Floating rate notes	–	39.4	–	39.4
Gilts	–	46.7	–	46.7
<b>At 31 July 2013</b>	<b>28.7</b>	<b>86.1</b>	<b>10.1</b>	<b>124.9</b>

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

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

	31 July 2013		31 July 2012	
	Book value £ million	Fair value £ million	Book value £ million	Fair value £ million
Certificates of deposit classified as loans and receivables	10.1	10.1	130.3	130.3

Movements on the book value of gilts and floating rate notes ("FRNs") comprise:

	Available for sale		Total £ million
	Gilts £ million	Floating rate notes £ million	
At 1 August 2011	228.8	296.9	525.7
Disposals	–	(12.6)	(12.6)
Redemptions at maturity	(125.0)	(163.4)	(288.4)
Currency translation differences	–	(8.9)	(8.9)
Changes in fair value	(3.7)	10.6	6.9
At 31 July 2012	100.1	122.6	222.7
Disposals	–	(66.7)	(66.7)
Redemptions at maturity	(50.0)	(25.5)	(75.5)
Currency translation differences	–	7.8	7.8
Changes in fair value	(3.4)	1.2	(2.2)
<b>At 31 July 2013</b>	<b>46.7</b>	<b>39.4</b>	<b>86.1</b>

At 31 July 2013, £39.4 million (31 July 2012: £48.7 million) of FRNs were due to mature within one year and £21.9 million (31 July 2012: £19.2 million) have been issued by corporates with the remainder issued by banks and building societies.

# Financial Statements

## The Notes

### 14. Equity shares

	<b>31 July 2013 £ million</b>	31 July 2012 £ million
Equity shares classified as held for trading	<b>43.7</b>	34.4
Other equity shares	<b>27.7</b>	18.5
	<b>71.4</b>	52.9

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

	Available for sale £ million	Fair value through profit or loss £ million	Total £ million
At 1 August 2011	14.4	4.8	19.2
Additions	–	0.3	0.3
Disposals	–	(0.2)	(0.2)
Currency translation differences	(0.5)	–	(0.5)
Changes in fair value of:			
Equity shares classified as available for sale	(0.6)	–	(0.6)
Unlisted equity shares held at fair value	–	0.3	0.3
<b>At 31 July 2012</b>	<b>13.3</b>	<b>5.2</b>	<b>18.5</b>
Additions	0.2	0.1	0.3
Disposals	(0.3)	(7.3)	(7.6)
Currency translation differences	1.4	–	1.4
Changes in fair value of:			
Equity shares classified as available for sale	0.2	–	0.2
Unlisted equity shares held at fair value	–	2.6	2.6
Reclassification from investment in Mako <sup>1</sup>	12.3	–	12.3
<b>At 31 July 2013</b>	<b>27.1</b>	<b>0.6</b>	<b>27.7</b>

<sup>1</sup> See note 27 for further details.

## 15. Derivative financial instruments

The group enters into derivative contracts with a number of financial institutions as a principal only to minimise the impact of interest and currency rate changes to its financial instruments. The group's total derivative asset and liability position as reported on the consolidated balance sheet is as follows:

	31 July 2013			31 July 2012		
	Notional value £ million	Assets £ million	Liabilities £ million	Notional value £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	245.6	4.8	2.2	114.6	4.3	1.2
Interest rate contracts	4,228.4	14.5	7.2	3,537.0	19.2	12.8
Equity derivatives	298.1	37.5	39.0	425.2	27.1	30.2
	<b>4,772.1</b>	<b>56.8</b>	<b>48.4</b>	4,076.8	50.6	44.2

Notional amounts of interest rate contracts totalling £2,597.0 million (2012: £2,515.3 million) and exchange rate contracts totalling £43.8 million (2012: £39.3 million) have a residual maturity of more than one year. The notional amounts of equity and associated embedded derivatives with a residual maturity of more than one year total £128.9 million (2012: £300.8 million).

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

	31 July 2013			31 July 2012		
	Notional value £ million	Assets £ million	Liabilities £ million	Notional value £ million	Assets £ million	Liabilities £ million
<b>Cash flow hedges</b>						
Interest rate contracts	1,560.6	1.3	3.3	1,256.8	0.4	7.5
<b>Fair value hedges</b>						
Interest rate contracts	1,268.9	10.5	1.8	1,038.4	16.9	4.1

The cash flow hedges relate to exposure to future interest payments or receipts on recognised financial instruments and on forecast transactions for periods of up to seven (2012: seven) years; there was immaterial ineffectiveness. The cash flow hedge amounts that were removed from equity and included in the consolidated income statement for the years ended 31 July 2013 and 2012 were immaterial. The amount recognised in equity for cash flow hedges during the year was a £3.6 million gain (2012: £2.3 million loss).

The fair value hedges hedge the interest rate risk in recognised financial instruments; the gain on the hedged items was £4.6 million (2012: £3.8 million loss) which was largely offset by the £4.3 million loss (2012: £3.7 million gain) on the hedging instrument.

# Financial Statements

## The Notes

### 16. Intangible assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Group total £ million	Company software £ million
<b>Cost</b>					
At 1 August 2011	161.8	25.3	39.2	226.3	0.2
Additions	–	13.9	–	13.9	–
Acquisitions	2.3	–	3.3	5.6	–
Disposals	(7.6)	(0.5)	(0.1)	(8.2)	–
Foreign exchange	(0.5)	–	–	(0.5)	–
At 31 July 2012	156.0	38.7	42.4	237.1	0.2
Additions	–	13.1	–	13.1	0.1
Acquisitions	–	–	–	–	–
Disposals	–	(0.2)	–	(0.2)	–
Foreign exchange	0.5	–	–	0.5	–
<b>At 31 July 2013</b>	<b>156.5</b>	<b>51.6</b>	<b>42.4</b>	<b>250.5</b>	<b>0.3</b>
<b>Amortisation and impairment</b>					
At 1 August 2011	72.8	17.4	3.0	93.2	–
Amortisation charge for the year	–	4.3	4.9	9.2	0.1
Disposals	(4.8)	(0.2)	–	(5.0)	–
At 31 July 2012	68.0	21.5	7.9	97.4	0.1
Amortisation charge for the year	–	6.5	5.0	11.5	0.1
Disposals	–	–	–	–	–
<b>At 31 July 2013</b>	<b>68.0</b>	<b>28.0</b>	<b>12.9</b>	<b>108.9</b>	<b>0.2</b>
<b>Net book value at 31 July 2013</b>	<b>88.5</b>	<b>23.6</b>	<b>29.5</b>	<b>141.6</b>	<b>0.1</b>
Net book value at 31 July 2012	88.0	17.2	34.5	139.7	0.1
Net book value at 1 August 2011	89.0	7.9	36.2	133.1	0.2

Intangible assets on acquisition relates to broker and customer relationships. The increase of £3.3 million in 2012 primarily relates to the acquisition of Scott-Moncrieff Wealth Management Limited.

In the 2013 financial year, £5.0 million (2012: £4.9 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £6.5 million (2012: £4.3 million) of the amortisation charge is included in administrative expenses shown in the consolidated income statement.

#### Impairment tests for goodwill

At 31 July 2013, goodwill has been allocated to 10 individual CGUs. Seven of these CGUs are within the Banking division, two are within the Securities division and the remaining one is within the Asset Management division.

Goodwill impairment reviews are carried out annually by assessing the recoverable amount of the group's CGUs, which is the higher of fair value less costs to sell and value in use. The recoverable amounts for all CGUs were measured based on value in use.

A value in use calculation uses discounted cash flow projections based on the most recent board approved budgets and three year plans to determine the recoverable amount of each CGU. For cash flows beyond the group's three year planning horizon, a terminal value was calculated using a prudent annual growth rate of 0% (2012: 0%), except for the Close Brothers Asset Management CGU where a growth rate of 2% (2012: 2%) is considered more appropriate as the business is expected to grow at a steady rate as it develops and in line with GDP growth rates.

These cash flows are discounted using a pre-tax estimated weighted average cost of capital that reflects current market rates appropriate to the CGU as set out in the table below. The inputs used in the value in use calculations are sensitive, primarily to the impact of changes in the assumptions for future cash flows, discount rates, and long-term growth rates.

