Close Brothers

Close Brothers Group plc
Annual Report 2010

Close Brothers is a Banking, Securities and Asset Management group with a long and successful track record.

Front cover: Close Brothers, 10 Crown Place head office in London (right)

Group Results
for the year ended 31 July 2010

Financial Highlights

Adjusted operating profit from continuing operations
£ million

2010	**121.3**
2009	113.7
2008	127.5
2007[1]	172.8
2006[1]	157.3

[1]Continuing and discontinued operations.

Adjusted basic earnings per share from continuing operations
pence

2010	**61.3**
2009	60.5
2008	63.7
2007[1]	82.8
2006[1]	74.1

[1]Continuing and discontinued operations.

Ordinary dividend per share
pence

2010	**39.0**
2009	39.0
2008	39.0
2007	37.0
2006	32.5

£121.3m
(2009: £113.7m)
Adjusted[1] operating profit from continuing operations

61.3p
(2009: 60.5p)
Adjusted[1] earnings per share from continuing operations

39.0p
(2009: 39.0p)
Ordinary dividend per share

£99.3m
(2009: £88.3m)
Operating profit before tax from continuing operations

46.0p
(2009: 43.6p)
Basic earnings per share from continuing operations

£754.4m
(2009: £697.7m)
Total equity

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

Chairman's and Chief Executive's Statement

Strone Macpherson Chairman

Close Brothers Group has achieved a good overall performance for the year.

The Banking division delivered a very strong result as it strengthened its leading position in its specialised lending businesses to deliver a record closing loan book and the division's highest profit contribution to date. There was a continued good contribution by Securities driven by the good performance from Winterflood which is a leader in UK market-making. Asset Management is undergoing a transformation and is positioning itself to become a leading provider of UK wealth and asset management services.

The group remains strongly capitalised and is well positioned to take advantage of future growth opportunities.

Results and Dividend

Adjusted operating profit from continuing operations was £121.3 million (2009: £113.7 million), a 7% increase year on year. Adjusted earnings per share from continuing operations increased marginally to 61.3p (2009: 60.5p) and basic earnings per share from continuing operations increased 6% to 46.0p (2009: 43.6p).

Operating profit before tax from continuing operations of £99.3 million (2009: £88.3 million) includes the impact of exceptional items of £15.0 million (2009: £6.0 million) relating to the impairment of two group investments, which were impacted by the challenging economic environment. Additionally, as a result of the continuation of difficult market conditions, a goodwill impairment of £6.5 million (2009: £19.0 million) was taken in Asset Management.

The group retained a strong capital base with a core tier 1 capital ratio of 13.9% at 31 July 2010 (31 July 2009: 14.8%) and a total capital ratio of 15.8% (31 July 2009: 16.6%), despite 23% loan book growth during the period. The strength of the group's capital position ensured adequate flexibility to support the group's existing businesses and, combined with efficient capital allocation across the divisions, allowed the pursuit of growth opportunities.

The board is recommending a maintained final dividend of 25.5p (2009: 25.5p) per share in cash, resulting in a total dividend for the year of 39.0p (2009: 39.0p).

Divisional Performance

The **Banking** division delivered a very strong performance and returned its highest ever adjusted operating profit of £79.5 million (2009: £54.0 million). The loan book increased 23% to a record £2.9 billion (2009: £2.4 billion). The division benefited from the strength of its market position across its niche businesses and its solid and diverse funding model. This has been achieved whilst retaining its disciplined approach to lending. As a result the net interest margin increased to 9.7% (2009: 9.4%) and adjusted operating income increased 15% to £272.0 million (2009: £235.5 million). A modest improvement in economic conditions saw a reduction in impairment losses on loans and advances as a percentage of the average loan book to 2.4% (2009: 2.6%), driven by the Retail businesses.

Preben Prebensen Chief Executive

"The group is well positioned to take advantage of future growth opportunities."

The **Securities** division delivered another good performance with adjusted operating profit of £59.3 million (2009: £64.9 million). This reflected an improved performance in Winterflood and Close Brothers Seydler Bank ("Seydler"). The 9% reduction in the year was a result of a lower contribution from the group's associate Mako which had an exceptional prior year performance.

Winterflood retained its position as the leading market-maker to the UK retail stockbroking industry, trading record volumes, with over 46,000 (2009: 42,000) bargains per trading day. However, there was a reduction in income per bargain to £11.18 (2009: £11.98) over the period. Winterflood increased its profitability and recorded only four (2009: seven) loss days out of a total of 252 (2009: 253) trading days. Overall, adjusted operating profit was up 3% to £48.7 million (2009: £47.3 million), a ten year high for the business.

Seydler had an improved performance with adjusted operating profit growth to £4.9 million (2009: £1.5 million) offset by more challenging market conditions for Mako. Reduced volumes, particularly in the later stages of the year, led to a reduction in Mako's contribution to £5.7 million (2009: £16.1 million) relative to the exceptional prior period performance which benefited from high volumes and volatility immediately following the collapse of Lehman Brothers.

The **Asset Management** division had a subdued performance for the year and reported adjusted operating profit of £3.3 million (2009: £12.0 million) as the division commenced a period of transformation and investment for future growth. While overall operating income was marginally higher at £97.0 million (2009: £95.0 million) this was predominately due to one-off investment gains of £6 million on the division's residual interest in a private equity business.

Closing Funds under Management ("FuM") increased 9% to £7.4 billion (31 July 2009: £6.8 billion) reflecting positive market movements as equity markets recovered. The Private Clients business achieved a net new funds flow of £221.1 million (31 July 2009: £161.2 million) during the year and 16% (31 July 2009: 1%) growth in funds overall.

Chairman's and Chief Executive's statement continued

Strategy
The group is focused on developing its three key business areas:

- The Banking division is a leader in specialised finance in the UK;
- Securities, largely through Winterflood, is a leader in UK market-making; and
- Asset Management is investing to become a leader in UK wealth and asset management.

We have a clear strategy for each of these businesses.

"The group is focused on developing its three key business areas."

Going forward, the **Banking** division will retain its specialised and disciplined approach to lending and seek to grow market share without compromising levels of profitability and margins. To support this growth, the division streamlined its structure, strengthened its management team, developed new and existing product lines, added front line loan origination capacity and extended its branch network in the UK.

Retail, comprising motor and insurance premium financing, is seeking ways to grow its existing offering and develop new products. It has expanded into new geographies with the addition of a branch in the South West of England and services into Northern Ireland. It is also adding to front line staff including the establishment of a team focused on new car and franchise dealers. Overall, this resulted in an increase in market share within the independent used car market from 5% to 9% over the past twelve months. Personal lines continue to drive the insurance premium business, which now has close to 5% share of the overall market and a substantial share of the independent market.

Commercial is successfully expanding its asset and invoice financing businesses through a combination of acquisition and organic growth initiatives and by investing in sales personnel. It is also actively growing the middle ticket leasing business and during the year, also expanded its operations into Northern Ireland.

As a result, market share in asset financing has risen from 4% to 6%. Invoice financing is focused on developing its sales team to target larger deals and, during the 2010 financial year, acquired a £93.8 million loan book which is now fully integrated. As a result, this business now has around 13% of the independent market, up from 8% twelve months ago.

Property will continue to actively maintain its leading market position in residential development lending by prudently lending to clients who are attracted by its local knowledge and development expertise. During the year it also expanded its business by opening an office in Scotland.

In **Securities**, Winterflood will seek to maintain its leading position in the UK retail market place. It will support and grow its existing core business, as a London Stock Exchange registered market-maker in over 3,300 UK securities, by leveraging its trading expertise and proprietary technology platform.

Winterflood will also explore opportunities to expand its business incrementally in other markets. It will seek to capture US and European order flow by selectively expanding its capabilities and resources into those markets. It will also promote its expertise to asset managers who wish to outsource dealing and execution services to a specialist provider.

In the smaller Securities businesses, Seydler is well positioned for the development of the Frankfurt floor based trading platform and a recovery in equity and debt capital markets activity. Mako continues to have a strong position in its core derivatives market-making business and sees growth opportunities in its investment management activity, predominantly through Pelagus Capital, its fixed income relative-value fund.

Asset Management has carried out focused research and evaluated its core strengths, capabilities and opportunities in the external environment and now has a clear strategy to create a high growth, wealth and asset management business in the UK.

The focus of this business will be affluent and high net worth investors in Private Clients, as well as smaller institutions, such as family offices and charitable endowments, through the division's Institutional offering. Offshore Banking and Administration will continue to be focused on trust and administration for offshore clients.

The strategy will build on the division's investment track record; around £7 billion of FuM, 22,000 existing clients and the Close Brothers brand. The Private Clients offering will provide advice seeking clients with high quality, holistic advice, financial planning and discretionary services. It will also provide self-directed clients with a range of web and telephone-based services to enable them to manage their own wealth. This combination of services will position the business to become a leader in wealth management in the UK.

The Institutional strategy is at an earlier stage. The business has already consolidated its investment management processes including the integration of hedge fund multi-manager, Fortune. It has also developed common multi-asset, multi-manager investment propositions to service both private and institutional clients, and will invest across long-only and hedge funds, structured products as well as equities and bonds.

The division sees a significant opportunity to service and acquire clients from independent financial advisors ("IFAs") who are exiting the market as a result of regulatory change. During the year the division entered into its first agreement with an IFA to acquire client assets of up to £50 million. In the period since 31 July 2010 the division also acquired Chartwell Group Limited, an IFA business based in Bristol with over £650 million of client assets and good links into the South West of England.

It is anticipated that the total non-recurring investment spend of the Private Client proposition and platform development, will be in the range of £18 to £20 million, of which £6 million has been incurred during the 2010 financial year and a further £10 million will be invested in the 2011 financial year.

These initiatives will take time until their potential is fully realised. The investment will be modest in the context of the overall group and is expected to result in a significant contribution by the division to the group in the medium term.

Outlook

The group has made a sound start to the 2011 financial year.

In the **Banking** division, we see continued good loan book growth.

The **Securities** division has made a more modest start to the year reflecting current market conditions.

The **Asset Management** division is likely to deliver a small loss for the year as the investment in the strategy continues, particularly in the Private Clients business.

Overall, we expect the group to deliver a satisfactory performance for the year.

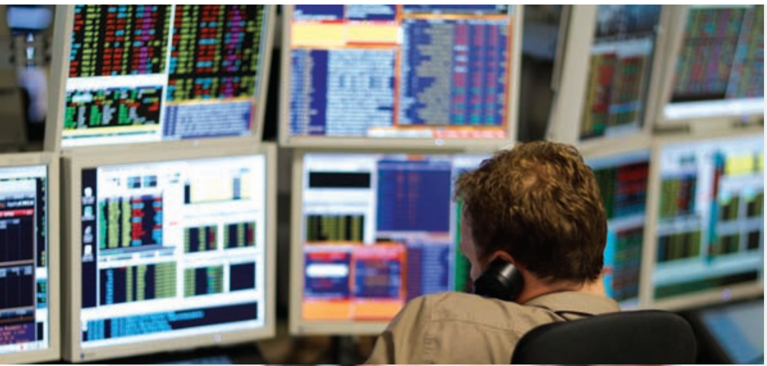
Our Business

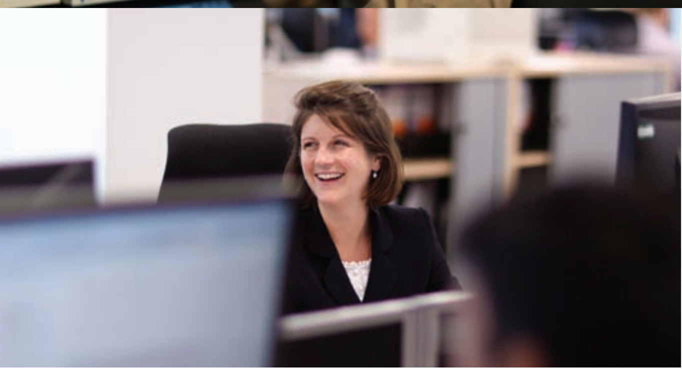
Close Brothers has three operating divisions: Banking, Securities and Asset Management. We derive our revenue from a mix of fees, dealing profits and interest margin. We employ over 2,600 people, principally across the UK and Channel Islands and also in Continental Europe, Cayman Islands and South Africa.

Banking

Adjusted operating profit was £79.5 million. The loan book increased 23% to £2.9 billion. The division employs over 1,470 people.

The Banking division comprises four business units: Retail, Commercial, Property and Treasury focused on secured lending across a wide range of asset classes, mainly in the UK.





£531.7m
Adjusted operating income from continuing operations

£121.3m
Adjusted operating profit from continuing operations

£754.4m
Total equity

£6.3bn
Total assets

£2.9bn
Loan book

£7.4bn
Funds under Management

Securities

Adjusted operating profit for the division was £59.3 million. The division employs over 260 people.

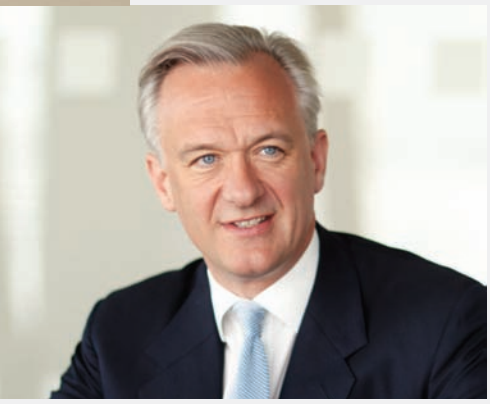
The Securities division has two principal trading companies, Winterflood and Close Brothers Seydler Bank ("Seydler") and a strategic investment in Mako. Winterflood is a leading market-maker in UK equities. Seydler is a Frankfurt based broker dealer and order book specialist. Mako is a leading market-maker in exchange traded derivatives.

Asset Management

Adjusted operating profit was £3.3 million. Closing Funds under Management were £7.4 billion. The division employs over 820 people.

The Asset Management division focuses on managing, protecting and enhancing the wealth of private and corporate clients through a broad range of capabilities in investment and wealth management, trust and fund administration and banking.

Board of Directors



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

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

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

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

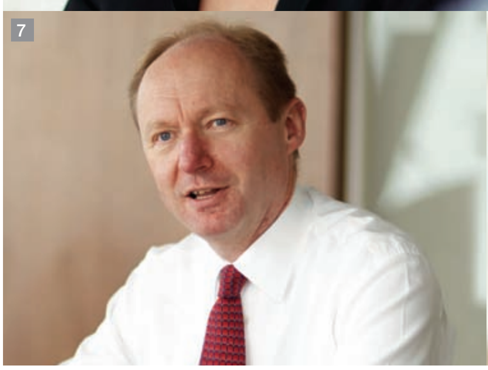
5. Bruce Carnegie-Brown
Senior Independent Director
Appointed a director in June 2006 and senior independent director in June 2008. He is chairman of the Remuneration Committee.
He is chairman of Conduit Capital Markets Limited, senior independent director of Catlin Group Limited and a non-executive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

6. Ray Greenshields
Non-executive Director
Appointed a director in November 2008. He is senior advisor to Standard Life Group PLC. Previously he was chairman of Bestinvest Group, director of Standard Life Assurance Limited, managing director of Barclays Wealth Management, CEO of Zurich Financial Services UK and International Life, and managing director of AMP Financial Services.

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

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

Executive Committee



1. Preben Prebensen
Chief Executive

2. Jonathan Howell
Finance Director

3. Stephen Hodges
Managing Director and Banking Chief Executive

4. Elizabeth Lee
General Counsel and Company Secretary

5. Tazim Essani
Group Head of Corporate Development

6. Julian Palfreyman
Winterflood Chief Executive

7. Martin Andrew
Asset Management Chief Executive

8. Rebekah Etherington
Group Head of Human Resources

The Executive Committee has been established by the chief executive. The Committee meets regularly throughout the year to develop strategy and set business objectives and to assist the chief executive with the management of the group.

Overview

Summary Income Statement

	2010 £ million	2009 £ million	Change %
Continuing operations[1]			
Adjusted operating income	**531.7**	502.1	6
Adjusted operating expenses	**(347.0)**	(328.5)	6
Impairment losses on loans and advances	**(63.4)**	(59.9)	6
Adjusted operating profit	**121.3**	113.7	7
Exceptional items	**(15.0)**	(6.0)	
Impairment losses on goodwill	**(6.5)**	(19.0)	
Amortisation of intangible assets on acquisition	**(0.5)**	(0.4)	
Operating profit before tax	**99.3**	88.3	12
Tax	**(32.8)**	(26.1)	26
Minority interests	**(0.6)**	(0.3)	100
Profit attributable to shareholders: continuing operations	**65.9**	61.9	6
Profit from discontinued operations	**–**	10.4	
Minority interests: discontinued operations	**–**	(0.6)	
Profit attributable to shareholders: continuing and discontinued operations	**65.9**	71.7	(8)
Adjusted earnings per share: continuing operations[2]	**61.3p**	60.5p	1
Basic earnings per share: continuing operations	**46.0p**	43.6p	6
Basic earnings per share: continuing and discontinued operations	**46.0p**	50.5p	(9)
Ordinary dividend per share	**39.0p**	39.0p	–

[1]Results from continuing operations for 2009 exclude both the trading result and gain on disposal related to the Corporate Finance division, the sale of which was completed on 1 July 2009.
[2]Adjusted earnings per share: continuing operations excludes discontinued operations, exceptional items, impairment losses on goodwill and amortisation of intangible assets on acquisition.

Close Brothers has achieved a good overall result for the 2010 financial year with adjusted operating profit from continuing operations of £121.3 million (2009: £113.7 million), up 7%. The Banking division delivered a very strong performance with its highest profit contribution to date. The Securities division's performance was good overall, notably Winterflood which benefited from strong volumes. However, this was partially offset by a lower contribution from Asset Management as it invests for future growth.

"The group achieved a good overall result for the 2010 financial year."

Adjusted operating income from continuing operations increased 6% to £531.7 million (2009: £502.1 million), principally reflecting a strong net interest margin and a closing loan book in the Banking division at a record high.

Adjusted operating expenses from continuing operations increased 6% to £347.0 million (2009: £328.5 million) due to increased staff costs in the Banking division to facilitate loan book growth, and investment in key initiatives, notably in Asset Management's Private Client business.

Impairment losses on loans and advances ("bad debts") as a percentage of the average loan book ("bad debt ratio") reduced to 2.4% (2009: 2.6%) as the group benefited from a modest improvement in economic conditions, particularly in Retail. The absolute bad debt charge increased 6% to £63.4 million (2009: £59.9 million) reflecting the significant growth in the loan book.

Overview continued

The group reports adjusted operating profit after exceptional items and other adjustments. As part of the annual impairment review, combined impairments of £15.0 million were made on two investments: a long held equity stake in Plus Markets Group and a seed investment in a European investment fund. Impairments were taken to write down these investments to their market values at 31 July 2010, which have been impacted by the challenging economic environment. The reduction in fair value of these investments has previously been marked to market through equity. In addition, as a result of the continuation of difficult market conditions, a goodwill impairment of £6.5 million (2009: £19.0 million) was taken in Asset Management in the year. An amortisation charge of £0.5 million (2009: £0.4 million) on intangible assets on acquisition was incurred in the year.

After these items, operating profit before tax from continuing operations was £99.3 million (2009: £88.3 million), up 12%.

The tax charge on continuing operations was £32.8 million (2009: £26.1 million), corresponding to an effective tax rate of 33% (2009: 30%). The tax rate was impacted by the non tax deductible impairment on investment assets and goodwill, which increased the effective tax rate by 6% and the post tax associate income from Mako which reduced the effective tax rate by 2%. Excluding these effects, the underlying effective tax rate was unchanged at 29% (2009: 29%).

Adjusted earnings per share from continuing operations increased 1% to 61.3p (2009: 60.5p) and basic earnings per share from continuing operations increased 6% to 46.0p (2009: 43.6p).

There were no discontinued operations during the period. However in the 2009 financial year the Corporate Finance division was sold to Daiwa Securities SMBC Europe and was treated as a discontinued operation.

The board is recommending a maintained final dividend of 25.5p (2009: 25.5p), resulting in a total dividend for the year of 39.0p (2009: 39.0p). The final dividend will be paid on 19 November 2010 to shareholders on the register at 8 October 2010.

Divisional Performance

The Banking division had a very strong performance, with profitability and the loan book at record highs due to the strength of its market position across its niche businesses and its solid and diverse funding model. This has been achieved whilst retaining its disciplined approach to lending. As a result, it increased its contribution to 56% (2009: 41%) of group adjusted operating profit before group net expenses.

The Securities division contributed 42% (2009: 50%) to overall group adjusted operating profit before group net expenses with a good performance from Winterflood and an improved performance from Seydler offset by a lower contribution from Mako.

Asset Management had a subdued performance in the year and its contribution reduced to 2% (2009: 9%) of group adjusted operating profit before group net expenses. This division is undergoing a period of transformation, with investment focused on the Private Clients business.

Group net expenses were £20.8 million (2009: £17.2 million). Adjusted operating expenses were broadly flat at £21.3 million (2009: £21.0 million) despite the new senior resources and functionality that were committed to the centre to assist the existing operations and growth of the divisions. However, adjusted operating income reduced by £3.3 million to £0.5 million (2009: £3.8 million) in the absence of a foreign exchange gain realised in the prior financial year.


Divisional Adjusted Operating Profit (Continuing Operations)

	2010 £ million	2010 %	2009 £ million	2009 %	Change %
Banking	**79.5**	**56**	54.0	41	47
Securities	**59.3**	**42**	64.9	50	(9)
Asset Management	**3.3**	**2**	12.0	9	(73)
Total divisions	**142.1**	**100**	130.9	100	9
Group	**(20.8)**		(17.2)		21
Adjusted operating profit	**121.3**		113.7		7

Summary Balance Sheet

	31 July 2010 £ million	31 July 2009 £ million
Assets		
Cash and loans and advances to banks[1]	**611.2**	198.2
Settlement balances, long trading positions and loans to money brokers[2]	**713.3**	728.9
Loans and advances to customers	**2,912.6**	2,364.9
Non trading debt securities	**1,582.1**	2,261.3
Intangible assets	**107.5**	107.6
Other assets	**332.9**	358.4
Total assets	**6,259.6**	6,019.3
Liabilities		
Settlement balances, short trading positions and loans from money brokers	**597.8**	590.7
Deposits by banks	**48.1**	48.0
Deposits by customers	**3,115.5**	2,919.6
Borrowings	**1,472.0**	1,436.9
Other liabilities	**271.8**	326.4
Total liabilities	**5,505.2**	5,321.6
Equity	**754.4**	697.7
Total liabilities and equity	**6,259.6**	6,019.3

[1]Includes £452.7 million (31 July 2009: £1.7 million) cash at central banks.
[2]Includes £54.1 million (31 July 2009: £37.9 million) long trading positions in debt securities.