At 31 July 2013, the results of our review indicate there is no goodwill impairment. Having performed stress tested value in use calculations, the group believes that any reasonably possible change in the key assumptions which have been used would not lead the carrying value of any CGU to exceed its recoverable amount.



Details of the CGUs in which the goodwill carrying amount is significant in comparison with total goodwill, together with the pre-tax discount rate used in determining value in use are disclosed separately in the table below:

Cash generating unit	31 July 2013		31 July 2012	
	Goodwill £ million	Pre-tax discount rate %	Goodwill £ million	Pre-tax discount rate %
Winterflood Securities	23.3	11.1	23.3	11.2
Close Brothers Asset Management	33.5	12.1	33.5	13.2
Close Brothers Asset Finance	7.4	13.6	7.4	14.0
Other	24.3	11.1-13.6	23.8	11.2-14.0
	<b>88.5</b>		88.0	

## 17. Property, plant and equipment

Group	Leasehold property £ million	Fixtures, fittings and equipment £ million	Assets held under operating leases £ million	Motor vehicles £ million	Total £ million
<b>Cost</b>					
At 1 August 2011	6.6	48.4	60.4	1.5	116.9
Additions	2.5	5.8	29.4	0.5	38.2
Disposals	(0.6)	(11.7)	(12.8)	(1.0)	(26.1)
At 31 July 2012	8.5	42.5	77.0	1.0	129.0
Additions	0.8	3.0	40.6	0.3	44.7
Disposals	–	(4.6)	(18.5)	(0.1)	(23.2)
<b>At 31 July 2013</b>	<b>9.3</b>	<b>40.9</b>	<b>99.1</b>	<b>1.2</b>	<b>150.5</b>
<b>Depreciation</b>					
At 1 August 2011	2.4	35.1	16.4	0.8	54.7
Charge for the year	1.0	4.8	9.0	0.3	15.1
Disposals	–	(8.1)	(7.2)	(0.5)	(15.8)
At 31 July 2012	3.4	31.8	18.2	0.6	54.0
Charge for the year	1.0	5.3	10.2	0.1	16.6
Disposals	–	(4.5)	(5.3)	–	(9.8)
<b>At 31 July 2013</b>	<b>4.4</b>	<b>32.6</b>	<b>23.1</b>	<b>0.7</b>	<b>60.8</b>
<b>Net book value at 31 July 2013</b>	<b>4.9</b>	<b>8.3</b>	<b>76.0</b>	<b>0.5</b>	<b>89.7</b>
Net book value at 31 July 2012	5.1	10.7	58.8	0.4	75.0
Net book value at 1 August 2011	4.2	13.3	44.0	0.7	62.2

Assets held under operating leases relate to our rentals businesses within the Banking division. In addition to the depreciation charged in the year of £10.2 million (2012: £9.0 million), these assets generated other income of £27.5 million (2012: £23.5 million) and interest and fee expense of £8.6 million (2012: £6.5 million) which are shown in the consolidated income statement.

# Financial Statements

## The Notes

### 17. Property, plant and equipment continued

	31 July 2013 £ million	31 July 2012 £ million
<b>Future minimum lease rentals receivable under non-cancellable operating leases</b>		
Within one year	8.7	13.3
Between one and five years	42.8	23.7
After more than five years	0.8	0.9
	<b>52.3</b>	<b>37.9</b>

	Leasehold property £ million	Fixtures, fittings and equipment £ million	Motor vehicles £ million	Total £ million
<b>Company</b>				
<b>Cost</b>				
At 1 August 2011	2.6	1.3	0.1	4.0
Disposals	–	–	(0.1)	(0.1)
At 31 July 2012	2.6	1.3	–	3.9
Disposals	–	–	–	–
<b>At 31 July 2013</b>	<b>2.6</b>	<b>1.3</b>	<b>–</b>	<b>3.9</b>
<b>Depreciation</b>				
At 1 August 2011	0.8	0.7	0.1	1.6
Charge for the year	0.4	0.3	–	0.7
Disposals	–	–	(0.1)	(0.1)
At 31 July 2012	1.2	1.0	–	2.2
Charge for the year	0.4	0.2	–	0.6
Disposals	–	–	–	–
<b>At 31 July 2013</b>	<b>1.6</b>	<b>1.2</b>	<b>–</b>	<b>2.8</b>
<b>Net book value at 31 July 2013</b>	<b>1.0</b>	<b>0.1</b>	<b>–</b>	<b>1.1</b>
Net book value at 31 July 2012	1.4	0.3	–	1.7
Net book value at 1 August 2011	1.8	0.6	–	2.4

The net book value of leasehold property comprises:

	Group		Company	
	31 July 2013 £ million	31 July 2012 £ million	31 July 2013 £ million	31 July 2012 £ million
Long leasehold property	0.9	1.0	–	–
Short leasehold property	4.0	4.1	1.0	1.4
	<b>4.9</b>	<b>5.1</b>	<b>1.0</b>	<b>1.4</b>

## 18. Deferred tax assets

	Group		Company	
	31 July 2013 £ million	31 July 2012 £ million	31 July 2013 £ million	31 July 2012 £ million
Capital allowances	21.2	26.0	0.2	0.3
Employee benefits	9.6	7.1	2.3	1.8
Unrealised capital gains	(1.8)	(1.7)	–	–
Other	(4.3)	(3.4)	–	–
	<b>24.7</b>	28.0	<b>2.5</b>	2.1

Movement in the year:

	Group £ million	Company £ million
At 1 August 2011	26.7	2.7
Credit/(expense) to the income statement	1.4	(0.9)
Acquisition of intangible assets	(0.6)	–
Equity movements	0.5	0.3
At 31 July 2012	28.0	2.1
(Expense)/credit to the income statement	(4.9)	0.4
Acquisition of intangible assets	–	–
Equity movements	1.6	–
<b>At 31 July 2013</b>	<b>24.7</b>	<b>2.5</b>

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

## 19. Other assets and other liabilities

	31 July 2013 £ million	31 July 2012 £ million
<b>Prepayments, accrued income and other assets</b>		
Prepayments and accrued income	84.4	81.1
Trade and other receivables	47.6	46.9
	<b>132.0</b>	128.0
<b>Accruals, deferred income and other liabilities</b>		
Accruals and deferred income	96.0	83.2
Trade and other payables	82.4	76.9
Provisions	23.8	21.6
	<b>202.2</b>	181.7

# Financial Statements

## The Notes

### 19. Other assets and other liabilities continued

Provisions movement in the year:

	Claims £ million	Property £ million	Restructuring £ million	Other £ million	Total £ million
<b>Group</b>					
At 1 August 2011	1.7	11.8	4.6	5.1	23.2
Additions	0.5	3.7	–	5.1	9.3
Utilised	(1.0)	(1.8)	(3.7)	(2.8)	(9.3)
Released	(0.3)	(1.3)	–	–	(1.6)
At 31 July 2012	0.9	12.4	0.9	7.4	21.6
Additions	0.6	2.6	–	4.3	7.5
Utilised	(0.4)	(1.5)	(0.9)	(1.3)	(4.1)
Released	(0.5)	(0.3)	–	(0.4)	(1.2)
<b>At 31 July 2013</b>	<b>0.6</b>	<b>13.2</b>	<b>–</b>	<b>10.0</b>	<b>23.8</b>

	Property £ million	Other £ million	Total £ million
<b>Company</b>			
At 1 August 2011	3.1	3.6	6.7
Additions	0.1	3.1	3.2
Utilised	–	(1.0)	(1.0)
At 31 July 2012	3.2	5.7	8.9
Additions	0.2	3.1	3.3
Utilised	–	(0.4)	(0.4)
<b>At 31 July 2013</b>	<b>3.4</b>	<b>8.4</b>	<b>11.8</b>

Claims and other items for which provisions are made arise in the normal course of business and include those related to employee benefits. The timing and outcome of these claims and other items are uncertain. Property provisions are in respect of leaseholds where rents payable exceed the value to the group, in respect of potential dilapidations and onerous leases. These property provisions will be utilised and released over the remaining lives of the leases which range from one to 10 years.