In accordance with the new IFRS 8 disclosure on "Operating segments", a breakdown of net interest and fees by each of the three lending business units in the Banking division is now provided. The segmental breakdown for the Securities and Asset Management divisions are unchanged from previous years.

Balance Sheet

Maintaining a strong balance sheet has been critical to Close Brothers' success during the difficult market and economic environment of the credit crisis. Total assets increased 4% to £6,259.6 million at 31 July 2010 (31 July 2009: £6,019.3 million) reflecting significant growth in loans and advances to customers ("the loan book"). This growth was achieved with a corresponding increase in liabilities of 3% to £5,505.2 million (31 July 2009: £5,321.6 million).

The loan book increased by £547.7 million, or 23%, to £2,912.6 million at 31 July 2010 (31 July 2009: £2,364.9 million). Organic growth of 19% was driven by good quality new lending across Retail, Commercial and Property. The loan book includes predominantly secured loans on conservative loan to value ratios with an average loan book maturity of twelve months (31 July 2009: twelve months). In January 2010, the group acquired a £93.8 million invoice financing loan book which contributed an additional 4% growth.

Overview continued

Cash and loans and advances to banks increased £413.0 million to £611.2 million at 31 July 2010 (31 July 2009: £198.2 million). Previously, short-term deposits were invested in certificates of deposit ("CDs"), however as these matured or were sold, cash was placed on deposit with the Bank of England. As a result, cash and balances at central banks increased to £452.7 million at 31 July 2010 (31 July 2009: £1.7 million).

Non trading debt securities, which includes the group's CDs, gilts and government guaranteed debt and floating rate notes ("FRNs"), reduced by £679.2 million to £1,582.1 million (31 July 2009: £2,261.3 million) as CDs and FRNs matured or were sold. At 31 July 2010, the group had £615.4 million (31 July 2009: £754.7 million) of FRNs classified as available for sale and the aggregate negative mark to market adjustment on FRNs was £12.7 million, net of tax (2009: £31.6 million).

Settlement balances, long trading positions and loans to money brokers are assets that relate to the group's market-making activities and principally reflect short-term funding of trading positions at Winterflood. These decreased £15.6 million to £713.3 million at 31 July 2010 (31 July 2009: £728.9 million) and were partly offset by liabilities relating to settlement balances, short trading positions and loans from money brokers of £597.8 million at 31 July 2010 (31 July 2009: £590.7 million).

Intangible assets were broadly flat at £107.5 million at 31 July 2010 (31 July 2009: £107.6 million) as the goodwill and intangibles from the invoice financing loan book acquisition in Banking was offset by an impairment in Asset Management in light of difficult market conditions.

Customer deposits increased £195.9 million to £3,115.5 million at 31 July 2010 (31 July 2009: £2,919.6 million) and include long and short-term deposits from corporate and retail customers. Deposits by banks were flat at £48.1 million at 31 July 2010 (31 July 2009: £48.0 million).

Total borrowings, which include loans and overdrafts from banks, debt securities in issue and subordinated loan capital, were broadly stable at £1,472.0 million (31 July 2009: £1,436.9 million), including a £200 million group bond issued during the year.

Total equity at 31 July 2010 has increased 8%, or £56.7 million, to £754.4 million (31 July 2009: £697.7 million) and principally reflects profit attributable to shareholders for the year of £65.9 million (2009: £71.7 million) less £55.5 million (2009: £55.2 million) dividend payments and an increase of £31.0 million (2009: (£23.4) million) as a result of the positive mark to market adjustments on the available for sale FRNs and the impact of the transfer of the impairment on investment assets to the Income Statement.

Funding and Liquidity

The group has a prudent funding and liquidity position and total available funding for the group increased to £5.6 billion at 31 July 2010 (31 July 2009: £5.4 billion) which is significantly above the loan book of £2.9 billion at 31 July 2010 (31 July 2009: £2.4 billion).

The group has a diversified range of funding sources with a mix of bilateral and syndicated facilities, repurchase agreements, a group bond and long and short-term customer deposits. This enables the group to meet existing funding requirements and be well positioned for growth whilst considering cost efficiency and the availability of funding.

Total wholesale facilities, including the group bond, have decreased by £0.1 billion to £1.7 billion (31 July 2009: £1.8 billion) as some facilities reached maturity and were not replaced before the year end. During the year the group issued a £200 million bond maturing in 2017 and as a result the average maturity of existing facilities and the bond was 22 months (31 July 2009: 24 months). The average maturity of wholesale funding at 31 July 2010, excluding the group bond, reduced to 15 months (31 July 2009: 24 months), still comfortably above the twelve month (2009: twelve months) maturity of the loan book.

The group is supported by a stable and resilient customer deposit base which increased to £3.1 billion at 31 July 2010 (31 July 2009: £2.9 billion). Given the availability of alternative sources of funding, the group chose not to raise significant additional long-term retail deposits and accordingly, customer deposits with a maturity of more than twelve months reduced to £0.2 billion (31 July 2009: £0.9 billion).

Since the financial year end, the group has added a variety of new facilities totalling £910 million, with an average maturity of 19 months.

Funding Overview

	31 July 2010 £ million	31 July 2009 £ million	Change £ million
Drawn facilities and group bond[1]	**1,458.3**	1,409.7	48.6
Undrawn facilities	**227.0**	392.6	(165.6)
Deposits by customers > twelve months	**244.6**	888.8	(644.2)
Deposits by customers < twelve months[2]	**2,869.7**	2,029.7	840.0
Equity	**754.4**	697.7	56.7
Total available funding	**5,554.0**	5,418.5	135.5

[1]Drawn facilities exclude £13.7 million (31 July 2009: £27.2 million) of non-facility overdrafts included in borrowings.
[2]Deposits by customers < twelve months exclude £1.2 million (31 July 2009: £1.1 million) of deposits held within the Securities division.

Maturity Profile of Facilities and Deposits

	Less than one year £ million	One to two years £ million	Greater than two years £ million	Total £ million
Drawn facilities and group bond[1]	1,014.7	150.0	293.6	1,458.3
Undrawn facilities	112.0	95.0	20.0	227.0
Deposits by customers[2]	2,869.7	186.4	58.2	3,114.3
Total available funding at 31 July 2010	**3,996.4**	**431.4**	**371.8**	**4,799.6**
Total available funding at 31 July 2009	2,407.0	1,818.5	495.3	4,720.8

[1]Drawn facilities exclude £13.7 million (31 July 2009: £27.2 million) of non-facility overdrafts included in borrowings.
[2]Deposits by customers < twelve months exclude £1.2 million (31 July 2009: £1.1 million) of deposits held within the Securities division.

During the year, Fitch Ratings and Moody's Investors Services issued Close Brothers Group plc inaugural ratings of A/F1 and A3/P2 respectively, both with a negative outlook. Close Brothers Limited ("CBL"), the group's regulated banking subsidiary has credit ratings of A/F1 by Fitch and A2/P1 by Moody's, both with a negative outlook, unchanged from the prior year.

Capital

The group has maintained a strong capital position with a core tier 1 capital ratio of 13.9% at 31 July 2010 (31 July 2009: 14.8%) and a total capital ratio of 15.8% (31 July 2009: 16.6%), despite 23% loan book growth during the period. The strength of the group's capital position ensures adequate flexibility to support the group's existing businesses, and combined with efficient capital allocation across the divisions, allows the group to pursue its strategic objectives and future growth opportunities.

The group has consistently maintained a conservative capital position and prudently manages its capital to ensure it is comfortably above the minimum requirements for the group and all regulated subsidiaries.

Proposed changes to the regulatory capital regime are constantly monitored by the group. The majority of the significant changes have been clearly highlighted by the regulatory and legislative bodies. The group believes that it will not be materially impacted by proposed changes, based on current analysis of the proposals, although further developments will be assessed as they arise.

Total regulatory capital increased £32.2 million during the year to £683.8 million (31 July 2009: £651.6 million).

Notional risk weighted assets increased 10%, or £401.9 million, to £4,338.7 million (31 July 2009: £3,936.8 million) reflecting an increase in credit and counterparty risk predominantly driven by the 23% loan book growth.

CBL, the group's regulated banking subsidiary, had a core tier 1 capital ratio of 10.8% at 31 July 2010 (31 July 2009: 11.0%) and accounted for 81% of the group's risk weighted assets (31 July 2009: 78%).

Capital Position

	31 July 2010 £ million	31 July 2009 £ million
Core tier 1 capital	**603.3**	581.9
Total regulatory capital	**683.8**	651.6
Risk weighted assets (notional)[1]	**4,338.7**	3,936.8
Core tier 1 capital ratio	**13.9%**	14.8%
Total capital ratio	**15.8%**	16.6%

[1]Notional risk weighted assets calculated under Basel II include a notional adjustment for Pillar 1 operational and market risk requirements.

Group Key Financial Ratios

	2010	2009
Operating margin[1]	**22%**	20%
Expense/income ratio[2]	**66%**	68%
Compensation ratio[3]	**41%**	42%
Return on opening equity[4]	**12%**	10%

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

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

The strength of the group's capital position and its approach to capital allocation will allow its businesses to grow in the short, medium and long-term. The group expects that over the coming periods, its capital ratios may moderate somewhat as it captures opportunities for growth, particularly in the loan book, although this is not expected to materially impact the overall strength of the group's capital position.

Key Financial Ratios

All of the group's key financial ratios ("KFRs") improved as a result of a good overall performance. The group's operating margin improved to 22% (2009: 20%) due to a record contribution from Banking and the expense/income ratio improved to 66% (2009: 68%). Return on opening equity improved to 12% (2009: 10%).

Banking

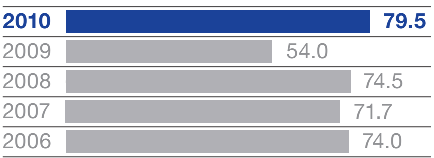
- 23% growth in loans and advances to customers to a record high of £2.9 billion
- 47% increase in adjusted operating profit to £79.5 million, its highest to date
- Bad debt ratio decreased to 2.4%

Roger Stone, David Thomson and Mary McNamara, Commercial.

Bob Golden, Nigel Mottershead, and Janet Wilson, Retail.

Banking adjusted operating profit

£ million



Key Divisional Metrics

	2010 £ million	2009 £ million	Change %
Adjusted operating income	**272.0**	235.5	15
Net interest and fees on loan book	**255.6**	216.2	18
Retail	**104.9**	85.9	22
Commercial	**114.2**	99.5	15
Property	**36.5**	30.8	19
Treasury and other non-lending income	**16.4**	19.3	(15)
Adjusted operating expenses	**(129.1)**	(121.6)	6
Impairment losses on loans and advances	**(63.4)**	(59.9)	6
Adjusted operating profit	**79.5**	54.0	47
Net interest margin[1]	**9.7%**	9.4%	
Bad debt ratio[2]	**2.4%**	2.6%	
Closing loan book	**2,912.6**	2,364.9	23

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

"The Banking division has delivered a very strong performance."

The Banking division has delivered a very strong performance, benefiting from the strength of its market position across its niche businesses and its solid and diverse funding model. It has achieved this whilst retaining its disciplined approach to lending. The division has actively taken advantage of the more favourable operating environment to extend its leadership position, growing the loan book to a record high of £2.9 billion (31 July 2009: £2.4 billion) with adjusted operating profit increasing 47% to £79.5 million (2009: £54.0 million).

Adjusted operating income increased 15% to £272.0 million (2009: £235.5 million) driven by an 18% increase in net interest and fees on loan book to £255.6 million (2009: £216.2 million). This reflected an increase in the average loan book of 15% and an increase in the net interest margin to 9.7% (2009: 9.4%) as the businesses captured demand for niche lending services.

Top: Frank Pennal and Daniel Joyce, Property.
Bottom: Malcolm Hook, Treasury.

Loan Book Analysis

	31 July 2010 £ million	31 July 2009 £ million	Change %
Retail	**1,201.9**	995.4	21
Premium finance	**553.6**	455.5	22
Motor finance[1]	**648.3**	539.9	20
Commercial	**1,162.9**	882.3	32
Invoice finance	**262.1**	170.3	54
Asset finance	**900.8**	712.0	27
Property	**547.8**	487.2	12
Closing loan book	**2,912.6**	2,364.9	23

[1]Includes £82.8 million (31 July 2009: £96.4 million) Close Finance Channel Islands loan book previously shown separately.

Banking Key Financial Ratios

	2010	2009
Operating margin	**29%**	23%
Expense/income ratio	**47%**	52%
Compensation ratio	**26%**	28%
Return on opening equity	**20%**	12%
Return on net loan book[1]	**3.0%**	2.3%

[1]Banking division adjusted operating profit before tax on average net loans and advances to customers.
Note: All KFRs exclude associate income, exceptional items, impairment losses on goodwill and amortisation of intangible assets on acquisition.

Adjusted operating expenses increased 6% to £129.1 million (2009: £121.6 million) largely due to significant loan book growth and associated investment in front line resources and infrastructure. However, the expense/income ratio reduced to 47% (2009: 52%) and the compensation ratio reduced to 26% (2009: 28%) as a result of strong income growth and overall effective cost management.

The bad debt ratio reduced to 2.4% (2009: 2.6%) as the group benefited from a modest improvement in economic conditions, particularly driven by Retail. The longer term Commercial businesses did not see a material improvement, while Property appears to have stabilised. The absolute bad debt charge increased 6% to £63.4 million (2009: £59.9 million) reflecting the significant growth in the loan book.

The loan book increased 23%, or £547.7 million, to £2,912.6 million at 31 July 2010 (31 July 2009: £2,364.9 million) to a record level including significant organic loan book growth of 19%, and 4% growth from the acquisition of a £93.8 million invoice financing loan book in January 2010.

The Retail loan book grew 21% to £1,201.9 million (31 July 2009: £995.4 million) with improved margins reflecting good demand. Motor finance increased its market share to 9% (2009: 5%) of the independent used car market and increased the number of car dealers it has relationships with to 5,800 (2009: 5,000) over the last twelve months. Premium finance benefited from increased volumes, particularly in personal insurance lines, with a total of 1.5 million (2009: 1.2 million) new loans in the year. As a result, the average loan book increased 14% and Retail increased its net interest and fee income by 22% to £104.9 million (2009: £85.9 million).

The Commercial loan book has increased 32% to £1,162.9 million (31 July 2009: £882.3 million) driven by very good new business levels in the asset financing business as it invested in sales capabilities and infrastructure, and an acquisition in invoice finance. Excluding the acquisition, the Commercial book increased 21% although the invoice finance loan book remained flat due to the ongoing impact of the economic environment on its small and medium enterprise customers and an active competitive environment.

Given the 18% increase in the average loan book, net interest and fee income increased 15% in the year to £114.2 million (2009: £99.5 million).

The Property business increased its loan book by 12% to £547.8 million (31 July 2009: £487.2 million) as it continues to lend at good margins with the same prudent criteria to higher quality residential property developers. Accordingly, net interest and fee income increased to £36.5 million (2009: £30.8 million).

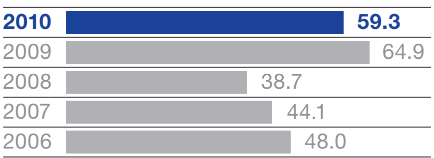
Treasury and other non-lending income declined 15% to £16.4 million (2009: £19.3 million) as a result of lower returns on cash and money market assets.

The operating margin improved to 29% (2009: 23%) due to the strong income growth and effective cost management. As a result of the significant loan book growth and a strong net interest margin, the return on opening equity increased to 20% (2009: 12%) and the return on net loan book increased to 3.0% (2009: 2.3%).

Securities

- Adjusted operating profit declined to £59.3 million
- Overall Winterflood volumes increased 10%
- Seydler delivered an improved performance
- Mako had a lower contribution of £5.7 million

Securities adjusted operating profit
£ million



"A good performance in Winterflood and an improved performance from Seydler."

Key Divisional Metrics

	2010 £ million	2009 £ million	Change %
Adjusted operating income	**162.2**	167.8	(3)
Adjusted operating expenses	**(102.9)**	(102.9)	–
Adjusted operating profit	**59.3**	64.9	(9)

The Securities division has delivered another good result over the last twelve months. Overall, adjusted operating profit declined 9% to £59.3 million (2009: £64.9 million) reflecting a good performance in Winterflood and an improved performance from Close Brothers Seydler Bank ("Seydler") offset by a material fall in associate income from Mako, relative to an exceptional prior year performance.

Adjusted operating income declined 3% to £162.2 million (2009: £167.8 million) and adjusted operating expenses remained flat at £102.9 million (2009: £102.9 million).

As a result of the higher profit contribution from Winterflood and Seydler, the operating margin improved to 34% (2009: 32%) and the return on opening equity increased to 39% (2009: 35%). The expense/income ratio improved to 66% (2009: 68%) as higher volume related costs in Winterflood were offset by lower costs in Seydler and income growth, excluding Mako. The compensation ratio was broadly stable at 45% (2009: 46%).

Winterflood adjusted operating income increased 2% to £131.6 million (2009: £128.4 million) particularly benefiting from the recovery in equity markets at the start of the year. The total number of bargains traded in the year increased 10% to 11.8 million (2009: 10.7 million), which corresponds to average bargains per trading day up 10% to 46,730 (2009: 42,364).

This was a good performance given an overall reduction in market volumes, which resulted in lower spreads, particularly in the second half, and a 7% decline in income per bargain to £11.18 (2009: £11.98). Trading performance has remained consistent with four (2009: seven) loss days out of a total of 252 (2009: 253) trading days, demonstrating the resilience of Winterflood.

Adjusted operating expenses increased by only 2%, in line with income growth, to £82.9 million (2009: £81.1 million) and as a result adjusted operating profit increased 3% to £48.7 million (2009: £47.3 million).

Securities Key Financial Ratios

	2010	2009
Operating margin	**34%**	32%
Expense/income ratio	**66%**	68%
Compensation ratio	**45%**	46%
Return on opening equity	**39%**	35%

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

Seydler had an improved performance with adjusted operating profit growth to £4.9 million (2009: £1.5 million). Adjusted operating income increased 7% to £24.9 million (2009: £23.3 million) reflecting an improvement in its equity sales and capital markets activity. On a constant currency basis, adjusted operating income also increased 7%. Adjusted operating expenses were £20.0 million (2009: £21.8 million), a reduction of 8%.

Seydler has grown its market position with 2,381 (2009: 2,158) specialist floor mandates and 184 (2009: 164) designated sponsoring mandates.

The 49.9% investment in Mako contributed £5.7 million (2009: £16.1 million) of after-tax associate income for the year. Despite higher levels of volatility in the later stages of the year, Mako saw lower activity as a result of reduced market volumes and challenging trading conditions, particularly in fixed income. The prior year's performance, particularly in the first half, benefited from exceptional trading conditions which led to both high volumes and volatility immediately following the collapse of Lehman Brothers.

Mako's investment management business has performed very well in the year and Funds under Management ("FuM") of Pelagus Capital, its fixed income relative-value fund increased $508 million, or 197%, to $766 million (31 July 2009: $258 million), delivering good returns.

Top: Jerry Hansford, Winterflood. Bottom: Philip Yarrow, Winterflood.

Key Winterflood Metrics

	2010 £ million	2009 £ million	Change %
Adjusted operating income	**131.6**	128.4	2
Adjusted operating expenses	**(82.9)**	(81.1)	2
Adjusted operating profit	**48.7**	47.3	3
Number of bargains (million)	**11.8**	10.7	10
Average bargains per trading day	**46,730**	42,364	10
Income per bargain	**£11.18**	£11.98	(7)

Key Close Brothers Seydler Bank Metrics

	2010 £ million	2009 £ million	Change %
Adjusted operating income	**24.9**	23.3	7
Adjusted operating expenses	**(20.0)**	(21.8)	(8)
Adjusted operating profit	**4.9**	1.5	227

Key Mako Metrics

	2010 £ million	2009 £ million	Change %
Adjusted operating profit[1]	**8.2**	22.3	(63)
Tax on adjusted operating profit[1]	**(2.5)**	(6.2)	(60)
Profit after tax[1]	**5.7**	16.1	(65)

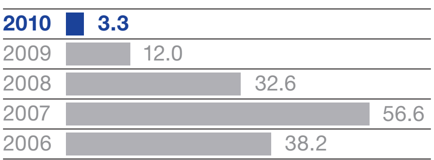
[1]Close Brothers share of result.

Asset Management

Nancy Curtin, Chief Investment Officer.

- Funds under Management increased to £7.4 billion
- Adjusted operating profit decreased to £3.3 million
- Management fees/average FuM broadly stable at 73 bps

Asset Management adjusted operating profit
£ million



Key Divisional Metrics

	2010 £ million	2009 £ million	Change %
Adjusted operating income	**97.0**	95.0	2
Management fees on FuM	**52.2**	54.3	(4)
Income on Assets under Administration and deposits	**32.7**	37.6	(13)
Other income[1]	**12.1**	3.1	290
Adjusted operating expenses	**(93.7)**	(83.0)	13
Adjusted operating profit	**3.3**	12.0	(73)
Management fees/average FuM (bps)	**73**	72	1
Closing FuM	**7,428**	6,839	9

[1]Includes performance fees, income on investment assets and other income.

Asset Management had a subdued performance for the year with adjusted operating profit of £3.3 million (2009: £12.0 million). The division is in a period of transformation as it implements its wealth and asset management strategy aimed at affluent and high net worth retail investors in Private Clients, and family offices, charities and foundations in Institutional. This initiative involves investment that negatively impacted the division's profit performance, particularly in the second half of the year.

Adjusted operating income increased 2% to £97.0 million (2009: £95.0 million). The most significant component of income, management fees on FuM, declined by 4% to £52.2 million (2009: £54.3 million) reflecting the first full year excluding FuM from the private equity businesses which were deconsolidated in the 2009 financial year. Management fees/average FuM remained broadly stable at 73 basis points ("bps") (2009: 72 bps).

Income on Assets under Administration and deposits declined by 13% to £32.7 million (2009: £37.6 million) principally reflecting the continuing negative impact on margins in a lower interest rate environment and a modest decline in deposits.

Other income increased to £12.1 million (2009: £3.1 million) of which £6 million reflects one-off investment gains on the division's residual interest in the former Close Brothers Private Equity business.

Adjusted operating expenses increased to £93.7 million (2009: £83.0 million) reflecting investment to strengthen and reposition the division during its transformation, including hiring key resources. In particular, during the year, there was non-recurring investment spend relating to Private Client initiatives of £6 million. This investment includes extensive research and marketing, proposition, system and platform development, and building the capabilities to offer a comprehensive wealth management service. As a result, the expense/income ratio increased to 97% (2009: 87%).

The operating margin decreased to 3% (2009: 13%) and the return on opening equity reduced to 2% (2009: 6%).

Funds under Management

	Private Clients £ million	Institutional[1] £ million	Total £ million
As at 1 August 2009	3,349	3,490	6,839
New funds raised	583	507	1,090
Redemptions, realisations and withdrawals	(362)	(739)	(1,101)
Net new funds	221	(232)	(11)
Market movement	301	299	600
As at 31 July 2010	**3,871**	**3,557**	**7,428**
Change	16%	2%	9%

[1]This business area was previously referred to as "Funds".

Asset Management Key Financial Ratios

	2010	2009
Operating margin	**3%**	13%
Expense/income ratio	**97%**	87%
Compensation ratio	**57%**	57%
Return on opening equity	**2%**	6%
Net new funds/opening FuM	**0%**	0%

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

Steven Mendel, Private Clients

At 31 July 2010, closing FuM increased 9% to £7.4 billion (31 July 2009: £6.8 billion) reflecting positive market movements, particularly at the start of the year as equity markets recovered. Private Clients FuM were up 16% to £3.9 billion (31 July 2009: £3.3 billion) due to market movements which increased FuM by £0.3 billion and net new funds of £0.2 billion (7% of opening FuM). In the Institutional business, FuM increased to £3.6 billion (31 July 2009: £3.5 billion) benefiting from positive market movements of £0.3 billion, partially offset by net outflows of £0.2 billion (7% of opening FuM).

During the year the division entered into an agreement to acquire client assets of up to £50 million from an IFA. However, the assets from this acquisition will take at least twelve to 18 months to transition as individual investors choose to become clients of the division.

Since the year end, the division has acquired Chartwell Group Limited, an IFA with over £650 million of client assets, and an established advisory and execution only infrastructure, for a consideration of approximately £17 million. This business is based in Bristol and will provide Asset Management with a regional office in the South West of England, and over 60 additional staff that will provide extra capability to accelerate Private Clients growth.

The aim of the division's investment management process is to deliver consistent long-term growth and risk adjusted returns, while managing downside volatility. Over the last twelve months, the division's portfolios underperformed a 100% equity mandate, given its multi-asset class approach and conservative stock and asset class positioning following the significant rebound in markets from the low in March 2009. As a result, market movements increased FuM in Private Clients by 9%, which compares to an increase of 12% in the APCIMS Balanced Portfolio. Market performance was positive in Institutional as well, also rising 9%, following good performance from the UK equity multi-manager business.

"The division is in a period of transformation as it implements its wealth and asset management strategy."

Principal Risks and Uncertainties

Financial risk management is fundamental to the group's activities. The group actively takes on risk in order to generate returns for its shareholders. The assessment of the group's appetite for and management of those risks are therefore key components of the group's strategy and day-to-day activities. The group's approach to risk management is outlined in detail in the Governance section on pages 33 to 34. Note 33 on pages 91 to 99 provides further information and qualitative disclosures on the risks arising from the group's use of financial instruments.

Risk Appetite and Reputation

The group has historically operated a conservative business model as demonstrated by its resilient performance during recent economic conditions. The resilience of the group's model does not diminish the level of importance attached and attention given to risk management. The group's risk appetite continues to have at its core a cautious approach, in particular ensuring that the group is well capitalised, soundly funded and has adequate access to liquidity.

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

The principal risks and uncertainties facing the group at 31 July 2010 are listed below together with a description of the risk, how it impacts or could impact the group's businesses and the measures taken to mitigate or manage the particular risk or uncertainty. The list below should not be regarded as a comprehensive list of the risks and uncertainties faced by the group but rather a summary of those risks which the group currently faces and believes have the potential to have a significant impact on its financial performance and future prospects.

Key risk and uncertainty	Description of risk	Risk mitigation and management
Economy and competitive environment Demand for the group's products and services are sensitive to global economic conditions and those within the UK in particular. Underlying economic conditions also impact the levels of competition the group's businesses face and their ability to trade profitably.	Due to the diversified nature of the group's activities, variable and/or volatile economic conditions could impact the group in a number of different ways. Specific examples of how this could impact on performance include but are not limited to: • Lower demand for the group's products and services in the Banking and Asset Management divisions. • Reduced retail and/or institutional securities trading activity leading to lower trading volumes in the Securities division. • Failure of a material institution where group or client funds are deposited and/or invested. • High bad debt charges within the Banking division due to customers inability to repay loans and reductions in asset values held as security for those loans. • Goodwill or other asset write downs as a result of lower present values of future cash flows due to reduced economic activity.	The group's businesses typically trade in niche areas where they have developed significant market knowledge and expertise. Across the divisions, the group aims to be "there when it matters" and to build long-term relationships with its customers adding resilience to trading performance in difficult economic conditions. The Banking business model is based on conservative loan to value ratios, relatively short-term loan duration and is predominantly secured on accessible and identifiable assets. The Securities division's primary activity is to be a market-maker in short-dated exchange traded products, thereby providing liquidity to the markets within conservative trading limits, rather than proprietary trading. The Asset Management model focuses on managing, protecting and enhancing the wealth of private and corporate clients. Historically the group's conservative model has enabled it to trade profitably through economic downturns.

Key risk and uncertainty	Description of risk	Risk mitigation and management
Funding The group requires access to funding in order to support its client lending in particular within the Banking division but also trading and growth initiatives within the Securities and Asset Management divisions.	The vast majority of the funding requirement for the group relates to the Banking division. Following the credit crisis of 2008, access to credit markets has become more uncertain. Inability to source sufficient funding could constrain growth and in extreme circumstances require the Banking division to reduce lending levels.	The group remains soundly funded with access to total funding of £5.6 billion at 31 July 2010 and funding a loan book of £2.9 billion. Since the banking crisis, the group has diversified its sources of funding and currently utilises the following: • Shareholder funds; • Public bond markets; • Wholesale facilities; • Term retail deposits; and • Short dated customer deposits. Although the cost and availability of these sources continues to be volatile, the group is confident it will be able to access sufficient funding to support its operations.
Liquidity The group requires sufficient liquid resources to ensure it is able to meet liabilities as they fall due.	The group's ability to pursue its strategic objectives is constrained in the event of a lack of available liquid resources.	The group's policy continues to be to manage its liquidity to ensure liabilities are met as they fall due. The Banking division has historically maintained longer maturity funding, aiming to "borrow long and lend short." While this positive duration mismatch has narrowed in the current year, it remains a significant strength of the Banking model when compared to peers in the industry. The group's total funding at 31 July 2010 is significantly in excess of its customer loans and advances. The excess is invested in assets such as FRNs, short-term CDs and gilts, or placed on deposit at the Bank of England. The group is currently assessing the new requirements of its principal regulator under the Internal Liquidity Assessment regime, which it does not expect to materially impact the group's earnings.
Counterparty risk The failure or default of one or more financial institutions could materially impact the financial position of the group.	The group places material amounts of its customer deposits and client monies and assets with other financial institutions either by purchasing CDs and FRNs or by placing funds on deposit. The group also enters into derivative contracts in order to hedge interest rate and foreign exchange exposures with counterparties creating an exposure throughout the life of those contracts. In addition the securities businesses trade securities and rely on counterparties. As such, the group is at risk of financial loss if one of its counterparties defaults or fails.	The Risk and Compliance Committee within the Banking division monitors the credit quality of the counterparties with whom the group places deposits or whose debt securities are held, within approved limits. The Securities division exposure is limited as the businesses trade in the cash markets with regulated counterparties on a delivery versus payment basis such that any credit exposure is limited to price movements in the underlying securities. Counterparty exposure and settlement failure monitoring controls are in place. The Asset Management Risk and Compliance Committee maintains an approved list of banks and custodians for client money and assets which it controls.

Principal Risks and Uncertainties continued

Key risk and uncertainty	Description of risk	Risk mitigation and management
Credit risk The risk of default or untimely payment of amounts due by customers leading to the write off or write down of assets.	The group's Banking division advances loans to a range of corporates, SMEs or individuals. Failure to recover the amounts lent or the interest and fees associated with that loan could result in a significant bad debt charge.	The group's lending businesses have a dual approach to mitigate credit risk: • Aiming to lend to customers with the lowest likelihood of defaulting by giving due consideration of the credit quality and covenant of the underlying borrower; and • 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. These are supplemented by timely and rigorous collections and arrears management processes. In addition 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.
Regulation, tax and legislation The group operates in a highly regulated environment. Changes in regulation or the basis of taxation, particularly in the UK, could materially impact the group's performance.	The impact on the group's businesses caused by changes in regulation or the tax system is potentially material particularly in the aftermath of the credit crisis. Significant changes to the regulatory and legislative environment are currently being introduced and more are expected. These include: • Changes to the types and levels of liquidity banks are required to hold; • Amendments to the regulatory capital regime including changes to the level and type of capital required ("Basel III"); • Required enhancement to risk management and governance processes; and • Revisions to the Financial Services Authority ("FSA") remuneration code. Although many of the proposed changes are aimed primarily at larger institutions, the impact on the group's business model and earnings is potentially significant. The more intensive approach to supervision adopted by the FSA following the credit crisis, and an increased focus on certain issues in the securities market, could lead to a greater degree of regulatory intervention in financial services businesses generally. The recently announced changes in UK regulatory structure may result in a period of increased uncertainty, with the potential for disruption of established regulatory relationships.	The group monitors regulatory developments and engages in dialogue with regulatory authorities on a regular basis and continues to maintain a conservative model with a strong, well capitalised balance sheet and believes it is well placed to react to regulatory change. The group has a central tax function which liaises regularly with the tax authorities and has developed a group tax policy to ensure a consistent approach is taken to tax issues across the group.

Key risk and uncertainty	Description of risk	Risk mitigation and management
Operational risk Operational risk is the risk of loss or other material adverse impact resulting from failed internal processes, people or systems, or from external events.	In common with any financial services group, operational risk is inherent to the group. The group considers the key risks relate to employees and information technology. The group's success is closely aligned to the abilities and experience of its employees. The ability of the group to attract and retain key personnel is critical to the group's prospects in the medium and long-term. The group's activities are highly reliant on their IT infrastructure in their daily operations. Failure to respond to new technology, develop existing systems and ensure a robust infrastructure could have a material effect either competitively or operationally on the group's earnings and reputation.	The group has implemented an operational risk management framework designed to ensure that operational risks are assessed, mitigated and reported in a consistent manner across the group. The group is also exposed to fraud risk both internal and external and has continued to review and enhance its fraud prevention controls. The group has implemented a performance management framework and reviews the reward and incentive schemes regularly to ensure the group is successful in attracting and retaining the calibre of employees necessary to meet its objectives, while aligning such schemes with risk, compliance and treating customers fairly objectives. The group has succession plans for key employees. Each of the businesses continually invest in its IT platforms to ensure they are up-to-date and fit for purpose for the markets they operate in. Additionally, business continuity plans are in place with alternative business locations maintained to enable the businesses to respond in a timely manner to a disaster event. The group's overall exposure is further mitigated by individual businesses maintaining discrete IT systems rather than group wide IT platforms.

Principal Risks and Uncertainties continued

Key risk and uncertainty	Description of risk	Risk mitigation and management
Market risk The group's activities are exposed to losses arising from equity or fixed income price movements and changes to foreign exchange and interest rates.	The group's securities businesses are exposed to market movements deriving from trading in equity and fixed income securities. Interest income is a substantial proportion of the group's revenues. Movements in interest rates have the potential to materially affect the group's earnings. The majority of the group's activities are located in the British Isles and are transacted in sterling. The group does however have material currency assets and liabilities primarily due to a range of currency services offered by the Banking division. These currency assets and liabilities are principally CDs, FRNs and lending as well as borrowings and customer deposits. The group also has a number of overseas subsidiaries, a US dollar investment in its associate Mako and two seed capital investments within currency denominated funds.	Senior management within the Securities businesses are closely involved in risk management processes which are also monitored at group level. There are controls, supplemented by cash limits, on individual large or slow moving equity or fixed income positions. Real time controls on the size and risk profile of trading books and of individual books within these are maintained. Treasury operations do not trade actively in money market instruments although they are held for liquidity purposes. The group's policy is to match fixed and variable interest rate liabilities and assets utilising interest rate swaps where necessary. Interest rate mismatch policies are established by the Banking division's Risk and Compliance Committee with compliance monitored daily. Returns from the group's capital and reserves are necessarily subject to interest rate fluctuations and as a matter of policy are not hedged. The foreign exchange exposures arising from the Banking division's assets and liabilities are managed by matching assets and liabilities by currency and the limited use of foreign currency swaps. Exposures are monitored daily against centrally authorised limits. The group does not take speculative proprietary positions in foreign currency. The group does not hedge its currency exposure to its overseas subsidiaries and currency investments since it is relatively modest. A sensitivity analysis on foreign currency exposures is shown on page 97.

Report of the Directors

The directors present their report and the audited financial statements for the year ended 31 July 2010.

Business Review and Principal Activities

Close Brothers Group plc ("the Company") is the parent company of a group of specialist banking, securities and asset management companies.

The principal subsidiary undertakings as at 31 July 2010 and their principal activities are listed in note 26 on page 84 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:

Results and Dividends

The consolidated results for the year are shown on page 50. The directors recommend a final dividend for the 2010 financial year of 25.5p (2009: 25.5p) on each ordinary share which, together with the interim dividend of 13.5p (2009: 13.5p), makes an ordinary distribution for the year of 39.0p (2009: 39.0p) per share. The final dividend, if approved by shareholders at the 2010 Annual General Meeting ("AGM"), will be paid on 19 November 2010 to shareholders on the register as at 8 October 2010.

Directors

The current directors of the Company at the date of this report appear on pages 8 and 9. All the directors held office throughout the year ended 31 July 2010.

Directors' interests

The directors' interests in the share capital of the Company as at 31 July 2010 are set out on page 44.

Appointment of directors and powers of directors

Details on the appointment of directors and the powers of directors are set out on page 30.

Directors' indemnity

The Company has granted indemnities to all of its directors on terms consistent with the applicable statutory provisions. Qualifying third party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were accordingly in force during the course of the financial year ended 31 July 2010, and remain in force at the date of this report.

Share Capital

As at 31 July 2010 the Company had 149.7 million ordinary shares in issue with a nominal value of 25.0p each. Details of changes in the Company's ordinary share capital during the year are given in note 23 on page 82 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 194,157 ordinary shares of 25.0p each in satisfaction of option exercises. Full details of the options exercised, the weighted average option exercise price and the weighted average market price at the date of exercise can be found in note 31 on pages 88 and 89 of the Financial Statements.

Restrictions on the transfer of shares

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

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

New issues of share capital

Under the Companies Acts, the directors of a company are, within certain exceptions, unable to allot any equity securities without express authorisation, which may be contained in a company's articles of association or given by its shareholders in general meeting, but which in either event cannot last more than five years. Under the Companies Acts, the board may also not allot shares for cash (otherwise than pursuant to an employee share scheme) without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by a special resolution of the shareholders.

Purchase of Own Shares

The existing authority given to the Company at the last AGM to make market purchases of up to 10% of its issued share capital will expire at the conclusion of the next AGM.

The board considers it would be appropriate to renew this authority and intends to seek shareholder approval to make market purchases of up to 10% of its issued share capital at the forthcoming AGM in line with current investor sentiment. Details of the resolution renewing the authority are included in the Notice of AGM.

During the year ended 31 July 2010, the Company made no market purchases of its own shares ("Treasury Shares").

The Company holds Treasury Shares for the purpose of satisfying option grants and share awards under the Company's employee share plans. During the year ended 31 July 2010, 705,411 Treasury Shares were transferred out to satisfy share option awards, for a total consideration of £4.0 million. The maximum number of Treasury Shares held at any time during the year was 5.5 million with a nominal value of £1.4 million.

Report of the Directors continued

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 88 and 89.

Substantial Shareholdings
Details on substantial shareholdings in the Company are set out on page 34.

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 £1.5 billion as at 31 July 2010 which contain clauses which require lender consent for any change of control. Should consent not be given, a change of control would trigger mandatory prepayment of the facilities.

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

Risk Management
The group has procedures in place to identify, monitor and evaluate the significant risks it faces. The group's risk management objectives and policies are set out on pages 33 and 34 and in note 33 on pages 91 to 99 to the Financial Statements.

Supplier Payment Policy
All banking, securities and investment transactions are settled in accordance with applicable terms and conditions of business agreed with the counterparty. Average creditor days for all other approved expenses was 22 (2009: 21).

Charitable and Political Donations
The group made charitable donations in the year amounting to £281,000 (2009: £154,000). Further details are set out in the Corporate Responsibility section on pages 36 and 37. No political donations were made during the year (2009: £nil).

Resolutions at the Annual General Meeting
The Company's AGM will be held on 18 November 2010. Resolutions to be proposed at the AGM include the renewal of the directors' authority to allot shares, the disapplication of pre-emption rights, authority for the Company to purchase its own shares and the re-election of all the directors.

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

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

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

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

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

By order of the board

Elizabeth Lee
Company Secretary

28 September 2010

Corporate Governance

The board recognises and understands the pivotal role of good governance not only at board level but throughout the organisation. It has been closely monitoring the governance debates following the credit crisis and the economic downturn.

The board believes that effective management and monitoring of risk goes to the core strategic objectives of the group. A significant proportion of board time in the last financial year was focused entirely on risk, including discussions of group risk appetite, the appropriate framework for control of risk and the identification and impact of key risks facing the group, whether external macro economic and political factors or key business risks. Recognising the importance of allocating sufficient time for the oversight of risk, it is anticipated that a board risk committee will take responsibility for this key area in the next financial year providing oversight and advice to the board regarding group risk appetite, group risk profile and alignment to risk appetite, the risk management framework and culture and alignment of reward structures to risk appetite.

Compliance

The directors are responsible for ensuring the highest standards of corporate governance within the group.

The Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008 (the "Combined Code") sets out guidance on best practice in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice. The Financial Services Authority ("FSA") requires companies listed in the UK to disclose, in relation to Section 1 of the Combined Code, how they have applied its principles and whether they have complied with its provisions throughout the accounting 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 for the year end 31 July 2010 with the Code of Best Practice set out in Section 1 of the Combined Code, except that at least half the board of directors, excluding the chairman, were not independent. The board intends to appoint a further independent non-executive director to address this.

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

The Board

Role and responsibilities

The board is collectively responsible for ensuring the success of the Company. It sets the group's strategic objectives and provides leadership for the group as a whole. The board is the primary decision making body for all matters considered significant to the group as a whole. A formal schedule of matters is submitted to the board for its decision, which enables the board and executive management to operate within a clear governance framework. The schedule of matters requiring board approval currently includes:

- Setting and monitoring strategy;
- Risk management;
- Regulatory compliance and internal control;
- Ensuring adequate financial resources;
- Acquisitions and disposals over certain thresholds;
- Board appointments and removals; and
- Communication with shareholders.

Matters which are outside the scope of the schedule of matters reserved to the board are decided by executive management.

The board also adopts an annual schedule of rolling agenda items to ensure that all matters are given due consideration and reviewed at the appropriate point in the financial and regulatory cycle. Agenda items include consideration of the annual budget and its approval, review of the Internal Capital Adequacy Assessment Process and regular updates from the chief executive and finance director on the performance and results of the group and the individual operating businesses. In addition, senior executives will update the board on specific matters, including legal, compliance, risk and internal audit. During the year, the board has, in particular, focused on:

- The budget for the 2010/2011 financial year;
- Funding and liquidity, in particular the FSA new liquidity regime;
- Capital management;
- Close Brothers Group plc's bond issue;
- The implications of the Turner and Walker Reviews;
- The 2010 update on the board evaluation process carried out in 2009; and
- Governance and risk management.

In addition, the divisional heads of the Banking, Asset Management and Securities divisions updated the board on performance and strategic developments and initiatives in their respective areas.

Composition, balance and independence

At the date of this report, the board comprises eight members: the chairman, three executive directors and four non-executive directors.

The directors contribute a range of complementary skills, knowledge and experience. Details of the individual directors and their biographies are set out on pages 8 and 9.

The board is of the opinion that each non-executive director acts in an independent and objective manner and therefore, under the Combined Code, is regarded as independent, with the exception of Jamie Cayzer-Colvin who is a director of a substantial shareholder. The board's opinion was determined by considering for each non-executive director whether he is independent in character and judgement, how he conducts himself in board meetings and board committee meetings, whether he has any interests which may give rise to an actual or perceived conflict of interest and whether he acts in the best interests of the Company and all its shareholders at all times. Each non-executive director is required to confirm at least

Corporate Governance continued

annually, whether any circumstances exist which could impair his independence.

The structure of the board ensures that no individual or group of individuals is able to dominate the decision-making process.

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 Combined Code, there is a written statement of the division of responsibilities which has been reviewed and approved by the board. The chairman is Strone Macpherson. His other significant commitments are set out in his biography on page 9. The board is satisfied that his significant commitments do not restrict him from carrying out his duties effectively.

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

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

Senior independent director

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

Appointment of directors

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

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

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

Biographies for all the directors are set out on page 9.

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 2009 AGM.