### 20. Settlement balances and short positions

	31 July 2013 £ million	31 July 2012 £ million
Settlement balances	<b>438.4</b>	389.6
Short positions held for trading:		
Debt securities	<b>22.4</b>	56.7
Equity shares	<b>14.5</b>	19.2
	<b>36.9</b>	75.9
	<b>475.3</b>	465.5

## 21. Financial liabilities

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
Deposits by banks	47.5	10.0	5.1	4.0	–	–	66.6
Deposits by customers	188.4	896.5	1,840.9	879.0	210.6	–	4,015.4
Loans and overdrafts from banks	19.3	18.3	–	–	–	–	37.6
Debt securities in issue	–	6.6	–	350.0	698.7	–	1,055.3
<b>At 31 July 2013</b>	<b>255.2</b>	<b>931.4</b>	<b>1,846.0</b>	<b>1,233.0</b>	<b>909.3</b>	<b>–</b>	<b>5,174.9</b>

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
Deposits by banks	47.6	31.2	9.2	–	–	–	88.0
Deposits by customers	190.7	1,071.5	1,006.8	956.1	222.2	0.8	3,448.1
Loans and overdrafts from banks	13.0	0.1	175.5	16.4	–	–	205.0
Debt securities in issue	–	6.6	350.0	485.0	198.4	–	1,040.0
At 31 July 2012	251.3	1,109.4	1,541.5	1,457.5	420.6	0.8	4,781.1

Of the debt securities in issue, £198.7 million mature on 10 February 2017 and £850.0 million relate to the insurance premium and motor loan receivables securitisations as discussed in note 33.

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

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
<b>At 31 July 2013</b>	<b>–</b>	<b>18.3</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>18.3</b>
At 31 July 2012	–	–	62.4	16.4	–	–	78.8

## 22. Subordinated loan capital

	Prepayment date	Initial interest rate	31 July 2013 £ million	31 July 2012 £ million
<b>Final maturity date</b>				
2020	2015	7.39%	30.8	30.8
2026	2021	7.42%	15.5	15.5
2026	2021	7.62%	31.0	31.0
			<b>77.3</b>	<b>77.3</b>

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

## 23. Share capital

	31 July 2013		31 July 2012	
	million	£ million	million	£ million
<b>Group and company</b>				
<b>Authorised</b>				
Ordinary shares of 25p each	200.0	50.0	200.0	50.0
<b>Allotted, issued and fully paid</b>				
At 1 August 2012	150.6	37.6	150.5	37.6
Issues	–	0.1	0.1	–
<b>At 31 July 2013</b>	<b>150.6</b>	<b>37.7</b>	<b>150.6</b>	<b>37.6</b>

# Financial Statements

## The Notes

### 24. Company reserves

	Profit and loss account £ million	Other reserves £ million
At 1 August 2011	412.2	(21.6)
Loss attributable to shareholders	(12.8)	–
Dividends paid	(58.3)	–
Shares purchased	–	(10.3)
Shares released	–	8.3
Other movements	(0.9)	6.3
At 31 July 2012	340.2	(17.3)
Profit attributable to shareholders	23.2	–
Dividends paid	(61.5)	–
Shares purchased	–	–
Shares released	–	5.7
Other movements	4.2	–
<b>At 31 July 2013</b>	<b>306.1</b>	<b>(11.6)</b>

Movements in the group reserves are now presented in the consolidated statement of changes in equity.

### 25. Capital management

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

The PRA supervises the group on a consolidated basis and receives information on the capital adequacy of, and sets capital requirements for, the group as a whole. In addition, a number of subsidiaries are regulated for prudential purposes by either the PRA or the FCA. The aim of the capital adequacy regime is to promote safety and soundness in the financial system. It is structured around three "pillars": Pillar 1 on minimum capital requirements; Pillar 2 on the supervisory review process; and Pillar 3 on market discipline. The group's Pillar 1 information is presented in the following table. Under Pillar 2, the group completes an annual self assessment of risks known as the "Internal Capital Adequacy Assessment Process" ("ICAAP"). The ICAAP is reviewed by the PRA which culminates in the PRA setting "Individual Capital Guidance" ("ICG") on the level of capital the group and its regulated subsidiaries are required to hold. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on that firm's capital, risk exposures and risk assessment process. The group's Pillar 3 disclosures can be found on the group's website [www.closebrothers.com/investor-relations/results-reports-presentations/pillar-3-disclosures](http://www.closebrothers.com/investor-relations/results-reports-presentations/pillar-3-disclosures).

The group maintains a strong capital base to support the development of the business and to ensure the group meets the Pillar 1 capital requirements and ICG at all times. As a result, the group maintains capital adequacy ratios comfortably above minimum regulatory requirements. Accordingly, the group's individual regulated entities and the group as a whole complied with all of the externally imposed capital requirements to which they are subject for the years ended 31 July 2013 and 2012. A full analysis of the composition of regulatory capital and Pillar 1 risk weighted assets is shown in the following table, including a reconciliation between equity and core tier 1 capital after deductions.

The group's capital ratios remained strong with a core tier 1 capital ratio of 13.3% (31 July 2012: 12.8%) and a total capital ratio of 14.7% (31 July 2012: 14.5%). The capital ratios increased reflecting an increase in regulatory capital with a more modest increase in risk weighted assets. Core tier 1 capital, tier 1 capital and total regulatory capital increased during the year due to an increase in retained earnings and other reserves. Risk weighted assets increased largely as a result of growth in the loan book which was partly offset by a reduction in notional risk weighted assets for operational risk reflecting lower trading activity in Securities in recent years.

The composition of capital remained stable with 90.6% (31 July 2012: 88.3%) of the total capital consisting of core tier 1 capital.

	31 July 2013 £ million	31 July 2012 £ million
<b>Core tier 1 capital</b>		
Called up 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
<b>Deductions from core tier 1 capital</b>		
Intangible assets	(141.6)	(139.7)
Goodwill in associate	-	(8.1)
Investment in own shares	(33.9)	(39.6)
<b>Core tier 1 capital</b>	<b>691.5</b>	<b>620.8</b>
<b>Deductions from tier 1 capital</b>		
50% of material holdings	(6.2)	-
<b>Tier 1 capital</b>	<b>685.3</b>	<b>620.8</b>
<b>Tier 2 capital</b>		
Subordinated debt	75.0	75.0
Unrealised gains on available for sale equity shares	9.1	7.3
<b>Deductions from tier 2 capital</b>		
50% of material holdings	(6.1)	-
<b>Tier 2 capital</b>	<b>78.0</b>	<b>82.3</b>
<b>Deductions from total of tier 1 and tier 2 capital</b>		
Other regulatory adjustments	(0.4)	(0.2)
<b>Total regulatory capital</b>	<b>762.9</b>	<b>702.9</b>
<b>Risk weighted assets (notional) – unaudited</b>		
Credit and counterparty risk	4,370.5	3,973.4
Operational risk <sup>1</sup>	679.1	745.3
Market risk <sup>1</sup>	138.9	141.0
	<b>5,188.5</b>	<b>4,859.7</b>
Core tier 1 capital ratio	<b>13.3%</b>	12.8%
Total capital ratio	<b>14.7%</b>	14.5%

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

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

	31 July 2013 £ million	31 July 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)
<b>Core tier 1 capital</b>	<b>691.5</b>	<b>620.8</b>

# Financial Statements

## The Notes

### 26. Investments in subsidiaries

The group's principal subsidiaries at 31 July 2013 were:

Name of subsidiary	Principal activity	Equity held by group %	Country of registration and operation
Close Asset Management Holdings Limited	Asset management holding company	100	England
Close Brothers Holdings Limited <sup>1</sup>	Group holding company	100	England
Close Brothers Limited	Banking services provider	100	England
Winterflood Securities Limited	Market-making	100	England

<sup>1</sup> Direct subsidiary of the company.

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

During the year the group completed the hive up of the assets and liabilities of Close Asset Finance Limited to Close Brothers Limited.

### 27. Investment in Mako

	31 July 2013 £ million	31 July 2012 £ million
At 1 August	21.8	33.4
Share of profit before tax	1.2	9.8
Share of tax	(0.3)	(2.6)
Share of profit after tax	0.9	7.2
Dividends paid	–	(8.7)
Disposals	(1.7)	(11.3)
Foreign exchange revaluation	(0.4)	1.2
Revaluation	(8.3)	–
Reclassification to equity shares	(12.3)	–
	<b>(21.8)</b>	<b>(11.6)</b>
At 31 July	–	21.8

On 16 September 2011, the group announced the phased sale of its then 49.9% investment in Mako. On 31 January 2013, Mako fulfilled the requirements of IFRS 5 to be classified as "held for sale" as it was considered highly probable that within the next year Mako would no longer meet the significant influence criteria under IAS 28. As a result, the group ceased to report its share of profit from associate from 1 February 2013. On 30 April 2013, the third phase of disposal completed reducing our shareholding from 27.3% to 21.3% resulting in the loss of significant influence as the group was deemed to no longer actively participate in Mako's policy decisions. This disposal resulted in the reclassification of Mako to an available for sale equity investment. On reclassification the group recorded exceptional income of £1.6 million, reflecting £7.4 million realised foreign exchange gains and £2.5 million dividend income offset by an £8.3 million revaluation adjustment. In August 2013 a further disposal reduced the group's shareholding to 16.3%. See notes 5 and 14 for further details.

Mako's year end is 31 December which is different to that of the group, therefore the unaudited management accounts of Mako have formed the basis of the financial information used in determining the group's share of the profits to 31 January 2013. At 31 July 2013 Mako owes £nil (31 July 2012: £nil) to the group. The group's share of Mako's revenue in the period to 31 January 2013, while an associate, amounted to £6.0 million (2012: £18.0 million). The group's share of Mako's assets and liabilities at 31 July 2013 amounted to £nil (31 July 2012: £31.0 million) and £nil (31 July 2012: £17.3 million) respectively, following Mako's reclassification to an available for sale equity investment.



## 28. Contingent liabilities and commitments

### Contingent liabilities

#### Financial Services Compensation Scheme ("FSCS")

A principal subsidiary of the group, CBL, by virtue of being a regulated deposit taker, contributes to the FSCS which provides compensation to customers of financial institutions in the event that an institution is unable, or is likely to be unable, to pay claims against it. The FSCS raises levies on UK licensed deposit taking institutions to meet such claims based on their share of UK deposits on 31 December of the year preceding the scheme year (which runs from 1 April to 31 March). At 31 July 2013, the group has accrued £1.6 million (2012: £0.4 million) for its share of levies that will be raised by the FSCS.

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

The ultimate FSCS levy to the industry as a result of the collapse of certain financial services firms is dependent on various uncertain factors including the potential recoveries of assets by the FSCS. The group's share of the ultimate FSCS levy will also depend on the level of protected deposits and the population of FSCS members at the time.

	Group		Company	
	31 July 2013 £ million	31 July 2012 £ million	31 July 2013 £ million	31 July 2012 £ million
<b>Guarantees</b>				
In respect of subsidiaries' bank facilities	102.4	84.7	100.6	83.1
In respect of subsidiaries' property leases	3.7	5.0	3.7	5.0

	31 July 2013 £ million	31 July 2012 £ million
<b>Commitments</b>		
<b>Memorandum items</b>		
Undrawn facilities, credit lines and other commitments to lend:		
Within one year	1,028.3	814.5
After more than one year	8.1	3.1
	<b>1,036.4</b>	<b>817.6</b>

#### Other commitments

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

Subsidiaries had contracted capital commitments relating to capital expenditure of £4.2 million (2012: £0.8 million) and contracted commitments to invest in private equity funds of £1.6 million (2012: £2.6 million).

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

	31 July 2013		31 July 2012	
	Premises £ million	Other £ million	Premises £ million	Other £ million
Within one year	11.0	2.1	10.8	1.9
Between one and five years	23.4	1.9	33.6	2.8
After more than five years	8.5	–	10.3	–
	<b>42.9</b>	<b>4.0</b>	<b>54.7</b>	<b>4.7</b>

# Financial Statements

## The Notes

### 29. Related party transactions

#### Transactions with key management

Details of directors' remuneration and interests in shares are disclosed in the Report of the Board on Directors' Remuneration on pages 47 to 60.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of an entity; the group's key management are the members of the group's Executive Committee, which includes all executive directors, together with its non-executive directors.

The table below details, on an aggregated basis, key management personnel emoluments:

	2013 £ million	2012 £ million
<b>Emoluments</b>		
Salaries and fees	<b>3.5</b>	3.4
Benefits and allowances	<b>0.6</b>	0.5
Performance related awards in respect of the current year:		
Cash	<b>2.7</b>	1.9
Deferred	<b>2.8</b>	3.1
	<b>9.6</b>	8.9
Share-based awards	<b>4.4</b>	2.5
Company pension contributions	<b>0.1</b>	0.1
	<b>14.1</b>	11.5

Gains upon exercise of options by key management personnel, expensed to the income statement in previous years, totalled £3.2 million (2012: £2.7 million).

Key management have banking relationships with group entities which are entered into in the normal course of business. Amounts included in deposits by customers at 31 July 2013 attributable, in aggregate, to key management were £1.2 million (2012: £1.3 million).

#### Transactions with associate

The group had no banking relationship with an associate at 31 July 2013. At 31 July 2012 Mako had a banking relationship with a group entity which was entered into in the normal course of business. Amounts included in deposits by customers relating to this relationship at 31 July 2012 were £9.2 million.

### 30. Pensions

The group operates defined contribution pension schemes and a defined benefit pension scheme for eligible employees. Assets of all schemes are held separately from those of the group. The charge to the consolidated income statement for the group pension schemes was £8.3 million (2012: £5.2 million) and is included within administrative expenses.

#### Defined benefit pension scheme

The group's only defined benefit pension scheme ("the scheme") was closed to new entrants in August 1996 and closed to further accrual during 2012. At 31 July 2013 this scheme had 69 (2012: 75) deferred members and 32 (2012: 27) pensioners and dependants. The remainder of this note relates exclusively to the scheme.

The scheme's most recent triennial valuation at 31 July 2012 identified a £6.0 million funding deficit. The group contributed £3.3 million towards this deficit during the year and has agreed to fund the remaining £2.7 million deficit over the next five years to 31 July 2017. This recovery plan is subject to a funding update to be performed at 31 May 2015 by the scheme's actuary.

Contributions to the scheme in the year to 31 July 2012 were determined by an independent qualified actuary based on triennial valuations at 31 July 2009 using the attained age method.

The IAS 19 valuation at 31 July 2013 was based upon the following main actuarial assumptions:

	2013 %	2012 %
Inflation rate (Retail Price Index)	3.3	2.7
Discount rate for scheme liabilities	4.6	4.8
Expected interest/expected long-term return on plan assets	4.6	6.1
<b>Mortality assumptions<sup>1</sup>:</b>		
Existing pensioners from age 65, life expectancy (years):		
Men	24.5	23.8
Women	25.8	25.4
Non-retired members currently aged 50, life expectancy from age 65 (years):		
Men	25.1	26.0
Women	27.9	27.6

<sup>1</sup> Based on standard tables SAPS S1 Light produced by the CMI Bureau of the Institute and Faculty of Actuaries, together with projected future improvements in line with the Medium Cohort subject to a 1.5% per annum underpin.

Under the revised IAS 19 "Employee benefits" which will be effective for our 2014 financial year, with 2013 comparatives restated, actuarial gains and losses (remeasurements) can no longer be deferred using the corridor method and must be recognised immediately in other comprehensive income. On adoption, the group's opening balance sheet will be restated with the current plan surplus, including total unrecognised losses of £5.0 million. Additionally, the expected return on assets assumption is no longer applied, and interest applied on assets will be in line with the discount rate applied to plan liabilities. Since the revised standard is being adopted in the year to 31 July 2014 the return on plan assets assumption used to calculate the expense for these disclosures has been adopted in line with the revised standard.

At 31 July 2012 the expected return on equities was determined by reference to Towers Watson's Global Investment Committee's 10 year outlook at 30 June 2012 as adjusted for the inflation assumption disclosed above. Expected return on fixed interest gilts of 2.0% was based on the 15 year FTSE fixed interest gilt yield at 31 July 2012. Expected return on index-linked gilts of 2.6% was based on the over five year FTSE index-linked gilts yield adjusted for the inflation assumption disclosed above. The expected return on corporate bonds of 3.4% was based on the iBoxx over 15 year AA corporate bond index yields of 3.9% reduced by 0.5% for default risk. Expected return on cash was determined by reference to Towers Watson's Global Investment Committee's 10 year outlook at 30 June 2012 as adjusted for the inflation assumption disclosed above.