Meetings and attendance

The board has regular scheduled meetings. During the year ended 31 July 2010 there were ten scheduled board meetings and two ad hoc board meetings called to deal with specific time critical business matters. There were also additional board meetings convened to deal with operational issues.

The directors receive detailed and comprehensive papers in advance of each board meeting. The agenda is set by the chairman in consultation with the chief executive, the finance director and the company secretary. In addition, each director is given the opportunity to review the agenda and propose items for discussion with the chairman's agreement.

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.

The number of board meetings held during the year and the attendance by the directors is set out in the table below:

Number of board meetings 2009/2010

	Scheduled 10	Ad-hoc 2
Executive director:		
Stephen Hodges	10	2
Jonathan Howell	10	2
Preben Prebensen	10	2
Non-executive director:		
Bruce Carnegie-Brown	8	2
Jamie Cayzer-Colvin	10	2
Ray Greenshields	9	2
Strone Macpherson	10	2
Douglas Paterson	10	2

Board evaluation

The board conducts a formal and rigorous performance evaluation each year to assess its own performance and that of its committees and individual directors. The process is led by the chairman, who is supported by the company secretary.

In 2009 Boardroom Review carried out an independent evaluation of the effectiveness of the board and in 2010 was reappointed to consider the board's progress following the 2009 evaluation. Boardroom Review provides no other services to the board and/or the group.

The comprehensive nature of the 2010 review fulfilled both the Combined Code and new UK Corporate Governance Code's requirement for the evaluation of the board, its committees and the individual directors and took the form of confidential interviews between the external assessor and each director plus a review of relevant papers. Results from the evaluation were collated by the assessor and considered by the chairman and chief executive. Feedback was subsequently presented to and discussed by the board in July 2010.

The 2010 update review highlighted achievements on the development of the board's strategic processes and the strengthening of the governance structure. The report noted the introduction of strategic away days, increased informal board time and site visits to the board calendar. It recommended the introduction of a central training programme to coordinate director training.

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

Induction, information and ongoing development

On appointment to the board, each director receives a comprehensive induction tailored to the experience and needs of the individual. Meetings are arranged with other directors, key senior personnel and external advisers. New directors are also available to meet major shareholders on request.

The directors are kept informed of relevant regulatory and corporate governance developments as they arise by senior managers or through the Company's external advisers. During the year ended 31 July 2010, the directors received briefings on the Walker Review and the Financial and Reporting Council Review of the Combined Code.

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

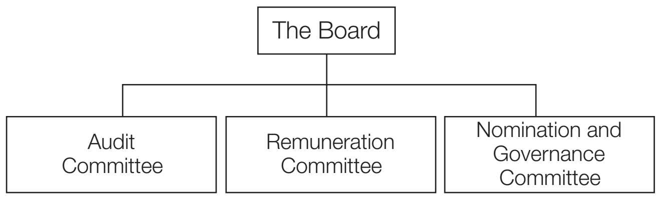
Board Committees

The board has established an Audit Committee, a Remuneration Committee and a Nomination and Governance Committee. Each committee is responsible for the review and oversight of activities within its defined terms of reference and copies of each committee's terms of reference are available on the Company's website.

Membership of the committees is made up of independent non-executive directors only.

At the scheduled board meetings, the chairman of each committee provides the board with a summary of key issues considered at the committee meetings.

Board governance structure



Audit Committee

The membership of the Audit Committee during the year ended 31 July 2010, together with a record of attendance at meetings which members were eligible to attend, is set out below:

Number of meetings scheduled during year – 5

Member	Attendance
Douglas Paterson (chairman)	5
Bruce Carnegie-Brown	5
Ray Greenshields	5

The committee meetings were scheduled to coincide with the financial reporting and audit cycles of the group. The committee has throughout the year monitored the integrity of the financial statements through a review of the Interim and Annual Reports.

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

The company secretary, or her nominee, acts as secretary to the committee. The executive directors and heads of group finance, risk and compliance attend by invitation. The chairman of the board and Jamie Cayzer-Colvin also attend committee meetings regularly by invitation. The external auditors and the head of internal audit attend all meetings and the committee meets privately with them at each meeting.

Corporate Governance continued

The role of the committee includes:

- Monitoring the integrity of the financial statements of the Company and the form and content of published announcements;
- Reviewing accounting policies, accounting treatments, judgements and disclosures in financial reports;
- Reviewing the adequacy of the group's system of risk management, regulatory compliance and internal control;
- Reviewing the group's whistleblowing procedures;
- Monitoring and reviewing the effectiveness of the group internal audit function;
- Making recommendations to the board as to the appointment or reappointment and remuneration of the external auditors, including assessing independence and objectivity, approving their terms of engagement and reviewing their findings and performance and overseeing the relationship with them; and
- Developing and implementing policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.

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

During the year, the committee particularly focused on the following areas:

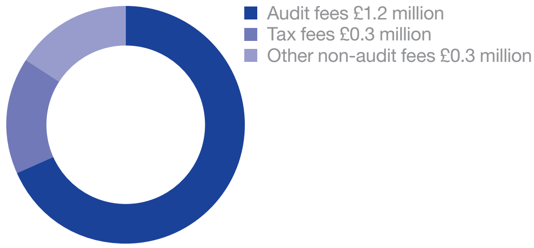
- The group's annual and half year reporting including significant reporting judgements made by management;
- Review of the group's tax policy;
- Consideration of the hedge accounting implications of the more diversified funding mix in the Banking division following the credit crisis;
- Review of the group's foreign exchange policy; and
- Review of the group's hedging policy for employee share plans.

As in previous years, the committee conducted a review of the service provided by the group's external auditors. The results of this review were shared with the external auditors to provide a basis for its recommendation as to their reappointment.

Non-audit services policy and auditors' independence
The group's auditors are Deloitte LLP. The committee assesses annually the independence of the auditors as well as their qualifications, expertise and resources and the effectiveness of the audit process. In assessing their independence, the committee considers the level of non-audit work carried out by the auditors and has agreed a clear policy on the engagement of the external auditors for non-audit services to ensure any such engagement does not impair their objectivity and independence. The committee must pre approve any work awarded over £100,000. The policy reflects the committee's view that there are benefits to the auditors carrying out non-audit work where it is closely related to the audit and/or where a detailed understanding of the group is required. The committee balances these benefits with the potential impact on auditor independence and believes that the agreed policy provides a more relevant measure of auditor independence than monetary ratios or guidelines followed by some investors. Examples of non-audit services awarded to the external auditors in the year to 31 July 2010 include taxation fees and a review of hedge accounting models and documentation within the Banking division. A breakdown of the fees paid to the external auditors in respect of audit and non-audit work is included in note 6 on page 67.

Having given consideration to the extra work undertaken by the auditors, and after review with the audit partner and the executive directors, the committee is satisfied as to the independence of the external auditors.

External auditor audit, tax and other non-audit fees



Remuneration Committee

The membership of the Remuneration Committee during the year ended 31 July 2010, together with a record of attendance at meetings which members were eligible to attend, is set out below:

Number of meetings scheduled during the year – 7

Member	Attendance
Bruce Carnegie-Brown (chairman)	7
Ray Greenshields	6
Douglas Paterson	7

The chairman of the board, chief executive officer, group head of human resources and Jamie Cayzer-Colvin attend the meetings by invitation. Further details of the role and work of the committee are set out in the Report of the Board on Directors' Remuneration on pages 38 to 48.

Nomination and Governance Committee

The membership of the Nomination and Governance Committee during the year ended 31 July 2010, together with a record of attendance at meetings which members were eligible to attend, is set out below:

Number of meetings scheduled during year – 4

Member	Attendance
Strone Macpherson (chairman)	4
Bruce Carnegie-Brown	3
Ray Greenshields	4
Douglas Paterson	4

The chief executive and Jamie Cayzer-Colvin attend by invitation.

The role of the committee includes:

- Considering the appointment or retirement of directors;
- Reviewing proposed nominations and governance procedures and to make recommendations thereon to the board. Before an appointment is made, the skills, knowledge and experience required for a particular appointment are evaluated and external advisers may be used to facilitate the search for suitable candidates;
- Regular reviews of the structure, size and composition of the board;
- Considering the leadership needs of the group and succession planning; and
- Assessing the contribution of non-executive directors.

During the year the committee met to consider the recruitment and appointment of a new non-executive director, the reappointments of existing non-executive directors and the impact of the Walker Review on board structure and the annual reappointment of directors.

Conflicts of Interest

The shareholders approved new articles of association at the AGM held on 18 November 2009, which 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.

Internal Control and Risk Management

The board has overall responsibility for the group's systems of risk management, regulatory compliance and internal control and for reviewing their effectiveness. The systems are designed to ensure that the key risks, both internal and external faced by the Company and its subsidiaries in the conduct of their business are identified and evaluated so that appropriate controls are put in place to manage those risks. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

Risk management is the process of identifying the principal business risks to the group achieving its strategic objectives, establishing appropriate controls to manage those risks and checking that appropriate monitoring and reporting systems are in place. The group's risk management process balances cost against risk within the constraints of the group's risk appetite and is consistent with the prudent management required of a large financial organisation.

The risk management framework is based on the concept of "three lines of defence":

- Risk management: Primary responsibility for strategy, performance and risk management lies with the board, the chief executive and the heads of each division and operating business;
- Risk oversight: Risk management oversight is provided by the group risk and compliance committee ("GRCC") and the head of group risk working with counterparts in the divisions and operating businesses and with group compliance; and
- Independent assurance: Independent assurance on the effectiveness of the risk management systems is provided by group internal audit reporting to the Audit Committee.

There are clear reporting lines and defined areas of responsibility at board, divisional and business level. This structure is designed to check, amongst other things, that key issues and developments are escalated on a timely basis. The group's risk management framework requires that all of the group's divisions and operating businesses establish a process for identifying, evaluating and managing the key risks that they face.

The composition and duties of the Audit Committee are described on pages 31 and 32. The GRCC is a committee established by the chief executive to assist him in the group wide management of risk. Its membership is made up of the group's executive committee members and the heads of group risk, compliance and internal audit. It meets monthly and is responsible for:

- The group's risk management strategy, approach and policy;
- Recommending for board approval the group's risk appetite;
- The approval of group wide policies in respect of risk management and regulatory compliance including limits of authority; and
- Reviewing regular reports on significant risk management, regulatory compliance and internal control issues and for monitoring their analysis and resolution.

Corporate Governance continued

The system of internal control is supported by a well established organisational structure within the group, with clear levels of responsibility and delegation of authority and a strong control culture embedded in the management of each operating company. Each operating company in the group regularly undertakes a review of, and reports to its board on, these controls and procedures, having due regard to its key risks. Where necessary, steps are taken to improve internal control and risk management further, following these reviews. The principal risks and uncertainties shown on pages 22 to 26 of the Business Review describe these key risks and explains how they are controlled.

Group internal audit regularly reviews the effectiveness of controls and procedures established by the Company and its operating businesses to manage key risks. The head of group internal audit reports functionally to the Audit Committee through the chairman of that committee and to the finance director who provides support and guidance to the function including the professional development of the head of group internal audit. The head of group internal audit has unfettered access to the board.

An annual plan is presented to the Audit Committee each year, which focuses in particular on higher risk areas of the group's business. The committee regularly reviews the scope and results of internal audit work across the group and the implementation of recommendations. It also assesses the scope of the work to cover all key activities of the group and concentrates on higher risk areas.

The Company has complied with the Turnbull Committee's guidance for directors. Identifying, evaluating and managing the group's significant risks is an ongoing process which is regularly reviewed by the board, and which has been in place for the year ended 31 July 2010 and up to the date of the approval of these financial statements.

Investor Relations

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

In addition to announcements and reporting around the financial calendar, the IR programme includes meetings, telephone discussions and investor presentations – notably this year a briefing by the management team of the Securities division – designed to provide shareholders with greater detail on the businesses within the group. The chief executive and finance director meet with current and prospective shareholders on a regular basis in the UK, continental Europe and the US. This year over 75 meetings were held.

The chairman and the senior independent director are available to meet with major shareholders from time to time, particularly in relation to corporate governance and remuneration. Shareholders also have the opportunity to ask questions to the board at the AGM, either in person or by submitting written questions in advance. The chairmen of each of the board committees attend the AGM, and all other directors are expected to attend the meeting.

During the year the group demonstrated its commitment to electronic forms of communication by upgrading its corporate website. The latest financial reports, news releases, presentation materials and web casts of financial presentations are available on the IR section of the Close Brothers Group website www.closebrothers.co.uk.

Substantial Shareholdings

The Company has been notified as at 15 September 2010 under the provisions of the Disclosure and Transparency Rules of the following significant interests in the voting rights of the Company.

	Ordinary shares millions	Voting rights %
Caledonia Investments	19.6	13.56
Prudential	11.6	8.03
Aberdeen Asset Management	10.7	7.40
Artemis Investment Management	9.3	6.42
Lloyds Banking Group	7.8	5.40
Schroders	7.1	4.90
Aviva	6.2	4.27
Legal & General	5.7	3.95

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

Going Concern

The group's business activities, together with the factors likely to affect its future development and performance and its summarised financial position are set out in the Chairman's and Chief Executive's Statement and Business Review on pages 2 to 5 and 11 to 21 respectively. The principal risks and uncertainties the group currently faces are described on pages 22 to 26 of the Business Review along with the ways the group seeks to manage those risks.

The group has a strong, proven and conservative business model and a range of diversified financial services businesses. It has traded profitably through the recent credit crisis as well as in previous economic downturns.

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. The directors are required to prepare accounts for the group in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and Article 4 of the International Accounting Standards ("IAS") Regulation, and have chosen to prepare company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP").

In the case of IFRS accounts, IAS 1 requires that financial statements present fairly for each financial year the group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. Directors are also required to:

- 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 IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and financial performance; and
- Prepare the accounts on a going concern basis unless, having assessed the ability of the group to continue as a going concern, management either intends to liquidate the group or to cease trading, or have no realistic alternative but to do so.

In the case of UK GAAP accounts, the directors are required to prepare financial statements for each financial year which 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 these financial statements, the directors are required to: select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; state whether all applicable 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.

The directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the group and the Company and to enable them to ensure that the group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation and that the Company financial statements and the Report of the Board on Directors' Remuneration comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with IFRS and UK GAAP, give a true and fair view of the assets, liabilities, financial position and profit of the consolidated group undertakings as well as the Company; and
- The management reports, which are incorporated by reference into the Report of the Directors, include a fair review of the development and performance of the business and the position of the consolidated group undertakings as well as the Company, together with a description of the principal risks and uncertainties they face.

By order of the board

Elizabeth Lee
Company Secretary

28 September 2010

Corporate Responsibility

Introduction

Close Brothers aims to integrate Corporate Responsibility ("CR") across the group's businesses.

The board continues to focus on:

- Ensuring recognition of CR initiatives throughout the group;
- The group's employees;
- Acting responsibly to its customers;
- The environmental impact of its activities generally; and
- The group's contribution to local communities.

The board encourages the adoption of key CR principles across all group companies. Given the diversified nature of the group, it is the responsibility of each of the businesses to implement the group's CR principles.

During the year, a CR committee was established and is chaired by a member of the Executive Committee to promote recognition of CR within the group. The committee has representatives from across the group and provides a forum for sharing ideas and to raise the profile and importance of CR efforts and objectives within the group. The committee has decided initially to focus on employee engagement and contribution to the community. Initiatives in support of these objectives are already under way and will continue over the coming year.

Employees

The group is committed to recruiting, training, developing and retaining high calibre people in order to maximise their potential and derive business benefits.

The group values diversity in its employees and is committed to providing equality of opportunity regardless of race, gender, age, disability, sexual orientation or religion. This applies both to recruitment and the promotion and development of people who are already employed. In the event of employees becoming disabled, every effort is made to ensure their employment with the group continues and specialised training is provided where appropriate.

The group's businesses are responsible for implementing their own health and safety policy to establish procedures appropriate to their particular activities. All businesses have a health and safety policy which is communicated to employees as part of a joining induction pack, staff handbook or via the intranet. In addition, each business has a health and safety representative accountable for reviewing the policy and ensuring that stress or injury at the workplace is minimised.

During the year, the group introduced an Employee Assistance Programme ("EAP") called UNUM LifeWorks which is available to all UK based permanent and fixed term employees. It is a free, confidential service that gives access to employees and their immediate family to discuss work, health or family matters 24 hours a day, 365 days a year. As well as providing a support and counselling service, it also provides free advice and practical help on a variety of matters, for example finding childcare, selling a house or finding local tradesmen. At the year end, over 90% of staff were covered by an EAP or similar programme.

The group supports flexible working practices and this year, the group has promoted childcare vouchers and highlighted the benefits of these to staff. Employee benefits for staff vary across the group, however all divisions offer pension and life assurance to UK based staff.

The group is committed to training and development of its staff including training for further qualifications. All of the group's businesses have a performance management process to assist in identifying training needs of staff and these needs are included in local training plans.

The total investment in staff training increased year-on-year with over two thirds of employees attending internal or external training courses during the year.

The group offers a Save As You Earn Sharesave scheme to all eligible UK based employees allowing them to participate directly in the success of the group. In the 2009 financial year, the board reduced the eligibility criteria for employees from two years service to six months in order to encourage increased participation in the scheme. As a result, in the 2010 financial year, approximately one third of all staff across the group participated in the scheme, up from one quarter of all staff last year.

As part of the focus on employee engagement the group has looked at ways of improving communication. A group wide intranet, with an employee directory, has been developed to support the sharing of information and networking. Leadership briefings and "townhall meetings" have been introduced and used as a forum to share understanding of group and divisional strategy. Plans are under way for an employee opinion survey to be carried out in the 2011 financial year. This will give all staff the opportunity to provide feedback on an anonymous basis enhancing communication between employees and the leadership team and enabling the group to identify opportunities to increase employee engagement.

Responsible Finance

The group's success and strong reputation depends on ensuring that all customers are treated fairly. The group has a successful track record of building long-term relationships with its customers.

Treating Customers Fairly ("TCF") has been embedded across all group companies, both onshore and offshore, and is central to the group's business ethos. Group control functions continue to be responsible for the monitoring of the application of TCF across the businesses, and ensuring all staff are briefed on TCF policies and initiatives. TCF remains an ongoing process and the group will continually look to develop its policies and procedures taking into account current regulatory views and industry best practice.

The group recognises its responsibility to minimise the opportunity for fraud across its businesses. All group companies have anti-money laundering, whistle blowing and, where appropriate, fraud prevention policies.

Each of our regulated businesses has a dedicated anti-money laundering and compliance officer who reports to the head of group compliance. Regular training is given to all staff to ensure continuing awareness of anti-money laundering and fraud prevention issues. In addition, there are whistle blowing arrangements to enable staff to report incidents confidentially. The group is also well positioned to ensure that it complies with the implementation of the Bribery Act in April 2011.

Environment
The group recognises the importance of managing and minimising the environmental impact of its activities.

The group is complying with the requirements of the new Carbon Reduction Committee Energy Efficiency Scheme which is the UK's mandatory climate change and energy saving scheme.

The group's head office, 10 Crown Place, was refurbished in the year with consideration given to energy saving measures, better waste management and recycling facilities and a range of carbon reduction measures for lighting such as a Passive Infra Red system.

The group has recently carried out an energy audit at its head office and one of its other London based offices and continues to engage closely with an energy consultancy firm in developing its energy and environmental policy.

The group continues its commitment to limit greenhouse gas emissions and water usage and to recycle waste materials at its head office. This includes the use of green tariff energy and a recycling programme for toners, paper and general waste.

Community
The group continues to encourage employee participation in local community projects. In an effort to enhance its work with the community this year, the group launched a work experience programme offering young students aged 17 to 19 years, one week's work experience in different departments within the group. These candidates were offered placements across the group and benefited from exposure to a work environment and a breadth of activities. The group is also planning another one week work experience programme in November 2010, partnering with a Tower Hamlets school close to the group's London head office in order to give children aged 14 to 15 years the chance to experience life within a City financial services organisation.

The group also encourages charitable donations by offering a Give As You Earn ("GAYE") scheme to onshore staff. During the year, a promotion programme was launched to encourage participation in this scheme, with organised site visits to all locations and a donation by the group to a charity of the employees choice for all employees signing up to the scheme over the summer. In addition, information has been made available on the group intranet and local intranet sites within the businesses and has been given to new starters as part of induction packs. As a result, participation in the scheme has grown to over 10% of the UK based employees, nearly double that in the 2009 financial year, making the group eligible for a gold quality mark in March 2011.

As a result of the increase in the participation in the GAYE scheme, and an increase in awareness of charitable giving more broadly, during the year the group increased the amount donated to £281,000 (2009: £154,000). Of this, over 20% was raised through a matched funding scheme for employees participating in fundraising activities, an increase from last year, with the remainder from direct group donations. All of the businesses made donations to local, national and global charities. The group's largest contributions were to the Prince's Trust and NSPCC. In addition, the businesses held various events to support the fundraising for Haiti, as well as making direct contributions to the British Red Cross and Disasters Emergency Committee related appeals.

In addition to the local charities that are supported, the group plans to work in partnership with a nominated charity for fundraising and support over the next twelve months. The charity will be chosen by a staff vote organised by the CR committee.

Report of the Board on Directors' Remuneration

This report has been prepared in accordance with the relevant provisions of Schedule 8 to the Accounting Regulations under the Companies Act 2006 and has been approved by the board. The report also meets the relevant requirements of the Listing Rules of the FSA and describes how the board has applied the principles relating to directors' remuneration in the Combined Code. It will be presented to shareholders for approval at the AGM on 18 November 2010.

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

Introduction

The Remuneration Committee ("the Committee") has had a full agenda over the past year as the continuing changes in the competitive and regulatory landscape have presented a number of challenges. Within this environment the Committee has attempted to balance the needs of all key stakeholders.

As set out in the 2009 Annual Report, the Committee had proposed to implement a number of changes to the remuneration policy and incentive structure for senior executives. The primary reasons for this were:

- To improve alignment of the remuneration policy with the strategic priorities of the group;
- To create a more explicit link between the group's management of risk and its remuneration policies; and
- To change the components of compensation to increase both the levels of deferral and the amount of equity as a proportion of total compensation.