# Financial Statements

## The Notes

### 30. Pensions continued

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

	2013 £ million	2012 £ million	2011 £ million	2010 £ million	2009 £ million
Fair value of scheme assets:					
Equities	<b>30.7</b>	28.1	25.4	19.7	15.9
Bonds	<b>7.4</b>	7.0	6.6	6.1	5.0
Cash	<b>–</b>	–	3.3	3.5	2.7
Total fair value of scheme assets	<b>38.1</b>	35.1	35.3	29.3	23.6
Present value of scheme liabilities	<b>(31.9)</b>	(34.7)	(39.9)	(30.9)	(26.8)
Unrecognised actuarial losses	<b>5.0</b>	8.1	8.8	3.2	1.6
Surplus/(deficit)	<b>11.2</b>	8.5	4.2	1.6	(1.6)

During the year actuarial losses of £1.1 million (2012: £1.1 million) were recognised in the consolidated income statement, and unrecognised actuarial gains in the year amount to £2.0 million (2012: £1.8 million).

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

	2013 £ million	2012 £ million
Carrying amount at 1 August	<b>(34.7)</b>	(39.9)
Interest expense	<b>(1.5)</b>	(2.1)
Contributions by members	<b>–</b>	(0.1)
Benefits paid	<b>6.5</b>	4.8
Actuarial (loss)/gain	<b>(2.2)</b>	2.6
Carrying amount at 31 July	<b>(31.9)</b>	(34.7)

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

	2013 £ million	2012 £ million
Carrying amount at 1 August	<b>35.1</b>	35.3
Expected return on scheme assets	<b>2.0</b>	2.3
Contributions by members	<b>–</b>	0.1
Contributions by employer	<b>3.3</b>	3.0
Benefits paid	<b>(6.5)</b>	(4.8)
Actuarial gain/(loss)	<b>4.2</b>	(0.8)
Carrying amount at 31 July	<b>38.1</b>	35.1

The actual return on scheme assets was an increase of £6.2 million (2012: increase of £1.5 million).

History experience of actuarial gains and losses:

	2013 £ million	2012 £ million	2011 £ million	2010 £ million	2009 £ million
Experience gains/(losses) on scheme assets	<b>4.2</b>	(0.8)	1.3	1.5	(2.5)
Experience gains/(losses) on scheme liabilities	<b>0.5</b>	0.6	(1.8)	–	1.5
Impact of changes in assumptions on scheme liabilities	<b>(2.7)</b>	2.0	(5.7)	(3.1)	(3.3)
Total actuarial (losses)/gains on scheme liabilities	<b>(2.2)</b>	2.6	(7.5)	(3.1)	(1.8)

### 31. Share-based awards

The following share-based awards have been granted under the group's share schemes. The general terms and conditions for these share-based awards are described in the Report of the Board on Directors' Remuneration on pages 47 to 60.

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

	ESOS		SAYE		LTIP <sup>1</sup>		DAB <sup>2</sup>		SMP	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
At 1 August 2011	889,211	638.4p	1,377,831	492.8p	2,763,284	–	1,071,208	–	586,683	–
Granted	–	–	536,975	547.0p	867,421	–	424,422	–	559,518	–
Exercised	(243,574)	514.1p	(505,723)	435.3p	(272,487)	–	(395,008)	–	–	–
Forfeited	–	–	(91,773)	580.9p	–	–	–	–	–	–
Lapsed	(81,965)	691.1p	(131,747)	537.0p	(679,740)	–	(36,180)	–	–	–
<b>At 31 July 2012</b>	<b>563,672</b>	<b>684.4p</b>	<b>1,185,563</b>	<b>530.1p</b>	<b>2,678,478</b>	<b>–</b>	<b>1,064,442</b>	<b>–</b>	<b>1,146,201</b>	<b>–</b>
Granted	–	–	164,428	672.0p	689,657	–	369,312	–	343,177	–
Exercised	(148,378)	692.6p	(127,061)	596.9p	(261,118)	–	(455,759)	–	–	–
Forfeited	–	–	(5,236)	618.6p	–	–	–	–	–	–
Lapsed	(53,905)	627.8p	(23,082)	553.3p	(790,658)	–	(49,229)	–	–	–
<b>At 31 July 2013</b>	<b>361,389</b>	<b>689.5p</b>	<b>1,194,612</b>	<b>541.7p</b>	<b>2,316,359</b>	<b>–</b>	<b>928,766</b>	<b>–</b>	<b>1,489,378</b>	<b>–</b>
Exercisable at:										
<b>31 July 2013</b>	<b>361,389</b>	<b>689.5p</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>359,178</b>	<b>–</b>	<b>–</b>	<b>–</b>
31 July 2012	563,672	684.4p	–	–	30,746	–	353,524	–	–	–

<sup>1</sup> The 2009 LTIP replaced the 2004 LTIP during the 2010 financial year. The numbers above include grants from both schemes.

<sup>2</sup> Includes all awards made under the group's Deferred Annual Bonus plan ("DAB") and Matching and Restricted awards granted to new employees on commencement of employment with the group.

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

	2013	2012
ESOS	<b>1,001.0p</b>	752.3p
SAYE	<b>861.2p</b>	652.1p
LTIP	<b>840.3p</b>	691.5p
DAB	<b>995.8p</b>	734.4p
SMP	–	–

# Financial Statements

## The Notes

### 31. Share-based awards continued

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

	2013 Options outstanding		2012 Options outstanding	
	Number outstanding	Weighted average remaining contractual life Years	Number outstanding	Weighted average remaining contractual life Years
<b>ESOS</b>				
Between £4 and £5	–	–	11,564	0.2
Between £6 and £7	146,033	1.2	219,758	2.2
Between £7 and £8	215,356	0.2	332,350	1.2
<b>SAYE</b>				
Between £4 and £5	317,884	0.8	329,622	1.8
Between £5 and £6	664,304	1.9	694,893	2.9
Between £6 and £7	212,424	2.8	161,048	1.5
<b>LTIP</b>				
Nil	2,316,359	2.2	2,678,478	2.2
<b>DAB</b>				
Nil	928,766	2.2	1,064,442	3.2
<b>SMP</b>				
Nil	1,489,378	2.0	1,146,201	2.7
<b>Total</b>	<b>6,290,504</b>	<b>2.0</b>	<b>6,638,356</b>	<b>2.4</b>

In order to satisfy a number of the above awards the company has purchased company shares into Treasury and the Close Brothers Group Employee Share Trust has purchased company shares. At 31 July 2013, 2.9 million (2012: 3.5 million) and 2.4 million (2012: 2.8 million) of these shares were held respectively and in total £33.9 million (2012: £39.6 million) was recognised within the share-based payments reserve.