New remuneration policies and approaches that have been reviewed and implemented by the Committee over the year are outlined in the "Committee activities during the year" section. The Committee feels that by implementing these changes, the group has adopted those codes of practice and corporate governance guidance (as proposed by organisations including the FSA, the Financial Stability Board of the G20 and the European Parliament) which are appropriate to its business model and organisational structure. However, with the release of the proposed revisions to the FSA's Remuneration Code in late July 2010, the Committee recognises that further changes to the remuneration policy may be necessary over the next year. Ensuring compliance with the Remuneration Code (where appropriate and subject to the proportionality provisions contained therein) will be a primary objective of the Committee over the next year.

The Committee chairman will be available to answer questions at the forthcoming AGM on 18 November 2010.

The Remuneration Committee

The Committee's objectives

The Committee's terms of reference comply with the Combined Code and are available from the company secretary and can be found on the Company's website www.closebrothers.co.uk/boardcommittees.aspx. 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 both the group's annual plans and its strategic objectives by providing a remuneration package that contains appropriately motivating targets that are consistent with the group's risk appetite (see page 22 "Risk Appetite and Reputation"); and
- Align senior executives' remuneration with the interests of shareholders.

The Committee's main responsibilities are to:

- Review and determine the total remuneration packages of executive directors and other senior executives in consultation with the chairman and chief executive and within the terms of the agreed policy. This includes bonuses, incentive payments, share options, share awards and benefits;
- Approve the design and targets of any performance related pay schemes operated by the group;
- Review the design of all employee share incentive plans, including the granting of awards, the setting and testing of performance conditions and the exercise of any discretion on the granting of good leaver status or regarding material amendments to the plan rules not requiring the approval of shareholders;
- Ensure that contractual terms on termination and any payments made are fair to the individual and the group, that failure is not rewarded and that a duty to mitigate loss is fully recognised;
- Review any major changes in employee benefits structures throughout the group;
- Select, appoint and determine terms of reference for independent remuneration consultants to advise the Committee on remuneration policy and levels of remuneration;
- Ensure that provisions regarding disclosure of remuneration are fulfilled; and
- Seek advice from group risk to ensure remuneration structures and annual bonuses are appropriately aligned to the group's risk appetite.

Committee membership

The Committee consists of three independent non-executive directors, namely Bruce Carnegie-Brown (chairman), Ray Greenshields and Douglas Paterson. All served throughout the year. The chairman of the board, chief executive, group head of human resources and Jamie Cayzer-Colvin attend meetings by invitation. The company secretary or her nominee acts as secretary to the Committee. Each member's attendance is set out in the table on page 32.

In line with the Combined Code requirements, the board undertook a review of the effectiveness of the Committee during the year and, as a result, has refined the scope and focus of its work in a number of areas, including an evaluation of the performance ratings assigned to employees across the group, expanding the number of senior individuals within the group whose performance is reviewed in detail by the Committee and increasing the attention to risk management in its review of compensation decisions.

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

Meeting	Agenda item
September 2009	• Approval of the 2008/2009 remuneration report; • Shareholder feedback on proposed changes to the remuneration package for executive directors including the new Long Term Incentive Plan (the "2009 LTIP") and Share Match Plan (the "SMP"); • Review of the Inland Revenue approved Savings Related Share Option Scheme (the "SAYE Scheme") rules to ensure continued compliance with current legislation and market practice; and • The measurement of performance conditions and determination of vesting levels of the 2006 awards made under the 2004 Long Term Incentive Plan (the "2004 LTIP").
November 2009	• Review and approval of 2009 LTIP awards; and • Review of bonus deferral for key senior staff within the Securities division.
February 2010	• Review of the measures by which the performance of strategic goals within the 2009 LTIP will be assessed.
March 2010	• Review of the recommendations regarding remuneration from the FSA Code of Practice, Walker Review and Financial Reporting Council Review of the Combined Code and discussion of their potential application and impact on the group; • Review of the proposed approach to consideration and determination of 2009/2010 bonuses; and • Approval of remuneration packages for the appointments to head of Commercial, Banking and head of Treasury, Banking.
April 2010	• Approval of governance structure for remuneration and termination packages; and • Review of anticipated bonus pool spend for 2009/2010.
June 2010	• Review of initial proposals for the 2009/2010 compensation review.
July 2010	• Review and approval of 2009 LTIP awards for 2010; • Review and approval of final bonus pools; • Review and approval of specific recommendations for salary and bonus awards to the executive directors and key senior management within the group; and • Review of future long-term divisional incentive compensation plan.

Report of the Board on Directors' Remuneration continued

Advice

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

Hewitt New Bridge Street

- Periodic monitoring of the 2004 LTIP total shareholder return ("TSR") targets.

PricewaterhouseCoopers ("PwC")

- New executive remuneration policy and long-term incentive plan structure.

Slaughter and May

- Operation of the group's share plans.

Chief executive

- 2009/2010 compensation recommendations for executive directors and other senior executives; and
- Recommendations regarding divisional incentive structures.

Finance director

- Funding and hedging approach in relation to the equity based elements of the Omnibus Share Incentive Plan and existing plans.

Group head of human resources

- Approach to assess performance against the strategic goals in the 2009 LTIP;
- Governance on approval for reward and termination packages;
- Approach to employee performance ratings and the compensation review process across the group; and
- Approach to divisional incentive structures.

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

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

Remuneration Policy

The Committee remains focused on ensuring that remuneration policy and incentive structures enable the group to recruit the people it needs and to retain and motivate existing staff. It believes reward should be aligned with performance and that good risk management forms an integral part of remuneration policy.

At the executive level, the Committee works to ensure the executive remuneration policy creates alignment between management and shareholders' interests, while being mindful of the interests of other key stakeholders, including regulators. The new incentive structure for executive directors, agreed with shareholders in 2009, has been implemented this year. The Committee believes this has achieved a good balance between elements linked to short-term financial performance and those linked to longer-term shareholder value creation.

Retention and motivation of key senior executives has been further enhanced through targeted use of the new LTIP and increased levels of deferral. As in previous years the Committee reviewed individual justifications for the bonus awards to key executives within the group.

The Committee has also reviewed the remuneration approach across the group. As a result the remuneration governance, performance management and compensation review processes across the group have been enhanced this year to increase focus on the importance of good risk management and alignment of pay with both financial and non financial performance measures for all staff.

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 performance of the business and individual performance. Employees have individual objectives against which their personal performance is rated. These objectives cover both financial and non financial measures, including risk management objectives appropriate to their role. In addition to the assessment of performance against these objectives (conducted by an individual's line manager as part of their overall performance review) the group head of risk reports independently to the Committee on behalf of group risk, compliance and audit to ensure that any concerns highlighted by the control functions during the year are appropriately addressed in individual remuneration proposals.

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

The Committee has reviewed its role in line with changes in best practices during the year. As a result new governance has been introduced across the group to ensure that the Committee has oversight of individual remuneration and termination packages for key employees and those with significant compensation packages. The governance also covers changes to compensation structures for groups of individuals and mandates the involvement of group risk in determining new structures to ensure that they are appropriately aligned to the risk profile of the business in which they operate.

Remuneration Policy in Practice for Executive Directors

Element	Policy
Base salary	The Committee determines the level of base salary for each executive director annually taking into account salaries in relevant comparator companies and specific factors relating to individual performance. Pay for the broader employee population is also taken into account when setting base salaries.
Annual bonus	Executive directors and other senior executives are eligible to receive annual bonus awards under which discretionary payments may be made based on the achievement of pre-determined objectives. The new arrangements agreed with shareholders in 2009 are in operation for the first time in the 2010 financial year. Under these, the annual bonus for 2010 for executive directors is capped at 300% of base salary. Any bonus paid up to 100% of base salary is paid in cash. Any bonus earned over 100% of base salary will be deferred into group shares for a period of two years.
Deferred Annual Bonus ("DAB") and Share Matching Plan ("SMP")	The DAB and SMP received shareholder approval at the AGM in November 2009 and will operate for the first time in respect of annual bonuses awarded for the 2010 financial year. In addition to any bonus over 100% being deferred into shares ("Deferred Shares"), executives can choose to invest up to 100% of base salary from their total annual bonus into Close Brothers Group plc shares ("Invested Shares") for three years or convert their Deferred Shares into Invested Shares thus extending the deferral period from two to three years. Performance conditions will not apply to the Deferred Shares or Invested Shares which will be released in full at the end of their respective holding periods. Invested Shares will be matched with free Matching Shares for every Invested Share subject to performance conditions over the three year deferral period. The Committee has determined the matching ratio for the 2010 award for executive directors to be two Matching Shares for each Invested Share. The performance conditions for the 2010 Matching Share awards will be the same as the performance conditions in respect of this year's awards under the 2009 LTIP. The Committee considers the three year deferral period under the SMP to be appropriately motivational for participants and long enough to deal with risk adjusted performance of the group.
Long Term Incentive Plan	The 2009 LTIP is intended to motivate executives to achieve the group's longer-term strategic objectives, to aid the attraction and retention of key staff and to align executive interests with those of shareholders. Executive directors are eligible to receive an annual award of shares with a face value of up to 200% of base salary. Awards vest after three years subject to achieving absolute TSR growth, adjusted Earnings Per Share ("EPS") growth and strategic performance targets.

Shareholding guideline

Executive directors are required to build and maintain a shareholding of two times base salary over a reasonable time frame.

Overview of Directors' remuneration in 2009/2010

The key elements of the remuneration structure for the year ended 31 July 2010 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 achieved a good overall performance for the year with very strong performance in the Banking division and continued good performance in Securities, particularly from Winterflood.

The Banking division has actively taken advantage of favourable business conditions and delivered a strong performance. Winterflood has continued to benefit from its leading market position resulting in continued strong performance. Asset Management is an area of significant investment for the group and the group recognises the need to invest to attract, retain and motivate key individuals during this period of significant change.

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

Report of the Board on Directors' Remuneration
continued

Base salary and benefits

In determining base pay for the 2011 financial year, the Committee has been mindful of the current inflationary environment and the fact that base pay for executive directors has not been increased in the previous three years. As a result, base salaries for the 2011 financial year for Stephen Hodges and Jonathan Howell will be increased. In the case of Preben Prebensen, who joined the group on 1 April 2009, his first base salary review will be 1 August 2011. Details of base salaries paid to the executive directors during the year and the new base salaries for Stephen Hodges and Jonathan Howell are set out below. In addition, the group also provided benefits which consisted of healthcare cover, prolonged disability and life assurance cover, a company car or payment of an allowance in lieu thereof and a pension contribution or payment of an allowance in lieu thereof.

Executive director	Annual base salary 1 August 2009 to 31 July 2010	From 1 August 2010	Increase %
Preben Prebensen[1]	£475,000	£475,000	–
Stephen Hodges	£367,500	£386,000	5
Jonathan Howell	£360,000	£370,000	3

[1]Preben Prebensen's first base salary review will be 1 August 2011.

Annual bonus

The annual bonus policy which was applied during the year is described on page 41. Bonus payments made in respect of the 2010 financial year were determined by equal reference to adjusted profit before tax performance and individual performance. 50% of Preben Prebensen and of Jonathan Howell's 2010 bonuses were calculated by reference to group adjusted profit before tax. 50% of Stephen Hodges' bonus was determined by a mix of group and Banking division performance. The remaining 50% for all three was determined by reference to performance against individual objectives.

Adjusted operating profit before tax for 2009/2010 was £121.3 million, a 7% increase on the prior year. Adjusted operating profit before tax for the Banking division for 2009/2010 was £79.5 million, a 47% increase on the prior year. Bonus payments for the executive directors have correspondingly been increased to reflect the performance of the group, the Banking division and the individuals themselves. There has also been a significant increase in the proportion of the annual bonus to be time deferred and paid in shares. Over 60% of the 2010 total bonus entitlement in respect of the executive directors will be deferred as compared to 40% deferred in the prior year.

Bonus payments are not pensionable.

Deferred Awards

Awards made to executive directors during the year were in line with the Committee's general principles that bonus awards up to 100% of base salary will be paid in cash without deferral and bonus in excess of 100% of base salary will be deferred in shares which vest after two years ("the Deferred Awards"). 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 number of shares comprised in the Deferred Awards was determined by reference to the market value of Close Brothers Group plc shares shortly following the announcement of the Company's results for the relevant financial year. Following vesting, these shares may be called for at any time up to the seventh anniversary of grant. When the shares are called for, the executive director is entitled to the gross value of dividends in respect of the shares under the Deferred Awards accumulated over the period of deferral.

During the year under review, Deferred Awards were made to the executive directors and other members of the senior management team. These awards were satisfied using market purchased shares held in an employee benefit trust and the number of shares awarded to the executive was determined by reference to the closing mid-market share price of the company's shares on 29 September 2009 which was 793p per share.

Long Term Incentives

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

- The 2009 LTIP;
- The 2004 LTIP;
- The 1995 Executive Share Option Scheme (the "1995 Scheme"); and
- The SAYE Scheme.

2009 LTIP

The 2009 LTIP is delivered through an annual award of conditional shares (or nil cost options or restricted shares) with a face value of up to 200% of base salary. The Committee decides annually the actual size of individual awards.
The shares vest after three years subject to the following performance targets:

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

Annual bonus and deferral

Executive director	2009/2010 bonus Total bonus	Cash	Deferred	2008/2009 bonus Total bonus	Cash	Deferred	Increase/ decrease in bonus from prior year %
Preben Prebensen[1]	£1,285,000	£475,000	£810,000	–	–	–	–
Stephen Hodges	£1,000,000	£367,500	£632,500	£920,000	£552,000	£368,000	9
Jonathan Howell	£950,000	£360,000	£590,000	£900,000	£540,000	£360,000	6

[1]Preben Prebensen joined the group on 1 April 2009 and so did not receive a bonus in 2009.

Targets for the 2009 LTIP award are:

Absolute TSR

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

EPS

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

Strategic goals

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

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

The Committee believes that during the year under review management made progress in each of the five areas identified above. However, further material progress would need to be made in each of the five areas over the next two years for this part of the award to vest in full.

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

Details of awards made during the year to the executive directors are set out in the table on page 46.

2004 LTIP

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

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

2004 LTIP EPS Element Vesting Criteria

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

2004 LTIP TSR Element Vesting Criteria

For the TSR element, performance is measured against a group of companies drawn from the FTSE 350 General Financial Index and the FTSE 350 Banks Index. For the LTIP grants in 2006 and 2007, the comparator group consisted of the following companies:

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

[1]Collins Stewart and Tullett Prebon (having demerged from Collins Stewart Tullett) were added to the 2007 comparator group in place of the pre-demerged entity which was included in the 2006 comparator group.
[2]Hargreaves Lansdown was added to the 2007 comparator group.

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

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

Report of the Board on Directors' Remuneration
continued

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

SAYE Scheme
Executive directors are eligible to participate in the SAYE Scheme on the same terms as other employees under which options are granted for a fixed contract period of three or five years, usually at a discount of 20% to the mid-market price. The group intends to operate this plan during the 2011 financial year.

Pensions
Preben Prebensen and Jonathan Howell participated in defined contribution pension schemes or received an allowance equivalent to the company's pension contribution rate in lieu thereof.

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

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

The table on page 46 summarises pension benefits from the group's defined benefits pension scheme for the executive director who participated in the scheme. The accrued pension is that which would be paid annually on retirement based on service to the end of the year. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 and represents potential liabilities of the group's defined benefits pension scheme in respect of the relevant executive director and does not necessarily represent a sum paid or payable to the executive director.

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

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

	Date of agreement	Notice period
Preben Prebensen	9 February 2009	12 months notice from the company 12 months notice from director
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

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

Directors' Interests
The interests of the directors in the ordinary shares of the company are set out below.

	Ordinary shares	
Shares	**31 July 2010**	1 August 2009
Bruce Carnegie-Brown	**10,000**	10,000
Jamie Cayzer-Colvin	**–**	–
Ray Greenshields	**3,000**	–
Stephen Hodges	**593,573**	693,469
Jonathan Howell	**39,967**	15,664
Strone Macpherson	**–**	–
Douglas Paterson	**12,000**	12,000
Preben Prebensen	**116,721**	75,135

Stephen Hodges holds shareholdings in excess of twice his base salary. Preben Prebensen and Jonathan Howell have made significant investments during 2010 towards reaching this threshold.

Colin Keogh

As highlighted in the 2009 Annual Report, former chief executive Colin Keogh stepped down as a director on 1 April 2009. The Committee implemented a tailored incentive arrangement to facilitate his retention and incentivisation until a successor was found ("Special Incentive"). The Special Incentive was a conditional cash award of up to £750,000, the vesting of which was subject to the satisfaction of certain performance targets. As outlined in the 2009 Annual Report the Committee concluded the performance targets were met in full, and as a result, the final £375,000 of the Special Incentive was paid on 1 April 2010.

Chairman and Non-executive Directors

The chairman and the non-executive directors are engaged under a letter of appointment for terms not exceeding three years, which are renewable by mutual agreement and terminable without notice. In respect of the services of Jamie Cayzer-Colvin as non-executive director for the year ended 31 July 2010, Caledonia Investments plc was paid £47,500, as disclosed in the remuneration table below.

The letters of appointment of the chairman and non-executive directors are available for inspection.

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

The following table shows non-executive fees for the year to 31 July 2010. These are reviewed annually and have not increased since August 2007.

	Non-executive fees
Chairman	**£180,000**
Non-executive director	**£47,500**
Supplements	
Senior independent director	**£10,000**
Chairman of Audit Committee	**£15,000**
Chairman of Remuneration Committee	**£10,000**
Chairman of Nomination and Governance Committee	**–**

Directors' Remuneration – Audited

The following table shows the remuneration of each director for the year to 31 July 2010

	Salaries and fees £'000	Allowances[1] £'000	Other benefits[2] £'000	Annual bonus Cash £'000	Annual bonus Deferred £'000	Total **2010 £'000**	Total 2009 £'000	Company pension contributions **2010 £'000**	Company pension contributions 2009 £'000
Executive director									
Stephen Hodges	368	27	4	368	633	**1,400**	1,322	**95**	92
Jonathan Howell[3]	360		16	360	590	**1,326**	1,280	**81**	81
Preben Prebensen[4]	475	125	3	475	810	**1,888**	198		
Non-executive director									
Bruce Carnegie-Brown	68					**68**	68		
Jamie Cayzer-Colvin	48					**48**	48		
Ray Greenshields	48					**48**	34		
Strone Macpherson	180					**180**	180		
Douglas Paterson	63					**63**	63		
	1,610	152	23	1,203	2,033	**5,021**	3,193	**176**	173

[1]Allowances received by the directors include an allowance in lieu of a company car. Stephen Hodges receives a cash allowance due to capped employer pension contributions. Preben Prebensen receives an allowance in place of the company's pension contribution rate in lieu of pension contributions.
[2]Other benefits include healthcare cover, a company car and fuel.
[3]Payment equivalent to the company's pension contribution rate is made into Jonathan Howell's defined contribution pension plan.
[4]Preben Prebensen was appointed a director on 1 April 2009.

Report of the Board on Directors' Remuneration
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Defined Pension Benefits – Audited
The following table shows the defined pension benefits of Stephen Hodges.

	Transfer value of accrued pension				Accrued pension	
	At 31 July 2009 £'000	Director's contributions £'000	Actual increase excluding director's contribution £'000	**At 31 July 2010 £'000**	Increase during the year £'000	**At 31 July 2010 £'000**
Stephen Hodges	2,173	17	539	**2,729**	9	**159**

Note: The accrued pension at 31 July 2010 represents the deferred pension to which the director would have been entitled had he left the group on 31 July 2010.

The real increase of the accrued pension transfer value excluding director's contribution was £435,000.

Directors' Deferred Share Awards and LTIP Awards
The deferred share award forms part of the annual performance related award and consists of the right for an executive to call for shares in the company from the employee benefit trust, at nil cost, together with a cash amount representing accrued notional dividends thereon. If the executive leaves employment in certain circumstances prior to 1 August immediately preceding the vesting date those entitlements will lapse. Following vesting, these shares may be called for at any time up to the seventh anniversary of grant. The value of the awards is charged to the group's income statement in the year to which the award relates for deferred share awards, and spread over the vesting period for LTIP awards.

The deferred share awards held by each director at 31 July 2010 and the LTIP awards which are held by directors under the 2009 LTIP and 2004 LTIP and are subject to the performance criteria described in this report under "2009 LTIP" and "2004 LTIP" on pages 42 and 43, were:

Directors' Deferred Share Awards ("DSA") and Long Term Incentive Plan Awards ("LTIP") – Audited[1]

	Held at 1 August 2009	Awarded	Called	Lapsed	**Held at 31 July 2010**	Value at 31 July 2010 £	Market price on award p	Market price on calling p	Dividends paid on vested shares £	Earliest vesting date
Stephen Hodges										
2007 DSA	43,591		43,591		**–**	–	807.5	791.0	49,650	1 September 2009
2008 DSA	51,214				**51,214**	344,158	535.0			1 September 2010
2009 DSA		46,406			**46,406**	311,848	793.0			1 September 2011
	94,805	**46,406**	**43,591**	**–**	**97,620**	**656,006**			**49,650**	
2004 LTIP–2006 Award[1]	52,673		15,841	36,832	**–**	–	1008.5	791.0	24,014	2 October 2009
2004 LTIP–2007 Award	86,069				**86,069**	578,384	823.0			2 October 2010
2004 LTIP–2008 Award	131,414				**131,414**	883,102	559.3			7 October 2011
2009 LTIP–2009 Award		105,339			**105,339**	707,878	699.0			18 November 2012
	270,156	**105,339**	**15,841**	**36,832**	**322,822**	**2,169,364**			**24,014**	
Jonathan Howell										
2008 DSA	19,626				**19,626**	131,887	535.0			1 September 2010
2009 DSA		45,397			**45,397**	305,068	793.0			1 September 2011
	19,626	**45,397**	**–**	**–**	**65,023**	**436,955**				
2004 LTIP–2007 Award	113,207				**113,207**	760,751	612.0			4 March 2011
2004 LTIP–2008 Award	128,732				**128,732**	865,079	559.3			7 October 2011
2009 LTIP–2009 Award		103,049			**103,049**	692,489	699.0			18 November 2012
	241,939	**103,049**	**–**	**–**	**344,988**	**2,318,319**				
Preben Prebensen										
2009 LTIP–2009 Award		135,967			**135,967**	913,698	699.0			18 November 2012
	–	**135,967**	**–**	**–**	**135,967**	**913,698**				

[1]The 2006 LTIP award was tested in October 2009 against the performance conditions set by the Committee at the time the award was made. As a result of this performance testing, the minimum 5% real EPS growth target (covering two thirds of the award) was not met whilst the TSR performance was between the median and top 20% of the comparator group, warranting the vesting of 90.22% of the shares subject to this part of the award. Accordingly some 70% of the original 2006 award shares lapsed during the year.

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

Directors' Share Option Entitlements – Audited

Share option entitlements, other than SAYE options, are subject to the performance criteria described in this report under the "1995 Scheme" section on page 44. Unexercised options over ordinary shares held by directors under the 1995 Scheme and SAYE Scheme were:

	Held at 1 August 2009	Exercised	Lapsed	**Held at 31 July 2010**	Exercise price p	Market price on exercise p	From	To
Stephen Hodges								
1999	38,676	38,676		**–**	755.8	791.0	3 November 2002	2 November 2009
1999	38,676	38,676		**–**	755.8	791.0	3 November 2004	2 November 2009
2000	1,333			**1,333**	1125.0		23 October 2003	22 October 2010
2000	26,126			**26,126**	1090.8		23 October 2003	22 October 2010
2000	1,333			**1,333**	1125.0		23 October 2005	22 October 2010
2000	26,126			**26,126**	1090.8		23 October 2005	22 October 2010
2001	36,097			**36,097**	542.9		26 September 2004	25 September 2011
2001	36,097			**36,097**	542.9		26 September 2006	25 September 2011
2002	46,411			**46,411**	436.3		8 October 2005	7 October 2012
2002	46,411			**46,411**	436.3		8 October 2007	7 October 2012
2003	56,724			**56,724**	710.2		7 October 2006	6 October 2013
2003	56,724			**56,724**	710.2		7 October 2008	6 October 2013
2008 SAYE	2,242			**2,242**	428.0		1 December 2011	31 May 2012
	412,976	77,352	–	**335,624**				

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

Directors' Matching Share Awards ("MSA") and Restricted Share Awards ("RSA") – Audited

The MSA was granted to Preben Prebensen shortly after joining the group in 2009. The vesting of this award 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 RSA was granted to Preben Prebensen in May 2009 in compensation for share awards which were forfeited on leaving his previous employer. The three tranches vest following announcement of the Company's interim results for the financial years 2010 (25%), 2011 (50%) and 2012 (25%) subject to continued employment until the vesting date.

	Held at 1 August 2009	Awarded	Called	**Held at 31 July 2010**	**Value at 31 July 2010 £**	Earliest vesting date
Preben Prebensen						
2009 MSA	65,902			**65,902**	**442,861**	September 2011
2009 MSA	65,902			**65,902**	**442,861**	September 2012
2009 MSA	65,902			**65,902**	**442,861**	September 2013
2009 MSA	65,902			**65,902**	**442,861**	September 2014
	263,608	**–**	**–**	**263,608**	**1,771,444**	
2009 RSA	27,924		27,924	**–**	**–**	1 March 2010
2009 RSA	55,848			**55,848**	**375,299**	1 March 2011
2009 RSA	27,924			**27,924**	**187,649**	1 March 2012
	111,696	**–**	**27,924**	**83,772**	**562,948**	

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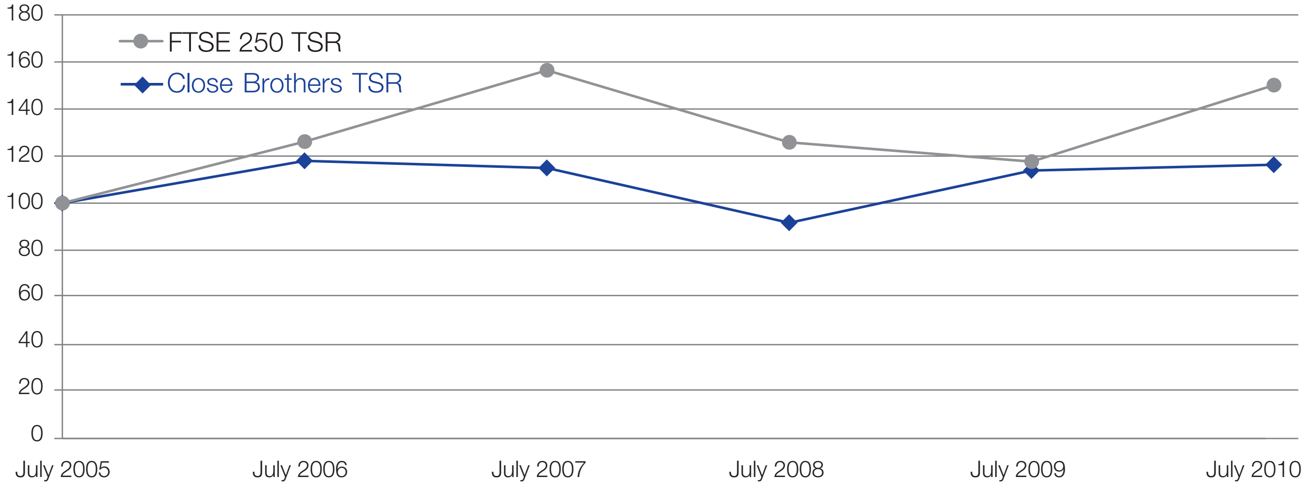
Total Shareholder Return
The graph below shows a comparison of TSR for the Company's shares for the five years ended 31 July 2010 against the TSR for the companies comprising the FTSE 250 Index. TSR has been calculated assuming that all dividends are reinvested on their ex-dividend date. The index has 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 2010, of £100 invested in Close Brothers Group plc on 31 July 2005 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 2010 was 672p and the range during the year was 666p to 796.5p.

Approval
This report was approved by the board of directors on 28 September 2010 and signed on its behalf by:

B. N. Carnegie-Brown
Chairman of the Remuneration Committee

Report of the Auditors

Independent Auditors' Report to the Members of Close Brothers Group plc

We have audited the financial statements of Close Brothers Group plc for the year ended 31 July 2010 which comprise the group Income Statement, the group and parent company Balance Sheets, the group Cash Flow Statement, the group Statement of Recognised Income and Expense, the group Statement of Changes in Equity and the related notes 1 to 34. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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 auditors

As explained more fully in the Directors' Responsibilities Statement, 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 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.

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 2010 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; and
- The part of Corporate Governance relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

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

28 September 2010

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Consolidated Income Statement
for the year ended 31 July 2010

	Note	2010 £ million	2009 £ million
Continuing operations			
Interest income	4	**309.8**	352.8
Interest expense		**(114.3)**	(171.0)
Net interest income		**195.5**	181.8
Fee and commission income		**183.1**	171.4
Fee and commission expense		**(19.7)**	(19.7)
Gains less losses arising from dealing in securities		**141.9**	140.2
Share of profit of associates		**5.7**	16.1
Other income		**25.2**	12.3
Non-interest income		**336.2**	320.3
Operating income		**531.7**	502.1
Administrative expenses	4	**347.0**	334.5
Impairment losses on loans and advances	12	**63.4**	59.9
Impairment losses on goodwill	16	**6.5**	19.0
Impairment on investment assets	5	**15.0**	–
Amortisation of intangible assets on acquisition		**0.5**	0.4
Total operating expenses before exceptional items, goodwill impairment and amortisation of intangible assets on acquisition		**410.4**	388.4
Exceptional items	5	**15.0**	6.0
Impairment losses on goodwill	16	**6.5**	19.0
Amortisation of intangible assets on acquisition		**0.5**	0.4
Total operating expenses		**432.4**	413.8
Operating profit before exceptional items, goodwill impairment and amortisation of intangible assets on acquisition and tax		**121.3**	113.7
Exceptional items	5	**(15.0)**	(6.0)
Impairment losses on goodwill	16	**(6.5)**	(19.0)
Amortisation of intangible assets on acquisition		**(0.5)**	(0.4)
Operating profit before tax		**99.3**	88.3
Tax	7	**32.8**	26.1
Profit after tax from continuing operations		**66.5**	62.2
Profit for the period from discontinued operations	8	**–**	10.4
Profit attributable to minority interests from continuing operations		**0.6**	0.3
Profit attributable to minority interests from discontinued operations		**–**	0.6
Profit attributable to the shareholders of the company		**65.9**	71.7
From continuing operations			
Basic earnings per share	9	**46.0p**	43.6p
Diluted earnings per share	9	**45.2p**	43.2p
From continuing and discontinued operations			
Basic earnings per share	9	**46.0p**	50.5p
Diluted earnings per share	9	**45.2p**	50.0p
Ordinary dividend per share	10	**39.0p**	39.0p

Consolidated Statement of Recognised Income and Expense
for the year ended 31 July 2010

	2010 £ million	2009 £ million
Profit after tax	**66.5**	72.6
Currency translation gains	**5.1**	18.8
Gains/(losses) on cash flow hedging	**6.1**	(11.1)
Other losses	**(4.4)**	(2.8)
Gains/(losses) on financial instruments classified as available for sale:		
Gilts and government guaranteed debt	**(0.2)**	0.6
Floating rate notes	**19.0**	(15.2)
Equity shares	**(2.8)**	(8.8)
Transfer to income statement on impairment of available for sale equity shares	**15.0**	–
	37.8	(18.5)
Total recognised income and expense	**104.3**	54.1
Attributable to:		
Minority interests	**0.6**	0.9
Shareholders	**103.7**	53.2

Consolidated Balance Sheet
at 31 July 2010

	Note	2010 £ million	2009 £ million
Assets			
Cash and balances at central banks		**452.7**	1.7
Settlement balances		**541.7**	508.7
Loans and advances to banks	11	**158.5**	196.5
Loans and advances to customers	12	**2,912.6**	2,364.9
Debt securities	13	**1,636.2**	2,299.2
Equity shares	14	**59.9**	62.0
Loans to money brokers against stock advanced		**86.0**	158.3
Derivative financial instruments	15	**23.0**	32.5
Interests in associates	27	**73.7**	71.9
Intangible assets	16	**107.5**	107.6
Property, plant and equipment	17	**46.2**	41.6
Deferred tax assets	18	**32.8**	32.6
Prepayments, accrued income and other assets	19	**128.8**	141.8
Total assets		**6,259.6**	6,019.3
Liabilities			
Settlement balances and short positions	20	**565.1**	590.7
Deposits by banks	21	**48.1**	48.0
Deposits by customers	21	**3,115.5**	2,919.6
Loans and overdrafts from banks	21	**1,178.4**	1,340.5
Debt securities in issue	21	**218.6**	21.4
Loans from money brokers against stock advanced		**32.7**	–
Derivative financial instruments	15	**20.5**	21.9
Accruals, deferred income and other liabilities	19	**251.3**	304.5
Subordinated loan capital	22	**75.0**	75.0
Total liabilities		**5,505.2**	5,321.6
Equity			
Called up share capital	23	**37.4**	37.4
Share premium account		**275.9**	274.5
Profit and loss account		**457.3**	445.7
Other reserves		**(18.7)**	(64.2)
Total shareholders' equity		**751.9**	693.4
Minority interests in equity		**2.5**	4.3
Total equity		**754.4**	697.7
Total liabilities and equity		**6,259.6**	6,019.3

Approved and authorised for issue by the Board of Directors on 28 September 2010 and signed on its behalf by:

P.S.S. Macpherson
Chairman

P. Prebensen
Chief Executive

Registered Number: 520241

Consolidated Statement of Changes in Equity
for the year ended 31 July 2010

	Called up share capital £ million	Share premium account £ million	Profit and loss account £ million	Other reserves: Available for sale movements reserve £ million	Other reserves: Share-based reserves £ million	Other reserves: Exchange movements reserve £ million	Other reserves: Cash flow hedging reserve £ million	Total attributable to equity holders £ million	Minority interests £ million	Total equity £ million
At 1 August 2008	37.3	274.1	432.0	(12.3)	(19.4)	2.3	1.4	715.4	5.0	720.4
Profit for the period	–	–	71.7	–	–	–	–	71.7	0.9	72.6
Other recognised income/ (expense) for the period	–	–	(2.8)	(23.4)	–	18.8	(11.1)	(18.5)	–	(18.5)
Total recognised income/ (expense) for the period	–	–	68.9	(23.4)	–	18.8	(11.1)	53.2	0.9	54.1
Exercise of options	0.1	0.4	–	–	–	–	–	0.5	–	0.5
Dividends paid	–	–	(55.2)	–	–	–	–	(55.2)	–	(55.2)
Shares purchased	–	–	–	–	(22.1)	–	–	(22.1)	–	(22.1)
Shares released	–	–	–	–	4.3	–	–	4.3	–	4.3
Other movements	–	–	–	–	(0.2)	(2.5)	–	(2.7)	(1.6)	(4.3)
At 31 July 2009	37.4	274.5	445.7	(35.7)	(37.4)	18.6	(9.7)	693.4	4.3	697.7
Profit for the period	–	–	65.9	–	–	–	–	65.9	0.6	66.5
Other recognised income/ (expense) for the period	–	–	(4.4)	31.0	–	5.1	6.1	37.8	–	37.8
Total recognised income/ (expense) for the period	–	–	61.5	31.0	–	5.1	6.1	103.7	0.6	104.3
Exercise of options	–	1.4	–	–	–	–	–	1.4	–	1.4
Dividends paid	–	–	(55.5)	–	–	–	–	(55.5)	–	(55.5)
Shares purchased	–	–	–	–	(2.3)	–	–	(2.3)	–	(2.3)
Shares released	–	–	–	–	9.5	–	–	9.5	–	9.5
Other movements	–	–	5.6	–	(3.9)	–	–	1.7	(2.4)	(0.7)
At 31 July 2010	**37.4**	**275.9**	**457.3**	**(4.7)**	**(34.1)**	**23.7**	**(3.6)**	**751.9**	**2.5**	**754.4**

Consolidated Cash Flow Statement

for the year ended 31 July 2010

	Note	2010 £ million	2009 £ million
Net cash outflow from operating activities	32(a)	**(135.1)**	(168.8)
Net cash outflow from investing activities:			
Dividends received from associates		**8.2**	19.6
Purchase of:			
Assets let under operating leases		**(12.6)**	(12.4)
Property, plant and equipment		**(8.5)**	(8.8)
Intangible assets		**(4.7)**	(1.8)
Equity shares held for investment		**(0.2)**	(3.4)
Own shares for employee share award schemes		**(2.3)**	(22.1)
Minority interests		**(4.0)**	(0.6)
Loan book	26	**(97.8)**	(9.1)
Subsidiaries and associates	32(b)	**(0.4)**	(19.7)
Sale of:			
Property, plant and equipment		**2.2**	1.9
Equity shares held for investment		**3.3**	1.0
Subsidiaries	32(c)	**–**	51.1
		(116.8)	(4.3)
Net cash outflow before financing		**(251.9)**	(173.1)
Financing activities:			
Issue of ordinary share capital, net of transaction costs	32(d)	**1.4**	0.5
Equity dividends paid		**(55.5)**	(55.2)
Dividends paid to minority interests		**(0.7)**	(1.6)
Interest paid on subordinated loan capital		**(5.6)**	(5.6)
Reclassification of floating rate notes classified as available for sale		**–**	(751.3)
Debt securities issued		**197.2**	–
Net decrease in cash		**(115.1)**	(986.3)
Cash and cash equivalents at beginning of year		**1,398.3**	2,384.6
Cash and cash equivalents at end of year	32(e)	**1,283.2**	1,398.3

Company Balance Sheet
at 31 July 2010

	Note	2010 £ million	2009 £ million
Fixed assets			
Intangible assets	16	**0.2**	–
Property, plant and equipment	17	**3.2**	2.2
Investments in subsidiaries	26	**287.0**	287.0
Interest free loan to subsidiary		**377.3**	392.0
		667.7	681.2
Current assets:			
Cash at bank		**0.5**	0.7
Amounts owed by subsidiaries		**412.9**	133.7
Other investments		**11.2**	16.6
Corporation tax receivable		**7.1**	0.6
Deferred tax asset	18	**3.3**	4.8
Other debtors		**1.9**	0.8
		436.9	157.2
Creditors: Amounts falling due within one year:			
Amounts owed to subsidiaries		**6.2**	7.1
Accruals and deferred income		**5.9**	5.9
Provisions	19	**7.4**	8.7
Bank loans and overdrafts		**100.0**	–
Other creditors		**8.3**	6.4
		127.8	28.1
Net current assets		**309.1**	129.1
Total assets less current liabilities		**976.8**	810.3
Creditors: Amounts falling due after more than one year:			
Debt securities in issue		**197.8**	–
Interest free loan from subsidiary with no fixed repayment date		**17.9**	17.9
Net assets		**761.1**	792.4
Capital and reserves			
Share capital	23	**37.4**	37.4
Share premium account		**275.9**	274.5
Profit and loss account	24	**477.2**	517.9
Other reserves	24	**(29.4)**	(37.4)
Total equity shareholders' funds		**761.1**	792.4

Approved and authorised for issue by the Board of Directors on 28 September 2010 and signed on its behalf by:

P.S.S. Macpherson
Chairman

P. Prebensen
Chief Executive

Registered Number: 520241

The Notes

1. Accounting policies

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

(a) Compliance with financial reporting standards

The consolidated financial statements ("the consolidated accounts") have been prepared and approved by the directors in accordance with all relevant International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union.

At the balance sheet date the group had adopted all standards and interpretations which had become effective during the year. Other than the Standards described below, there was no material impact on the financial statements of the group from adoption of effective standards and interpretations.

- IFRS 8 "Operating segments" has been adopted. This standard replaces IAS 14 "Segment reporting" and requires segmental information reported to be based on that which the group's Executive Committee, which is considered the group's chief operating decision maker, uses internally for the purposes of evaluating the performance of the group's operating segments. Note 3 of these financial statements sets out the group's reportable segments and reconciliations between these and the results reported in the consolidated income statement and consolidated balance sheet. There has been no change to the segments reported, though there have been some additional segmental disclosures presented.

- Amendments to IFRS 3 "Business combinations" and IAS 27 "Consolidated and separate financial statements" have been adopted. The main changes to existing practice affect acquisitions achieved in stages and those where less than 100% of equity is acquired. In addition, acquisition related costs must be accounted for as expenses unless directly connected with the issue of debt or equity securities. The revised IFRS 3 applies prospectively to business combinations undertaken by the group on or after 1 August 2009.

- Amendment to IAS 1 "Presentation of financial statements" has been adopted. The revised standard prohibits the presentation of items of income and expense in the statement of changes in equity, requiring non-shareholder changes in equity to be presented separately from shareholder changes in equity. All non-shareholder changes in equity are required to be presented in a performance statement. IAS 1 (Revised) permits a choice between presenting a single performance statement (being a Statement of Comprehensive Income) or two statements (being an Income Statement and a Statement of Recognised Income and Expense). The group has elected to present two statements. In addition, to comply with the revised standard, the group now presents a Consolidated Statement of Changes in Equity as a primary statement.

- Amendment to IFRS 7 "Financial instruments: disclosures" which requires enhanced disclosures of fair value and liquidity risk has been adopted. This has resulted in additional disclosures in this Annual Report. The group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in the amendment.

- IAS 23 "Borrowing Costs (Revised)" has been revised to require capitalisation of borrowing costs on qualifying assets. In accordance with the transitional requirements of the standard, the capitalisation of borrowing costs has been adopted as a prospective change from the commencement date of 1 August 2009. No change has been made for borrowing costs incurred prior to this date that have been expensed. Since adoption, the group has incurred no borrowing costs on qualifying assets which are required to be capitalised.

The following standards, amendments and interpretations have been issued by the International Accounting Standards Board ("IASB") and IFRS Interpretations Committee ("IFRIC") with an effective date, subject to EU endorsement in some cases, that do not impact on these financial statements.

- The IASB issued an amendment, "Group Cash-settled Share-based Payment Transactions", to IFRS 2 "Share-based Payment" in June 2009 clarifying how an individual subsidiary in a group should account for share-based payment arrangements in its own financial statements where the subsidiary receives goods or services from employees or suppliers but its parent or another entity in the group must pay those suppliers. The amendment is effective for annual periods beginning on or after 1 January 2010. The effect to the group is under review although no material impact is expected.

- The IASB published an amendment "Classification of Rights Issues" to IAS 32 "Financial Instruments: Presentation" and consequential revisions to other standards in October 2009 to improve the accounting for issues of equity for consideration fixed other than in the reporting entity's functional currency. The amendment is effective for annual periods beginning on or after 1 February 2010. It is not expected to have a material impact on the group.

- The IASB reissued IAS 24, "Related Party Disclosures", in November 2009 to clarify the existing standard and provide certain exemptions for entities under government control. The revised standard is effective for annual periods beginning on or after 1 January 2011 and is not expected to have a material impact on the group.

- The IASB issued IFRS 9 "Financial Instruments" in November 2009 simplifying the classification and measurement requirements in IAS 39 "Financial Instruments: Recognition and Measurement" in respect of financial assets. The standard reduces the measurement categories for financial assets to two: fair value and amortised cost. A financial asset is classified on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. Only assets with contractual terms that give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding and which are held within a business model whose objective is to hold assets in order to collect contractual cash flows are classified as amortised cost. All other financial assets are measured at fair value. Changes in the value of financial assets measured at fair value are generally taken to profit or loss although there is an exception where an equity investment is not held for trading and an irrevocable election is made at initial recognition to measure it at fair value through equity with only dividend income recognised in profit or loss. The standard is effective for annual periods beginning on or after 1 January 2013; early application is permitted. This standard makes major changes to the framework for the classification and measurement of financial assets and will have a significant effect on the group's financial statements. The group is assessing this impact which is likely to depend on the outcome of the other phases of the IASB's IAS 39 replacement project.

- The IASB issued an amendment to IFRIC 14 "Prepayments of a Minimum Funding Requirement" in November 2009. The amendment applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. It permits such an entity to treat the benefit of such an early payment as an asset. The amendment is effective for annual periods beginning on or after 1 January 2011 and is not expected to have a material impact on the group.