For the share-based awards granted during the year, the weighted average fair value of those options at 31 July 2013 was 595.8p (2012: 476.6p). The main assumptions for the valuation of these share-based awards comprised:

Exercise period	Share price at issue	Exercise price	Expected volatility	Expected option life in years	Dividend yield	Risk free interest rate
<b>SAYE</b>						
1 December 2015 to 31 May 2016	839.6p	672.0p	23.0%	3	4.9%	0.5%
1 December 2017 to 31 May 2018	839.6p	672.0p	38.0%	5	4.9%	1.0%
<b>LTIP</b>						
2 October 2015 to 1 October 2016	852.0p	–	22.0%	3	4.9%	0.3%
<b>DAB</b>						
2 April 2013 to 1 October 2016	839.6p	–	–	–	–	–
<b>SMP</b>						
2 October 2015 to 1 October 2016	852.0p	–	22.0%	3	4.9%	0.3%

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

### 32. Consolidated cash flow statement reconciliation

	31 July 2013 £ million	31 July 2012 £ million
<b>(a) Reconciliation of operating profit before tax to net cash inflow from operating activities</b>		
Operating profit on ordinary activities before tax	163.1	134.9
Tax paid	(36.0)	(46.2)
Depreciation and amortisation	28.1	24.3
(Increase)/decrease in:		
Interest receivable and prepaid expenses	(3.3)	9.4
Net settlement balances and trading positions	(3.8)	45.5
Net money broker loans against stock advanced	(3.2)	(20.8)
Increase/(decrease) in interest payable and accrued expenses	12.8	(36.4)
<b>Net cash inflow from trading activities</b>	<b>157.7</b>	<b>110.7</b>
Decrease/(increase) in:		
Loans and advances to banks not repayable on demand	0.9	(8.2)
Loans and advances to customers	(519.7)	(690.6)
Floating rate notes classified as available for sale	92.2	176.0
Debt securities held for liquidity	50.0	614.0
Other assets less other liabilities	47.3	(13.7)
(Decrease)/increase in:		
Deposits by banks	(21.4)	(104.8)
Deposits by customers	567.3	277.6
Loans and overdrafts from banks	(167.4)	(297.6)
<b>Net cash inflow from operating activities</b>	<b>206.9</b>	<b>63.4</b>
<b>(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and non-controlling interest</b>		
Cash consideration in respect of current year purchases	(5.0)	(4.1)
Loan stock redemptions and deferred consideration paid in respect of prior year purchases	-	(1.0)
	<b>(5.0)</b>	<b>(5.1)</b>
<b>(c) Analysis of net cash inflow in respect of the sale of subsidiaries and Mako</b>		
Cash consideration received	4.8	12.6
<b>(d) Analysis of changes in financing activities</b>		
Share capital (including premium) and subordinated loan capital <sup>1</sup> :		
Opening balance	396.0	395.6
Shares issued for cash	0.4	0.4
<b>Closing balance</b>	<b>396.4</b>	<b>396.0</b>
<b>(e) Analysis of cash and cash equivalents<sup>2</sup></b>		
Cash and balances at central banks	929.1	703.3
Loans and advances to banks repayable on demand	78.2	94.7
Certificates of deposit	10.1	130.3
	<b>1,017.4</b>	<b>928.3</b>

1 Excludes accrued interest.

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

# Financial Statements

## The Notes

### 33. Financial risk management

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

The group's financial risk management objectives are summarised within the Risk and Control Framework in Corporate Governance on page 37. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1.

#### (a) Classification

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

	Held for trading £ million	Designated at fair value through profit or loss £ million	Available for sale £ million	Loans and receivables £ million	Other financial instruments amortised cost £ million	Derivatives held for trading £ million	Total £ million
<b>At 31 July 2013</b>							
<b>Assets</b>							
Cash and balances at central banks	-	-	-	935.4	-	-	935.4
Settlement balances	-	-	-	471.0	-	-	471.0
Loans and advances to banks	-	-	-	89.8	-	-	89.8
Loans and advances to customers	-	-	-	4,645.6	-	-	4,645.6
Debt securities	28.7	-	86.1	10.1	-	-	124.9
Equity shares	43.7	0.6	27.1	-	-	-	71.4
Loans to money brokers against stock advanced	-	-	-	52.1	-	-	52.1
Derivative financial instruments	-	45.0	-	-	-	11.8	56.8
Other financial assets	-	-	-	39.4	-	-	39.4
	<b>72.4</b>	<b>45.6</b>	<b>113.2</b>	<b>6,243.4</b>	<b>-</b>	<b>11.8</b>	<b>6,486.4</b>
<b>Liabilities</b>							
Settlement balances and short positions	36.9	-	-	-	438.4	-	475.3
Deposits by banks	-	-	-	-	66.6	-	66.6
Deposits by customers	-	-	-	-	4,015.4	-	4,015.4
Loans and overdrafts from banks	-	-	-	-	37.6	-	37.6
Debt securities in issue	-	-	-	-	1,055.3	-	1,055.3
Loans from money brokers against stock advanced	-	-	-	-	16.4	-	16.4
Subordinated loan capital	-	-	-	-	77.3	-	77.3
Derivative financial instruments	-	43.3	-	-	-	5.1	48.4
Other financial liabilities	-	-	-	-	109.7	-	109.7
	<b>36.9</b>	<b>43.3</b>	<b>-</b>	<b>-</b>	<b>5,816.7</b>	<b>5.1</b>	<b>5,902.0</b>



	Held for trading £ million	Designated at fair value through profit or loss £ million	Available for sale £ million	Loans and receivables £ million	Other financial instruments amortised cost £ million	Derivatives held for trading £ million	Total £ million
At 31 July 2012							
<b>Assets</b>							
Cash and balances at central banks	–	–	–	706.8	–	–	706.8
Settlement balances	–	–	–	442.0	–	–	442.0
Loans and advances to banks	–	–	–	110.0	–	–	110.0
Loans and advances to customers	–	–	–	4,125.9	–	–	4,125.9
Debt securities	53.4	–	222.7	130.3	–	–	406.4
Equity shares	34.4	5.2	13.3	–	–	–	52.9
Loans to money brokers against stock advanced	–	–	–	68.7	–	–	68.7
Derivative financial instruments	–	33.3	–	–	–	17.3	50.6
Other financial assets	–	–	–	47.1	–	–	47.1
	87.8	38.5	236.0	5,630.8	–	17.3	6,010.4
<b>Liabilities</b>							
Settlement balances and short positions	75.9	–	–	–	389.6	–	465.5
Deposits by banks	–	–	–	–	88.0	–	88.0
Deposits by customers	–	–	–	–	3,448.1	–	3,448.1
Loans and overdrafts from banks	–	–	–	–	205.0	–	205.0
Debt securities in issue	–	–	–	–	1,040.0	–	1,040.0
Loans from money brokers against stock advanced	–	–	–	–	36.2	–	36.2
Subordinated loan capital	–	–	–	–	77.3	–	77.3
Derivative financial instruments	–	32.6	–	–	–	11.6	44.2
Other financial liabilities	–	–	–	–	90.7	–	90.7
	75.9	32.6	–	–	5,374.9	11.6	5,495.0

### (b) Valuation

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

#### Valuation hierarchy

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

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

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

Investments classified as Level 3 predominantly comprise investments in unlisted equity shares including an entity offering post trade services in securities, a property fund and the group's residual shareholding in Mako. The valuations of these investments are determined using generally accepted valuation techniques including discounted cash flow models and net asset values. The group believes that there is no reasonably possible change to the inputs used in the valuation of these positions which would have a material effect on the group's consolidated income statement.

# Financial Statements

## The Notes

### 33. Financial risk management *continued*

The tables below show the classification of financial instruments held at fair value into the valuation hierarchy at 31 July 2013 and 2012.

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
<b>At 31 July 2013</b>				
<b>Assets</b>				
Debt securities:				
Long trading positions in debt securities held for trading	23.1	5.6	–	28.7
Floating rate notes classified as available for sale	–	39.4	–	39.4
Gilts classified as available for sale	46.7	–	–	46.7
Equity shares:				
Held for trading	43.7	–	–	43.7
Fair value through profit or loss	–	–	0.6	0.6
Available for sale	–	–	27.1	27.1
Derivative financial instruments	0.3	56.5	–	56.8
	<b>113.8</b>	<b>101.5</b>	<b>27.7</b>	<b>243.0</b>
<b>Liabilities</b>				
Derivative financial instruments	–	48.4	–	48.4
Short positions held for trading:				
Debt securities	17.7	4.7	–	22.4
Equity shares	14.5	–	–	14.5
	<b>32.2</b>	<b>53.1</b>	<b>–</b>	<b>85.3</b>
<b>At 31 July 2012</b>				
<b>Assets</b>				
Debt securities:				
Long trading positions in debt securities held for trading	47.4	6.0	–	53.4
Floating rate notes classified as available for sale	–	122.6	–	122.6
Gilts classified as available for sale	100.1	–	–	100.1
Equity shares:				
Held for trading	34.4	–	–	34.4
Fair value through profit or loss	–	–	5.2	5.2
Available for sale	0.3	–	13.0	13.3
Derivative financial instruments	0.3	50.3	–	50.6
	<b>182.5</b>	<b>178.9</b>	<b>18.2</b>	<b>379.6</b>
<b>Liabilities</b>				
Derivative financial instruments	–	44.2	–	44.2
Short positions held for trading:				
Debt securities	53.3	3.4	–	56.7
Equity shares	19.2	–	–	19.2
	<b>72.5</b>	<b>47.6</b>	<b>–</b>	<b>120.1</b>

There were no significant transfers between Level 1 and 2 in 2013 and 2012.