- The IFRIC issued interpretation IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" in December 2009. The interpretation clarifies that the profit or loss on extinguishing liabilities by issuing equity instruments should be measured by reference to fair value, preferably of the equity instruments. The interpretation, effective for the group for annual periods beginning on or after 1 January 2011, is not expected to have a material effect on the group.

- "Improvements to IFRSs" issued in May 2010 contain amendments to a number of IFRSs. The effect to the group is under review although no material impact is expected.

The company financial statements ("the company accounts") have been prepared and approved by the directors in accordance with Section 395 of the Companies Act 2006, the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 and with all relevant UK accounting standards. The company has taken advantage of the exemption in s408 of the Companies Act 2006 not to present its company income statement and related notes.

(b) Accounting convention

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

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

(c) Basis of consolidation

Subsidiaries

The consolidated accounts incorporate the financial statements of the company and the entities it controls ("subsidiaries") using the acquisition method of accounting. Control exists where the company has the power to govern an entity's financial and operating policies. The results of subsidiaries are included in the consolidated income statement from the date control transfers to the company to the date control transfers from the company.

Under the acquisition method of accounting, with some limited exceptions, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. The interest of minority shareholders is measured either at fair value or at the minority'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. As allowed by IFRS 1 "First-Time Adoption of International Financial Reporting Standards"), the company has not restated to IFRS fair values those acquisitions that took place before 1 August 2004.

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 its subsidiaries ("the group") hold 20% or more of an entity's voting power, 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.

The Notes

1. Accounting policies continued

Under the equity method of accounting, the investment in an associate is initially recognised at cost. This carrying amount subsequently decreases for the group's share of any losses or distributions received and increases for the group's share of any profit. The carrying amount is also reviewed annually for impairment.

(d) Net interest income

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 income statement using the effective interest rate ("EIR") method.

The EIR 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.

(e) Net fee and commission income

Where fees that have not been included within the EIR 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 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.

(f) 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.

(g) Share-based awards

The group operates four share-based award schemes, an annual discretionary performance arrangement and three long-term equity based incentive schemes ("Incentive Schemes"); the 2009 Long Term Incentive Plan ("LTIP") which replaced the 2004 Long Term Incentive Plan ("LTIP"), the 1995 Executive Share Option Scheme and the Inland Revenue approved Savings Related Share Option Scheme. In addition to these schemes a new Share Matching Plan will operate for the first time in the 2011 financial year in respect of annual bonuses awarded for the 2010 financial year. As allowed by IFRS 1, the company has not applied IFRS 2 "Share-based Payment" to grants under these Incentive Schemes before 8 November 2002.

The costs of the annual discretionary performance related awards 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 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 LTIP and the Black-Scholes pricing model for the others. 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 income statement on a straight line basis over the vesting period, with a corresponding credit to the share-based awards reserve. At the end of the vesting period, or upon exercise, lapse or forfeit if earlier, this credit is transferred to retained reserves. Further information on the group's schemes are provided in note 31, and in the Report of the Board on Directors' Remuneration.

(h) Depreciation and amortisation

Property, plant and equipment, computer software and intangible assets on acquisition (latter two classified as "intangible assets"), are stated at cost less accumulated depreciation or amortisation, less provisions for any impairment. The provision for depreciation or amortisation on these assets is calculated to write off their cost on a straight-line basis over their estimated useful lives as follows:

Fixtures, fittings and equipment	10% to 33%
Motor vehicles	25%
Freehold and long leasehold property	2.5%
Short leasehold property	over the length of the lease
Computer software	20% to 33%
Intangible assets on acquisition	7% to 20%

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

(i) Impairment losses on goodwill
Goodwill arising on the acquisition of business assets before 1 August 1998 has been written off to reserves. From that date such goodwill arising was capitalised as an intangible asset and amortised, in equal annual instalments, unless there has been impairment, over its estimated useful life of up to 20 years. From 1 August 2004, amortisation of goodwill has ceased, negative goodwill is credited to the income statement and the net book value of goodwill is subject to impairment review at least annually.

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

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

(l) Deferred tax
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".

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

(n) Loans and advances to customers
Loans and advances are recognised when cash is advanced to borrowers at cost including any transaction costs and are classified as loans and receivables under IAS 39 "Financial instruments: recognition and measurement". They are then amortised using the EIR method and recorded net of provisions for impairment losses. The carrying value of loans and advances approximates to their fair value.

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 ("a loan") and its impact can be reliably estimated.

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 EIR. 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 EIR 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.

(o) 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 income statement in equal annual amounts over the period of the leases.

(p) Debt securities and equity shares
Fair values of all financial instruments are obtained from independent open market sources, independent professional valuers, discounted cash flow models based on prevailing market rates or option pricing models.

- Financial instruments held for trading
  The long and short positions respectively represent the aggregate net bought and net sold positions, held by Winterflood and Close Brothers Seydler Bank ("Seydler"). They are valued at the dealers' bid and offer prices respectively and are the only

The Notes

1. Accounting policies continued

financial instruments held for trading. As such they are fair valued through profit or loss and the net gains arising are the only items shown within "gains less losses arising from dealing in securities" in the income statement.

- Other investments designated at inception under the fair value option
  Listed investments are valued at bid price. Unlisted investments comprise those made in various private equity limited liability partnerships. These partnerships themselves typically invest in unquoted companies via equity and loans and value each investment semi-annually in compliance with International Private Equity and Venture Capital Valuation Guidelines endorsed by the British Private Equity and Venture Capital Association, such valuations being externally audited annually. Further details on the valuation methodologies for unlisted investments are included in Note 33 Financial Risk Management on pages 91 to 99.

- Floating rate notes held to maturity
  These are investments with fixed or determinable payments that are held with the intention and ability to hold to maturity. They are initially recognised at fair value including direct and incremental transaction costs and subsequently valued at amortised cost. Amortised cost is the initial amount adjusted for subsequent payments, less cumulative amortisation calculated using the EIR method. The resulting balance is reduced for amounts which are considered to be impaired or uncollectible.

- Financial instruments classified as available for sale
  These are recognised at fair value plus any directly attributable purchase costs, with changes being accounted for through equity. If such an asset is sold or there is objective evidence that it is impaired, the cumulative gains and losses recognised in equity are recycled to the income statement. In subsequent periods if the fair value of an available for sale debt security increases due to an event which occurred after the impairment loss was recognised, the impairment loss is reversed through the income statement. Impairment losses on available for sale equity instruments are not reversed through the income statement but are recognised directly in equity.

- Certificates of deposit classified as loans and receivables under IAS 39
  These are purchased for liquidity purposes and normally held to maturity. They are unlisted and due to mature within one year and are valued at amortised cost.

- Equity shares held by the employee benefit trust
  These are held at cost and shown within equity as part of "Share-based reserves". Realised surpluses and deficits are not taken to the income statement.

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

(r) Derivatives and hedge accounting
In general, derivatives are used to minimise the impact of interest and currency rate changes to the group's financial instruments and meet the IAS 39 criteria for hedge accounting. They are carried on the 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, a derivative is designated as a hedge and the group formally documents the relationship between the derivative 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 income statement. If the hedge is not, or has ceased to be, highly effective the group discontinues hedge accounting.

For fair value hedges, changes in the fair value are recognised in the 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 income statement in the period when the hedged item affects income.

(s) Other financial liabilities
Financial liabilities, other than derivative financial instruments and those held for trading, are recognised initially at fair value plus transaction costs directly attributable to the acquisition or issue of those financial liabilities. After initial recognition they are measured at amortised cost using the EIR method.

(t) Foreign currencies

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 income statement.

The balance sheets of subsidiaries denominated in foreign currencies are translated into sterling at the closing rates. The income statements for these subsidiaries are translated at the average rates and exchange differences arising are taken to the exchange movements reserve. Such exchange differences are recognised as income or as expenses in the period in which the subsidiary is disposed of.

As allowed by IFRS 1, cumulative foreign exchange differences up to 31 July 2004 have not been recognised in the exchange movements reserve.

(u) Dividends

Dividends payable are recognised in retained earnings once they are appropriately authorised and no longer at the discretion of the company. Dividends receivable are recognised once the right to receive payment is established.

(v) Pensions

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

A defined contribution scheme is a pension arrangement where the group pays fixed contributions into a fund separate from the group's assets. Contributions are charged in the income statement when they become payable.

A defined benefit scheme is an arrangement where an employee's retirement receipts are defined by factors such as salary, length of service and age. The liabilities of the group's one defined benefit scheme, which was closed to new entrants in 1996, are measured using the projected unit credit method and discounted at a rate that reflects the current rate of return on high quality corporate bonds with a term that matches that of the liabilities. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the 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 obligation less the fair value of plan assets and any unrecognised actuarial gains and losses, is carried on the balance sheet.

(w) Investments in subsidiaries

Investments in subsidiaries are stated at cost less provision for impairment in value.

2. Critical accounting estimates and judgements

The preparation of financial statements under IFRS requires the use of certain critical accounting estimates and the exercise of judgement in the process of applying the group's accounting policies. Estimates and judgements are kept under continuous evaluation and are based mainly on historical experience and expectations of future events but incorporate other factors. The critical estimates and judgements made in the preparation of the financial statements are set out below. The actual outcome may be materially different from that anticipated.

Impairment of loans and advances

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

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. 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.

Fair value of financial instruments

Some of the group's financial instruments are carried at fair value through profit or loss such as those held for trading, designated by management under the fair value option and non-cash flow hedging derivatives. Other non-derivative financial assets may be designated as available for sale. Available for sale financial assets are carried at fair value with gains and losses arising from changes in fair value included as a separate component of equity. In addition, the group has cash flow hedging derivatives which are carried at fair value. The fair value gain or loss associated with the effective proportion of the cash flow hedge is recognised initially directly in equity.

The Notes

2. Critical accounting estimates and judgements continued

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair values of all financial instruments are obtained from independent open market sources, independent professional valuers, discounted cash flow models based on prevailing market rates or option pricing models. Where a valuation model is used to determine fair value, it makes maximum use of market inputs.

Effective interest rate

The EIR 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. At least annually, models are reviewed to assess expected lives of groups of assets based upon actual repayment profiles.

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.

Hedge accounting

In designating a financial instrument as part of a qualifying hedge relationship, the directors have determined that the hedge is expected to be highly effective over the life of the hedging instrument. In accounting for a derivative as a cash flow hedge, the directors have determined that the future cash flows of the hedged exposure are highly probable. The group is required to assess on an ongoing basis 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 income statement. If the hedge is not, or has ceased to be, highly effective the group discontinues hedge accounting.

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 do, vest. Details of the above variables can be found in note 31.

3. Segmental analysis

During the year, as disclosed in note 1(a), the group has adopted IFRS 8 which replaced IAS 14 Segment reporting. The Executive Committee, which is considered the group's chief operating decision maker, manage the group by class of business as determined by the products and services offered and present the segmental analysis on that basis. The group's activities are organised in three primary operating divisions namely Banking, Securities and Asset Management. A description of the activities, including products and services offered by these divisions is given in the Business Review. The group previously had another primary operating division, Corporate Finance. This division was disposed of in July 2009 and has been classified as a discontinued operation in these financial statements. The group also has central functions which comprise Group Executive, Finance, Investor Relations, Legal, Human Resources, Audit, Compliance, Corporate Development, Information Technology, Company Secretariat and Risk. Group administrative expenses include staff costs, legal and professional fees and property costs attributable to the central functions which support and assist the growth of the divisions. Income within group is typically immaterial and will include interest on cash balances at group. In the segmental reporting information which follows, group consists of the central functions described above as well as various non-trading head office companies and consolidation adjustments, in order that the information presented reconciles to the overall group consolidated income statement and balance sheet.

Divisions charge market prices for services rendered to other parts of the group. Funding charges between segments are determined by the Banking division's Treasury operation having regard to commercial demands. The majority, being more than 90%, of all of the group's activities, revenue and assets are located within the British Isles.

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Continuing operations £ million	Discontinued operations £ million	**Total £ million**
Summary Income Statement for the year ended 31 July 2010							
Net interest income/(expense)	**188.5**	**(0.4)**	**7.1**	**0.3**	**195.5**	**–**	**195.5**
Other income	**83.5**	**162.6**	**89.9**	**0.2**	**336.2**	**–**	**336.2**
Operating income before exceptional items	**272.0**	**162.2**	**97.0**	**0.5**	**531.7**	**–**	**531.7**
Administrative expenses	**(118.3)**	**(100.9)**	**(91.9)**	**(20.6)**	**(331.7)**	**–**	**(331.7)**
Depreciation and amortisation	**(10.8)**	**(2.0)**	**(1.8)**	**(0.7)**	**(15.3)**	**–**	**(15.3)**
Impairment losses on loans and advances	**(63.4)**	**–**	**–**	**–**	**(63.4)**	**–**	**(63.4)**
Total operating expenses before exceptionals	**(192.5)**	**(102.9)**	**(93.7)**	**(21.3)**	**(410.4)**	**–**	**(410.4)**
Adjusted operating profit/(loss)[1]	**79.5**	**59.3**	**3.3**	**(20.8)**	**121.3**	**–**	**121.3**
Exceptional items: Impairment on investment assets	**–**	**–**	**–**	**(15.0)**	**(15.0)**	**–**	**(15.0)**
Impairment losses on goodwill	**–**	**–**	**(6.5)**	**–**	**(6.5)**	**–**	**(6.5)**
Amortisation of intangible assets on acquisition	**(0.5)**	**–**	**–**	**–**	**(0.5)**	**–**	**(0.5)**
Gain on disposal of discontinued operations	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Operating profit/(loss) before tax	**79.0**	**59.3**	**(3.2)**	**(35.8)**	**99.3**	**–**	**99.3**
Tax	**(22.5)**	**(16.0)**	**(0.5)**	**6.2**	**(32.8)**	**–**	**(32.8)**
Minority interests	**(0.3)**	**–**	**(0.3)**	**–**	**(0.6)**	**–**	**(0.6)**
Profit/(loss) after tax and minority interests	**56.2**	**43.3**	**(4.0)**	**(29.6)**	**65.9**	**–**	**65.9**
External operating income/(expense)	**284.5**	**162.2**	**90.8**	**(5.8)**	**531.7**	**–**	**531.7**
Inter segment operating income/(expense)	**(12.5)**	**–**	**6.2**	**6.3**	**–**	**–**	**–**
Segment operating income	**272.0**	**162.2**	**97.0**	**0.5**	**531.7**	**–**	**531.7**

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

For the year ended 31 July 2010, the operating income before exceptional items and the operating profit before tax of the Securities division included £5.7 million (2009: £16.1 million) relating to its share of profit of associates.

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

	2010 £ million	2009 £ million
Banking		
Net interest and fees on loan book:		
Retail	**104.9**	85.9
Commercial	**114.2**	99.5
Property	**36.5**	30.8
Treasury and other non-lending income	**16.4**	19.3
Securities		
Market-making and related activities	**162.2**	167.8
Asset Management		
Management fees on FuM	**52.2**	54.3
Income on Assets under Administration and deposits	**32.7**	37.6
Other income[1]	**12.1**	3.1
Group	**0.5**	3.8
Discontinued operations	**–**	36.3
Operating income before exceptional items	**531.7**	538.4

[1]Includes performance fees, income on investment assets and other income.

The Notes

3. Segmental analysis continued

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Summary Balance Sheet at 31 July 2010					
Assets					
Cash and loans and advances to banks	493.5	26.8	90.4	0.5	611.2
Settlement balances, long trading positions and loans to money brokers[1]	–	713.3	–	–	713.3
Loans and advances to customers	2,898.0	–	14.6	–	2,912.6
Non trading debt securities	1,448.1	2.0	132.0	–	1,582.1
Interests in associates	–	73.4	0.3	–	73.7
Intangible assets	29.6	28.7	49.0	0.2	107.5
Other assets	168.3	15.5	52.9	22.5	259.2
Intercompany balances	(475.7)	(27.5)	515.9	(12.7)	–
Total assets	4,561.8	832.2	855.1	10.5	6,259.6
Liabilities					
Settlement balances, short trading positions and loans from money brokers	–	597.8	–	–	597.8
Deposits by banks	37.8	–	10.3	–	48.1
Deposits by customers	2,469.1	1.2	645.2	–	3,115.5
Borrowings	1,167.8	4.9	1.5	297.8	1,472.0
Other liabilities	148.5	59.9	47.7	15.7	271.8
Intercompany balances	377.7	73.6	17.5	(468.8)	–
Total liabilities	4,200.9	737.4	722.2	(155.3)	5,505.2
Equity	360.9	94.8	132.9	165.8	754.4
Total liabilities and equities	4,561.8	832.2	855.1	10.5	6,259.6
Other segmental information for the year ended 31 July 2010					
Property, plant, equipment and intangible asset expenditure	19.9	1.6	1.9	2.4	25.8
Employees (average number)	1,403	260	810	72	2,545

[1]£54.1 million of long trading positions in debt securities have been included with other trading balances in “Settlement balances, long trading positions and loans to money brokers” for the purpose of this summary balance sheet. These balances are included within “Debt securities” in the consolidated balance sheet.

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Continuing operations £ million	Discontinued operations £ million	Total £ million
Summary Income Statement for the year ended 31 July 2009							
Net interest income/(expense)	166.9	(0.3)	14.0	1.2	181.8	(1.6)	180.2
Other income	68.6	168.1	81.0	2.6	320.3	37.9	358.2
Operating income before exceptional items	235.5	167.8	95.0	3.8	502.1	36.3	538.4
Administrative expenses	(112.3)	(100.5)	(80.8)	(20.2)	(313.8)	(37.7)	(351.5)
Depreciation and amortisation	(9.3)	(2.4)	(2.2)	(0.8)	(14.7)	(1.0)	(15.7)
Impairment losses on loans and advances	(59.9)	–	–	–	(59.9)	–	(59.9)
Total operating expenses before exceptionals	(181.5)	(102.9)	(83.0)	(21.0)	(388.4)	(38.7)	(427.1)
Adjusted operating profit/(loss)[1]	54.0	64.9	12.0	(17.2)	113.7	(2.4)	111.3
Exceptional items: Restructuring costs	–	(0.9)	(4.4)	(0.7)	(6.0)	–	(6.0)
Impairment losses on goodwill	–	–	(19.0)	–	(19.0)	–	(19.0)
Amortisation of intangible assets on acquisition	(0.4)	–	–	–	(0.4)	–	(0.4)
Gain on disposal of discontinued operations	–	–	–	–	–	12.4	12.4
Operating profit/(loss) before tax	53.6	64.0	(11.4)	(17.9)	88.3	10.0	98.3
Tax	(16.3)	(13.8)	(1.4)	5.4	(26.1)	0.4	(25.7)
Minority interests	(0.2)	–	(0.1)	–	(0.3)	(0.6)	(0.9)
Profit/(loss) after tax and minority interests	37.1	50.2	(12.9)	(12.5)	61.9	9.8	71.7
External operating income/(expense)	248.3	168.0	85.2	(1.2)	500.3	38.1	538.4
Inter segment operating income/(expense)	(12.8)	(0.2)	9.8	5.0	1.8	(1.8)	–
Segment operating income	235.5	167.8	95.0	3.8	502.1	36.3	538.4

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

For the year ended 31 July 2009, the operating income before exceptional items and the operating profit before tax of the Securities division included £16.1 million relating to its share of profit of associates.

The Notes

3. Segmental analysis continued

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Summary Balance Sheet at 31 July 2009					
Assets					
Cash and loans and advances to banks	27.9	24.3	145.3	0.7	198.2
Settlement balances, long trading positions and loans to money brokers[1]	–	728.9	–	–	728.9
Loans and advances to customers	2,352.6	–	12.3	–	2,364.9
Non trading debt securities	1,999.5	4.4	257.4	–	2,261.3
Interests in associates[2]	–	71.6	0.3	–	71.9
Intangible assets	24.4	29.3	53.9	–	107.6
Other assets	189.1	17.2	56.2	24.0	286.5
Intercompany balances	(332.6)	(27.6)	379.7	(19.5)	–
Total assets	4,260.9	848.1	905.1	5.2	6,019.3
Liabilities					
Settlement balances, short trading positions and loans from money brokers	–	590.7	–	–	590.7
Deposits by banks	33.0	–	15.0	–	48.0
Deposits by customers	2,241.9	1.1	676.6	–	2,919.6
Borrowings	1,417.6	18.2	1.1	–	1,436.9
Other liabilities	186.1	69.7	50.0	20.6	326.4
Intercompany balances	91.6	71.9	21.5	(185.0)	–
Total liabilities	3,970.2	751.6	764.2	(164.4)	5,321.6
Equity	290.7	96.5	140.9	169.6	697.7
Total liabilities and equity	4,260.9	848.1	905.1	5.2	6,019.3
Other segmental information for the year ended 31 July 2009					
Property, plant, equipment and intangible asset expenditure	17.2	2.2	1.8	1.1	22.3
Employees (average number)	1,316	259	805	68	2,448

[1] £37.9 million of long trading positions in debt securities have been included with other trading balances in "Settlement balances, long trading positions and loans to money brokers" for the purpose of this summary balance sheet. These balances are included within "Debt securities" in the consolidated balance sheet.
[2] Previously the interest in the group associate Mako had been presented in "Group" for the purposes of the segmental balance sheet. This has been reclassified to "Securities" in line with changes in internal management reporting.

4. Operating profit before tax

	2010 £ million	2009 £ million
Interest income		
Interest and similar income arising from debt and other fixed income securities	**30.0**	80.1
Other	**279.8**	272.7
	309.8	352.8

Fee income and expense (other than amounts calculated using the EIR method) on financial instruments that are not at fair value through profit or loss were £72.9 million (2009: £52.5 million) and £5.8 million (2009: £4.0 million). Fee income and expense arising from trust and other fiduciary activities amounted to £88.4 million (2009: £90.7 million) and £12.8 million (2009: £13.5 million).

	2010 £ million	2009 £ million
Administrative expenses		
Staff costs:		
Wages and salaries	**183.2**	178.2
Social security costs	**20.3**	21.2
Share-based awards	**3.4**	(0.4)
Pension costs	**6.7**	8.9
	213.6	207.9
Depreciation and amortisation	**15.3**	14.7
Other administrative expenses	**118.1**	111.9
	347.0	334.5

Operating lease rentals payable, of which £0.9 million (2009: £1.8 million) relate to plant and machinery, amounted to £7.9 million (2009: £9.1 million).