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

	Equity shares	
	Available for sale £ million	Fair value through profit/(loss) £ million
At 1 August 2011	4.8	4.8
Total gains recognised in the consolidated income statement	–	0.3
Total gains recognised in other comprehensive income	0.1	–
Purchases and issues	–	0.3
Sales and settlements	–	(0.2)
Transfers in <sup>1</sup>	8.1	–
At 31 July 2012	13.0	5.2
Total gains recognised in the consolidated income statement	–	2.6
Total gains recognised in other comprehensive income	1.6	–
Purchases and issues	0.2	–
Sales and settlements	–	(7.2)
Transfers in <sup>2</sup>	12.3	–
<b>At 31 July 2013</b>	<b>27.1</b>	<b>0.6</b>

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

<sup>2</sup> At 30 April 2013, Mako was reclassified from an investment in an associate to an available for sale equity share.

The gains recognised in the consolidated income statement relating to instruments held at the year end amounted to £0.3 million (2012: £0.3 million).

### (c) Credit risk

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

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

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

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

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

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

# Financial Statements

## The Notes

### 33. Financial risk management *continued*

#### Maximum exposure to credit risk

The table below presents the group's maximum exposure to credit risk, before taking account of any collateral and credit risk mitigation, arising from its on balance sheet and off balance sheet financial instruments at 31 July 2013. For off balance sheet instruments, the maximum exposure to credit risk represents the contractual nominal amounts.

	31 July 2013 £ million	31 July 2012 £ million
<b>On balance sheet</b>		
Cash and balances at central banks	935.4	706.8
Settlement balances	471.0	442.0
Loans and advances to banks	89.8	110.0
Loans and advances to customers	4,645.6	4,125.9
Debt securities	124.9	406.4
Loans to money brokers against stock advanced	52.1	68.7
Derivative financial instruments	56.8	50.6
	<b>6,375.6</b>	5,910.4
<b>Off balance sheet</b>		
Undrawn commitments	1,036.4	817.6
	<b>7,412.0</b>	6,728.0

#### Sovereign and banking sector exposure

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

The group has no direct exposures to debt issued by sovereign or financial institutions in any of the countries listed above.

At 31 July 2013, the group has loans and advances to customers in Ireland (31 July 2012: Ireland and Spain). These relate to loans in the group's Retail and Commercial businesses and are issued with the same approach to lending as applied within the UK.

	31 July 2013 £ million	31 July 2012 £ million
<b>Loans and advances to customers</b>		
Ireland	176.4	103.9
Spain	-	2.2
	<b>176.4</b>	106.1

The group has no other material exposure to these economies.

#### Assets pledged and received as collateral

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

The group has securitised without recourse and restrictions £1,112.7 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.

The group has entered into a repurchase agreement whereby FRNs to the value of £21.9 million (31 July 2012: £98.2 million) have been lent in exchange for cash of £18.3 million (31 July 2012: £78.8 million) which is included within loans and overdrafts from banks. These FRNs remain on the group's consolidated balance sheet as the group retains the risks and rewards of ownership.

The vast majority of loans and advances to customers are secured against specific assets. The security will correspond to the type of lending as detailed in the segmental loan book analysis on page 19 of the Business Review. Consistent and prudent lending criteria is applied across the whole loan book with emphasis on the quality of the security provided.

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

## Financial assets: Loans and advances to customers

### Credit risk management and monitoring

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

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

Commercial is a combination of several niche lending businesses with a diverse mix of loans in terms of assets financed, and average loan size and loan to valuation ("LTV") percentage. Credit quality is assessed on an individual loan by loan basis. Recovery activity is executed promptly by experts in the specialised assets. This approach allows remedial action to be implemented at the appropriate time to minimise potential loss.

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

The Banking division has a dual approach to mitigate credit risk by:

- Lending on a 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
- Where the security collateralising a loan is less tangible, or in cases of higher LTVs, greater scrutiny is applied both analytically and in terms of escalation of sanctioning authority.

Much of the Banking division's lending is short term and average loan size is small with the result that few individual loans have the capacity to materially impact the group's earnings.

### Credit risk reporting

Loans and advances to customers within the Banking division, as disclosed in note 12, are analysed between the following categories for credit risk reporting:

#### (i) Neither past due nor impaired

These loans and advances to customers reflect the application of consistent and conservative lending criteria on inception and the quality and level of security held. The contractual repayments are monitored to ensure that classification as neither past due nor impaired remains appropriate. It also demonstrates the short-term nature of the lending, with £2.5 billion (2012: £2.2 billion) having a contractual maturity of less than 12 months.

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

	31 July 2013			31 July 2012		
	Loans and advances to customers			Loans and advances to customers		
	Individually assessed £ million	Collectively assessed £ million	Total £ million	Individually assessed £ million	Collectively assessed £ million	Total £ million
Within one month	401.6	280.6	682.2	302.7	232.3	535.0
Between one and three months	294.1	401.3	695.4	226.9	321.0	547.9
Between three months and one year	398.3	732.4	1,130.7	368.7	731.9	1,100.6
Over one year	413.2	1,341.1	1,754.3	361.7	1,179.1	1,540.8
	<b>1,507.2</b>	<b>2,755.4</b>	<b>4,262.6</b>	1,260.0	2,464.3	3,724.3

# Financial Statements

## The Notes

### 33. Financial risk management *continued*

#### (ii) Past due but not impaired

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

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

	31 July 2013			31 July 2012		
	Loans and advances to customers			Loans and advances to customers		
	Individually assessed £ million	Collectively assessed £ million	Total £ million	Individually assessed £ million	Collectively assessed £ million	Total £ million
Within one month	65.2	25.5	90.7	72.9	20.6	93.5
Between one and three months	48.1	7.7	55.8	35.4	4.3	39.7
Between three months and one year	32.1	16.2	48.3	39.7	15.4	55.1
Over one year	10.3	38.8	49.1	16.3	33.7	50.0
	<b>155.7</b>	<b>88.2</b>	<b>243.9</b>	164.3	74.0	238.3

#### (iii) Impaired

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

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

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

The gross impaired loans are quoted without taking account of any collateral or security held, which could reduce the potential loss. The application of conservative loan to value ratios on inception and the emphasis on the quality of the security provided, is reflected in the low provision to gross impaired balance ratio ("coverage ratio") of 31% (2012: 30%).

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

	31 July 2013			31 July 2012		
	Loans and advances to customers			Loans and advances to customers		
	Individually assessed £ million	Collectively assessed £ million	Total £ million	Individually assessed £ million	Collectively assessed £ million	Total £ million
Gross impaired loans	120.6	80.4	201.0	147.8	85.8	233.6
Provisions	(43.4)	(18.5)	(61.9)	(46.6)	(23.7)	(70.3)
Net impaired loans	<b>77.2</b>	<b>61.9</b>	<b>139.1</b>	101.2	62.1	163.3

The amount of interest income accrued on impaired loans and advances to customers was £19.9 million (31 July 2012: £21.5 million).

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

#### Financial assets: Settlement balances

##### Credit risk management and monitoring

The credit risk presented by settlement balances in the Securities division is limited as such balances represent delivery versus payment transactions where delivery of securities occurs simultaneously with payment. The credit risk is therefore limited to the change in market price of a security between trade date and settlement date and not the absolute value of the trade. The Securities businesses are market-makers and they trade on a principal only basis. The Securities businesses trade only with regulated counterparties including stockbrokers, wealth managers, institutions and hedge funds who are either authorised and regulated by the PRA and/or FCA or equivalent regulator in the respective country.

### Credit risk reporting

Settlement balances are classified as neither past due nor impaired when the respective trades have not yet reached their settlement date. Settlement balances are classified as past due but not impaired when trades fail to be settled on their contractual settlement date. The credit risk presented by settlement balances which are past due is mitigated by the delivery versus payment mechanism, as well as by the Securities businesses trading only with regulated counterparties. Counterparty exposure and settlement failure monitoring controls are in place as part of an overall risk management framework and settlement balances past due are actively managed.

The following table shows the ageing of settlement balances:

	31 July 2013			31 July 2012		
	Neither past due nor impaired £ million	Past due but not impaired £ million	Total £ million	Neither past due nor impaired £ million	Past due but not impaired £ million	Total £ million
Within one month	447.7	16.6	464.3	419.2	17.9	437.1
Between one and three months	–	4.2	4.2	–	2.3	2.3
Between three months and one year	–	1.3	1.3	–	1.2	1.2
Over one year	–	1.2	1.2	–	1.4	1.4
	<b>447.7</b>	<b>23.3</b>	<b>471.0</b>	419.2	22.8	442.0

### (d) Market risk

Market risk is the risk that a change in the value of an underlying market variable, such as interest or foreign exchange rates, will give rise to an adverse movement in the value of the group's assets and arises primarily in the Securities division.

#### Interest rate risk

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

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	2012 £ million
1.0% increase (2012: 1.0% increase)	2.7	2.5
0.5% decrease (2012: 0.5% decrease)	(1.4)	(1.3)

At 31 July 2013 changes in interest rates compared to actual rates would increase/(decrease) the group's equity by the following amounts:

	2013 £ million	2012 £ million
1.0% increase (2012: 1.0% increase)	11.7	8.6
0.5% decrease (2012: 0.5% decrease)	(5.8)	(4.3)

#### Foreign currency risk

The group has a number of currency investments in subsidiaries and has chosen not to hedge these exposures. These investments are predominantly in US dollars and euros. Foreign exchange differences which arise from the translation of these operations are recognised directly in equity.

At 31 July 2013 changes in exchange rates would decrease the group's equity by the following amounts:

	2013 £ million	2012 £ million
20% strengthening of sterling against the US dollar (2012: 20% strengthening)	–	(3.7)
20% strengthening of sterling against the euro (2012: 20% strengthening)	(5.7)	(4.4)

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

# Financial Statements

## The Notes

### 33. Financial risk management *continued*

#### Market price risks

#### Trading financial instruments: Equity shares and debt securities

The group's trading activities relate to Winterflood and Seydler. The following table shows the group's trading book exposure to market price risk.

	Highest exposure £ million	Lowest exposure £ million	Average exposure £ million	Exposure at 31 July £ million
<b>For the year ended 31 July 2013</b>				
Equity shares				
Long	75.0	30.1	42.9	43.7
Short	63.5	8.8	17.9	14.5
			25.0	29.2
Debt securities				
Long	106.9	28.3	57.8	28.7
Short	86.2	23.9	55.0	22.4
			2.8	6.3
<b>For the year ended 31 July 2012</b>				
Equity shares				
Long	50.6	30.5	37.8	34.4
Short	25.0	6.7	13.8	19.2
			24.0	15.2
Debt securities				
Long	85.7	32.4	46.5	53.4
Short	87.9	27.9	49.4	56.7
			(2.9)	(3.3)

With respect to the long and short positions on debt securities £1.6 million and £4.0 million (2012: £0.1 million and £8.0 million) were due to mature within one year respectively.

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

Based upon the trading book exposure given above, a hypothetical fall of 10% in market prices would result in a £2.9 million decrease (2012: £1.5 million decrease) in the group's income and net assets on the equity trading book and a £0.7 million decrease (2012: £0.3 million increase) on the debt securities trading book. However, the group's trading activity is mainly market-making where positions are managed throughout the day on a continuous basis. Accordingly the sensitivity referred to above is purely hypothetical.

#### Non-trading financial instruments

Net gains and losses on non-trading financial instruments are disclosed in notes 13 and 14.



### (e) Liquidity risk

Liquidity risk is the risk that liabilities cannot be met when they fall due or can only be met at an uneconomic price and arises mainly in the Banking division.

The group has a prudent liquidity position with total available funding at 31 July 2013 of £6.3 billion (31 July 2012: £5.9 billion). This funding is significantly in excess of its loans and advances to customers at 31 July 2013 of £4.6 billion (31 July 2012: £4.1 billion). The group has a large portfolio of high quality liquid assets including cash placed on deposit with the Bank of England and gilts. The group measures liquidity risk with a variety of measures including regular stress testing and cash flow monitoring, and reporting to both the group and divisional boards.

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

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	Total £ million
<b>At 31 July 2013</b>							
Settlement balances	–	438.4	–	–	–	–	438.4
Deposits by banks	47.5	10.0	5.1	4.0	0.1	–	66.7
Deposits by customers	184.0	903.2	895.4	988.7	1,129.7	–	4,101.0
Loans and overdrafts from banks	19.4	24.8	–	–	–	–	44.2
Debt securities in issue	–	4.3	4.3	15.1	1,105.3	–	1,129.0
Loans from money brokers against stock advanced	16.4	–	–	–	–	–	16.4
Subordinated loan capital	–	2.8	–	2.8	22.4	109.0	137.0
Derivative financial instruments <sup>1</sup>	–	5.2	3.6	28.9	19.6	–	57.3
Other financial liabilities	15.5	94.2	–	–	–	–	109.7
<b>Total</b>	<b>282.8</b>	<b>1,482.9</b>	<b>908.4</b>	<b>1,039.5</b>	<b>2,277.1</b>	<b>109.0</b>	<b>6,099.7</b>

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	Total £ million
<b>At 31 July 2012</b>							
Settlement balances	–	389.6	–	–	–	–	389.6
Deposits by banks	47.5	31.3	1.4	8.0	–	–	88.2
Deposits by customers	190.6	1,075.4	356.8	702.0	1,199.8	0.9	3,525.5
Loans and overdrafts from banks	13.0	1.0	19.2	158.4	16.4	–	208.0
Debt securities in issue	–	10.8	4.2	363.6	737.8	–	1,116.4
Loans from money brokers against stock advanced	36.2	–	–	–	–	–	36.2
Subordinated loan capital	–	2.8	–	2.8	22.5	114.5	142.6
Derivative financial instruments <sup>1</sup>	–	7.7	3.6	7.9	35.2	–	54.4
Other financial liabilities	17.2	73.5	–	–	–	–	90.7
<b>Total</b>	<b>304.5</b>	<b>1,592.1</b>	<b>385.2</b>	<b>1,242.7</b>	<b>2,011.7</b>	<b>115.4</b>	<b>5,651.6</b>

<sup>1</sup> Includes currency swaps shown net. On a gross basis in less than three months this is £205.0 million (31 July 2012: £101.1 million) and in more than one year but not more than five years this is £58.1 million (31 July 2012: £72.5 million).

# Financial Statements

## Investor Relations

### Financial calendar (provisional)

Event	Date
Annual General Meeting	21 November 2013
First quarter Interim Management Statement	November 2013
Final dividend payment	26 November 2013
Pre-close trading update	January 2014
Half year end	31 January 2014
Interim results	March 2014
Third quarter Interim Management Statement	May 2014
Pre-close trading update	July 2014
Financial year end	31 July 2014
Preliminary Results	September 2014

The financial calendar is updated on a regular basis throughout the year. Please refer to our website [www.closebrothers.com](http://www.closebrothers.com) for up to date details.

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Certain statements included or incorporated by reference within this report may constitute “forward-looking statements” in respect of the group’s operations, performance, prospects and/or financial condition. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions and actual results or events may differ materially from those expressed or implied by those statements. Accordingly, no assurance can be given that any particular expectation will be met and reliance should not be placed on any forward-looking statement. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. No responsibility or obligation is accepted to update or revise any forward-looking statement resulting from new information, future events or otherwise. Nothing in this report should be construed as a profit forecast. This report does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase any shares or other securities in the company, nor shall it or any part of it or the fact of its distribution form the basis of, or be relied on in connection with, any contract or commitment or investment decisions relating thereto, nor does it constitute a recommendation regarding the shares and other securities of the company. Past performance cannot be relied upon as a guide to future performance and persons needing advice should consult an independent financial adviser. Statements in this report reflect the knowledge and information available at the time of its preparation. Liability arising from anything in this report shall be governed by English Law. Nothing in this report shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.

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