5. Exceptional items

	2010 £ million	2009 £ million
Impairment on investment assets	**(15.0)**	–
Restructuring costs	**–**	(6.0)
	(15.0)	(6.0)

The exceptional item above relates to impairment of available for sale equity shares and is separately disclosed on the face of the Consolidated Income Statement (2009: included within administrative expenses).

6. Information regarding the auditors

	2010 £ million	2009 £ million
Fees payable		
Audit of the company's annual accounts	**0.1**	0.1
Audit of the company's subsidiaries pursuant to legislation	**1.1**	1.3
Other services pursuant to legislation	**–**	0.1
Tax services	**0.3**	0.4
Other services	**0.3**	0.1
	1.8	2.0

The auditors of the group are Deloitte LLP.

The Notes

7. Tax expense

	2010 £ million	2009 £ million
Tax recognised in the income statement		
Current tax:		
UK corporation tax	**29.9**	26.2
Foreign tax	**1.8**	0.8
Adjustments in respect of previous years	**3.4**	(0.1)
	35.1	26.9
Deferred tax:		
Deferred tax expense/(credit) for the current year	**0.8**	(0.8)
Adjustments in respect of previous years	**(3.1)**	–
Tax charge	**32.8**	26.1
Tax recognised in equity		
Current tax relating to:		
Financial instruments classified as available for sale	**7.4**	(5.1)
Share-based transactions	**(0.5)**	–
Deferred tax relating to:		
Cash flow hedging	**2.3**	(4.4)
Financial instruments classified as available for sale	**–**	0.6
Share-based transactions	**(0.2)**	0.5
	9.0	(8.4)
Reconciliation to tax expense		
UK corporation tax for the year at 28% (2009: 28%) on operating profit	**27.8**	24.7
Goodwill impairment losses disallowed	**1.9**	5.3
Impairment on investment assets disallowed	**4.2**	–
Effect of different tax rates in other jurisdictions	**(1.0)**	(1.6)
Share of associates consolidated at profit after tax	**(1.6)**	(4.5)
Utilisation of losses not previously recognised	**(0.8)**	(0.4)
Disallowable items and other permanent differences	**1.0**	2.7
Deferred tax impact of reduced UK corporation tax rate	**1.0**	–
Prior year tax provision	**0.3**	(0.1)
	32.8	26.1

The effective tax rate for the year is 33.0% (2009: 29.6%). The effective tax rate for the period is above the UK corporation tax rate of 28% due to non tax deductible impairment on investment assets and goodwill, other disallowable expenditure, and a reduction in the deferred tax asset due to a reduction in the UK corporation tax rate. These effects are offset by the inclusion of the share of profit of associates in the Consolidated Income Statement on an after tax basis in accordance with IAS 1 and by the net lower tax rates applied to profit arising outside the UK.

8. Discontinued operations

In the prior year the sale of the Corporate Finance division for total net cash consideration of £67 million (including the settlement of an intra-group loan) was completed. Gross consideration was £75 million after contribution of £8 million of working capital to the division prior to completion. The transaction was completed on 1 July 2009 on which date control passed to the acquirer. The gain on disposal was calculated based on the cash consideration received after settlement of an intra-group loan, less the group's share of net assets of the Corporate Finance division at date of disposal and directly attributable costs of sale. In addition, in accordance with IFRS 5, the cumulative exchange differences related to the division were recycled to the income statement as part of the gain on disposal.

The results of the discontinued operations which have been included in the Consolidated Income Statement in the year to 31 July 2009 were as follows:

	2009 £ million
Operating income	36.3
Operating expenses	(38.7)
Operating loss before tax	(2.4)
Tax	0.4
Loss after tax	(2.0)
Gain on disposal of discontinued operations	12.4
Tax	–
Gain after tax on disposal of discontinued operations	12.4
Profit for the period from discontinued operations	10.4

The net assets of the Corporate Finance division at the date of disposal were as follows:

	2009 £ million
Property, plant and equipment	2.9
Loans and advances to banks	24.2
Other receivables	9.7
Other assets	4.8
Intra-group loan	(42.5)
Other liabilities	(13.4)
Attributable goodwill	33.6
	19.3

In the year to 31 July 2009 the Corporate Finance division contributed £9.2 million to the group's net operating cash flows and paid £16.1 million in respect of investing activities.

The Notes

9. Earnings per share

Earnings per share is presented on six bases. On a continuing operations basis the following are presented: basic; diluted; adjusted basic; and adjusted diluted. These measures exclude the effect of the Corporate Finance division which was disposed of in July 2009 and has been classified as a discontinued operation. On a continuing and discontinued operations basis the following are presented: basic and diluted.

Basic earnings per share is in respect of all activities and diluted earnings per share takes into account the dilution effects which would arise on the conversion or vesting of share options and share awards in issue during the period.

On a continuing operations basis, adjusted basic earnings per share excludes discontinued activities, exceptional items, impairment losses on goodwill, amortisation of intangible assets on acquisition and their tax effects to enable comparison of the underlying earnings of the business with prior periods and adjusted diluted earnings per share takes into account the same dilution effects as for diluted earnings per share described above.

	2010	2009
Earnings per share		
Continuing operations		
Basic	**46.0p**	43.6p
Diluted	**45.2p**	43.2p
Adjusted basic	**61.3p**	60.5p
Adjusted diluted	**60.3p**	59.9p
Continuing and discontinued operations		
Basic	**46.0p**	50.5p
Diluted	**45.2p**	50.0p

	£ million	£ million
Profit attributable to shareholders	**65.9**	71.7
Gain for the period from discontinued operations	**–**	(10.4)
Element attributable to minority interests	**–**	0.6
Profit attributable to shareholders on continuing operations	**65.9**	61.9
Adjustments:		
Exceptional items	**15.0**	6.0
Tax effect of exceptional items	**–**	(1.5)
Impairment losses on goodwill	**6.5**	19.0
Amortisation of intangible assets on acquisition	**0.5**	0.4
Adjusted profit attributable to shareholders on continuing operations	**87.9**	85.8

	million	million
Average number of shares		
Basic weighted	**143.4**	141.9
Effect of dilutive share options and awards	**2.4**	1.4
Diluted weighted	**145.8**	143.3

The gain for the year from discontinued operations, net of any minority interest effect, is £nil (2009: £9.8 million). The basic earnings per share from discontinued operations is nil (2009: 6.9p) and the diluted earnings per share from discontinued operations is nil (2009: 6.8p).

Adjusted basic earnings per share on a continuing and discontinued basis was 61.3p (2009: 67.4p), based on adjusted profit attributable to shareholders on continuing and discontinued operations of £87.9 million (2009: £95.7 million).

10. Dividends

	2010 £ million	2009 £ million
For each ordinary share		
Final dividend for previous financial year paid in November 2009: 25.5p (2008: 25.5p)	**36.3**	36.2
Interim dividend for current financial year paid in April 2010: 13.5p (2009: 13.5p)	**19.2**	19.0
	55.5	55.2

A final dividend relating to the year ended 31 July 2010 of 25.5p, amounting to an estimated £36.4 million, is proposed. This final dividend, which is due to be paid on 19 November 2010, is not reflected in these financial statements.

11. Loans and advances to banks

	2010 £ million	2009 £ million
Repayable		
On demand	**136.2**	183.2
Within three months	**19.9**	11.2
Between three months and one year	**2.4**	2.1
	158.5	196.5

12. Loans and advances to customers

	2010 £ million	2009 £ million
Repayable		
On demand	**49.6**	37.9
Within three months	**1,069.3**	707.7
Between three months and one year	**822.9**	827.6
Between one and two years	**490.6**	425.1
Between two and five years	**554.5**	426.3
After more than five years	**12.8**	11.5
Impairment provisions	**(87.1)**	(71.2)
	2,912.6	2,364.9
Impairment provisions on loans and advances		
At 1 August	**71.2**	50.3
Charge for the year	**63.4**	59.9
Amounts written off net of recoveries	**(47.5)**	(39.0)
Impairment provisions at 31 July	**87.1**	71.2
Loans and advances comprise		
Hire purchase agreement receivables	**1,033.5**	834.1
Finance lease receivables	**232.9**	242.9
Other loans and advances	**1,646.2**	1,287.9
	2,912.6	2,364.9

The Notes

12. Loans and advances to customers continued

Reconciliation between gross investment in finance lease and hire purchase agreement receivables to present value of minimum lease and hire purchase payments:

	2010 £ million	2009 £ million
Gross investment in finance leases and hire purchase agreement receivables due:		
Within one year	**571.7**	517.1
Between one and five years	**943.4**	765.7
After more than five years	**3.8**	12.3
	1,518.9	1,295.1
Unearned finance income	**(234.0)**	(197.0)
Present value of minimum lease and hire purchase agreement payments	**1,284.9**	1,098.1
Of which due:		
Within one year	**466.9**	430.7
Between one and five years	**814.5**	658.9
After more than five years	**3.5**	8.5

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £2,169.1 million (2009: £1,698.4 million). The average effective interest rate on finance leases approximates to 11.7% (2009: 11.7%). The fair value of finance lease receivables and hire purchase agreements equates to the net book value. The present value of minimum lease and hire purchase agreement payments reflects the fair value of finance lease and hire purchase agreement receivables before deduction of impairment provisions.

13. Debt securities

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

2009	Held for trading £ million	Held to maturity assets £ million	Available for sale assets £ million	Loans and receivables £ million	Total £ million
Long trading positions in debt securities	37.9	–	–	–	37.9
Certificates of deposit	–	–	–	1,202.2	1,202.2
Floating rate notes	–	19.4	754.7	–	774.1
Gilts and government guaranteed debt	–	–	285.0	–	285.0
	37.9	19.4	1,039.7	1,202.2	2,299.2

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

	2010		2009	
	Book value £ million	**Fair value £ million**	Book value £ million	Fair value £ million
Certificates of deposit classified as loans and receivables	**672.1**	**672.4**	1,202.2	1,207.9
Floating rate notes held to maturity	**9.0**	**8.8**	19.4	18.8
	681.1	**681.2**	1,221.6	1,226.7

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

	Gilts and government guaranteed debt	Floating rate notes		
	Available for sale £ million	Available for sale £ million	Held to maturity £ million	Total £ million
At 1 August 2008	–	751.3	23.4	774.7
Additions	286.0	–	–	286.0
Disposals	–	(20.0)	–	(20.0)
Redemptions at maturity	–	–	(2.0)	(2.0)
Currency translation differences	–	44.4	0.8	45.2
Impairment	–	–	(2.8)	(2.8)
Decrease in carrying value of financial instruments classified as available for sale	(1.0)	(21.0)	–	(22.0)
At 31 July 2009	285.0	754.7	19.4	1,059.1
Disposals	–	(32.5)	–	(32.5)
Redemptions at maturity	–	(137.1)	(10.3)	(147.4)
Currency translation differences	–	4.1	(0.1)	4.0
Increase in carrying value of financial instruments classified as available for sale	0.6	26.2	–	26.8
At 31 July 2010	**285.6**	**615.4**	**9.0**	**910.0**

In respect of floating rate notes, both classified as available for sale and held to maturity, £132.4 million (2009: £141.5 million) were due to mature within one year and £25.0 million (2009: £25.9 million) have been issued by corporates with the remainder issued by banks and building societies.

The Notes

14. Equity shares

	2010 £ million	2009 £ million
Equity shares classified as held for trading	**31.5**	24.0
Other equity shares	**28.4**	38.0
	59.9	62.0

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 2008	33.0	16.2	49.2
Additions	0.1	3.3	3.4
Disposals	–	(1.0)	(1.0)
Currency translation differences	(0.7)	–	(0.7)
Disposals of subsidiary undertakings	(0.6)	(0.4)	(1.0)
Increase/(decrease) in carrying value of:			
Equity shares classified as available for sale	(6.4)	–	(6.4)
Unlisted equity shares held at fair value	–	(5.5)	(5.5)
At 31 July 2009	25.4	12.6	38.0
Additions	–	0.2	0.2
Disposals	–	(10.9)	(10.9)
Currency translation differences	(0.3)	–	(0.3)
Increase/(decrease) in carrying value of:			
Equity shares classified as available for sale	(2.4)	–	(2.4)
Unlisted equity shares held at fair value	–	3.8	3.8
At 31 July 2010	**22.7**	**5.7**	**28.4**

15. Derivative financial instruments

	2010			2009		
	Notional value £ million	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	**423.6**	**14.5**	**8.8**	707.7	21.5	8.0
Interest rate contracts	**2,282.0**	**8.5**	**11.7**	2,029.7	11.0	13.9
	2,705.6	**23.0**	**20.5**	2,737.4	32.5	21.9

Notional amounts of interest rate contracts totalling £1,000.8 million (2009: £1,312.0 million) and exchange rate contracts totalling £20.8 million (2009: £372.3 million) have a residual maturity of more than one year. The group enters into derivative contracts with a number of financial institutions as a principal only to minimise the impact of interest and currency rate changes to its financial instruments. Notional value of exchange rate contracts has decreased £284.1 million due to a reduction in the requirement to hedge euro and US dollar denominated funding in the year. Included in the derivatives above are the following IAS 39 cash flow hedges and IAS 39 fair value hedges:

	2010			2009		
Cash flow hedges	**Notional value £ million**	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	**124.8**	**4.6**	**3.2**	128.3	6.6	2.1
Interest rate contracts	**874.4**	**0.3**	**5.7**	1,027.7	2.1	13.9
	999.2	**4.9**	**8.9**	1,156.0	8.7	16.0

	2010			2009		
Fair value hedges	**Notional value £ million**	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	**242.1**	**8.9**	**4.3**	464.1	11.6	2.7
Interest rate contracts	**918.1**	**7.3**	**5.6**	1,002.0	8.9	–
	1,160.2	**16.2**	**9.9**	1,466.1	20.5	2.7

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 (2009: five) 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 2010 and 2009 were immaterial. The amount recognised in equity for cash flow hedges was a credit of £6.1 million (2009: £11.1 million debit).

The group's fair value hedges hedge the interest rate and foreign exchange risks in recognised financial instruments; the net gain on the hedged items was £11.5 million (2009: gain of £17.8 million) which was offset by the hedging instrument.

The Notes

16. Intangible assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Group Total £ million	Company Software £ million
Cost					
At 1 August 2008	176.9	21.1	3.2	201.2	–
Additions	–	1.8	–	1.8	–
Acquisition of subsidiary	24.1	–	1.7	25.8	–
Foreign exchange	3.0	–	–	3.0	–
Disposals	(34.9)	(1.1)	–	(36.0)	–
At 31 July 2009	169.1	21.8	4.9	195.8	–
Additions	1.4	4.7	2.1	8.2	0.2
Foreign exchange	0.7	–	–	0.7	–
At 31 July 2010	**171.2**	**26.5**	**7.0**	**204.7**	**0.2**
Amortisation and impairment					
At 1 August 2008	50.1	16.7	–	66.8	–
Amortisation charge for the year	–	2.7	0.4	3.1	–
Impairment charge	19.0	–	–	19.0	–
Disposals	–	(0.7)	–	(0.7)	–
At 31 July 2009	69.1	18.7	0.4	88.2	–
Amortisation charge for the year	–	2.0	0.5	2.5	–
Impairment charge	6.5	–	–	6.5	–
At 31 July 2010	**75.6**	**20.7**	**0.9**	**97.2**	**–**
Net book value at 31 July 2010	**95.6**	**5.8**	**6.1**	**107.5**	**0.2**
Net book value at 31 July 2009	100.0	3.1	4.5	107.6	–
Net book value at 1 August 2008	126.8	4.4	3.2	134.4	–

Impairment tests for goodwill

Goodwill has been allocated to 14 individual CGUs, which are all at a lower level than the three operating divisions. Eight of these CGUs are within the Banking division; two are within the Securities division and the remaining four are within the Asset Management division. Details of the CGUs in which the goodwill carrying amount is significant in comparison with total goodwill are disclosed separately in the table below where applicable:

	Net book value of goodwill				
	31 July 2009 £ million	Additions £ million	Foreign exchange £ million	Impairment £ million	**31 July 2010 £ million**
Winterflood Securities	23.3	–	–	–	**23.3**
Close Private Bank	17.4	–	–	(6.2)	**11.2**
Close Brothers Cayman	15.9	–	0.9	(0.3)	**16.5**
Close Asset Management	7.2	–	–	–	**7.2**
Close Asset Finance	7.4	–	–	–	**7.4**
Other	28.8	1.4	(0.2)	–	**30.0**
	100.0	1.4	0.7	(6.5)	**95.6**

Goodwill impairment reviews are carried out at least annually using value in use calculations. This calculation typically uses discounted cash flow projections based on the most recent budgets and three year plans to determine the recoverable amount of each CGU. For cash flows beyond the group's three year planning horizon, a terminal value was calculated using an annual growth rate of 3% for each CGU, except where circumstances warrant a different rate. The resulting cash flows were then discounted using a rate of 12.2%, which represents the group's estimated weighted average cost of capital of 9%, grossed up by the group effective tax rate, which management feels is appropriate due to the use of pre-tax operating cash flows in the model. As a result of our value in use calculations an impairment charge of £6.5 million has been recognised in Asset Management in response to continuing difficult trading conditions.

The cash flows used in these value in use calculations are sensitive to the impact of changes in the assumptions for profit before tax, discount rates, and long-term growth rates. Management believes that any reasonably possible change in the key assumptions which have been used would not lead the carrying value of any CGU to exceed its recoverable amount.

17. Property, plant and equipment

	Land and buildings £ million	Fixtures, fittings and equipment £ million	Assets held under operating leases £ million	Motor vehicles £ million	Total £ million
Group					
Cost					
At 1 August 2008	10.3	52.5	22.9	2.5	88.2
Additions	1.2	7.3	12.4	0.3	21.2
Acquisition of subsidiary	–	0.4	6.4	0.1	6.9
Disposal of subsidiary	(1.7)	(6.0)	–	(0.2)	(7.9)
Other disposals	–	(3.6)	(4.3)	(0.8)	(8.7)
At 31 July 2009	9.8	50.6	37.4	1.9	99.7
Additions	1.6	6.6	12.6	0.3	21.1
Other disposals	(3.7)	(4.4)	(6.4)	(0.4)	(14.9)
At 31 July 2010	**7.7**	**52.8**	**43.6**	**1.8**	**105.9**
Depreciation					
At 1 August 2008	5.3	39.4	9.8	1.1	55.6
Charge for the year	1.2	5.4	5.9	0.5	13.0
Disposal of subsidiary	(0.3)	(4.3)	–	(0.1)	(4.7)
Disposals	–	(2.6)	(2.7)	(0.5)	(5.8)
At 31 July 2009	6.2	37.9	13.0	1.0	58.1
Charge for the year	0.7	6.0	6.2	0.4	13.3
Disposals	(3.3)	(4.3)	(3.8)	(0.3)	(11.7)
At 31 July 2010	**3.6**	**39.6**	**15.4**	**1.1**	**59.7**
Net book value at 31 July 2010	**4.1**	**13.2**	**28.2**	**0.7**	**46.2**
Net book value at 31 July 2009	3.6	12.7	24.4	0.9	41.6
Net book value at 1 August 2008	5.0	13.1	13.1	1.4	32.6

	2010 £ million	2009 £ million
Future minimum lease payments under non-cancellable operating leases due		
Within one year	**8.3**	8.5
Between one and five years	**9.1**	11.8
After more than five years	**1.8**	0.5
	19.2	20.8

The Notes

17. Property, plant and equipment continued

	Land and buildings £ million	Fixtures, fittings and equipment £ million	Motor vehicles £ million	Total property, plant and equipment £ million
Company				
Cost				
At 1 August 2008	4.2	2.3	0.2	6.7
Additions	0.5	0.6	–	1.1
Disposals	–	(0.2)	(0.1)	(0.3)
At 31 July 2009	4.7	2.7	0.1	7.5
Additions	1.5	0.6	–	2.1
Disposals	(3.7)	(1.3)	–	(5.0)
At 31 July 2010	**2.5**	**2.0**	**0.1**	**4.6**
Depreciation				
At 1 August 2008	3.0	1.7	0.1	4.8
Charge for the year	0.5	0.3	–	0.8
Disposals	–	(0.2)	(0.1)	(0.3)
At 31 July 2009	3.5	1.8	–	5.3
Charge for the year	0.3	0.4	–	0.7
Disposals	(3.3)	(1.3)	–	(4.6)
At 31 July 2010	**0.5**	**0.9**	**–**	**1.4**
Net book value at 31 July 2010	**2.0**	**1.1**	**0.1**	**3.2**
Net book value at 31 July 2009	1.2	0.9	0.1	2.2
Net book value at 1 August 2008	1.2	0.6	0.1	1.9

The net book value of land and buildings comprises:

	Group		Company	
	2010 £ million	2009 £ million	**2010 £ million**	2009 £ million
Long leasehold	**1.5**	1.5	**–**	–
Short leasehold	**2.6**	2.1	**2.0**	1.2
	4.1	3.6	**2.0**	1.2

18. Deferred tax assets

	Group		Company	
	2010 £ million	2009 £ million	**2010 £ million**	2009 £ million
Capital allowances	**22.0**	14.6	**0.3**	0.2
Employee benefits	**9.0**	6.1	**3.0**	2.4
Unrealised capital gains	**(1.0)**	–	**–**	–
Other	**2.8**	11.9	**–**	2.2
	32.8	32.6	**3.3**	4.8

Movement in the year:

	Group £ million	Company £ million
At 1 August 2008	29.0	5.4
Credit/(expense) to the income statement	0.8	(0.6)
Equity movements	3.3	–
Other	(0.5)	–
At 31 July 2009	32.6	4.8
Credit/(expense) to the income statement	2.3	(2.0)
Equity movements	(2.1)	0.5
At 31 July 2010	**32.8**	**3.3**

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

The Notes

19. Other assets and other liabilities

	2010 £ million	2009 £ million
Prepayments, accrued income and other assets		
Prepayments and accrued income	**88.6**	110.1
Trade debtors	**17.7**	14.2
Other	**22.5**	17.5
	128.8	141.8
Accruals, deferred income and other liabilities		
Accruals and deferred income	**122.0**	141.3
Creditors	**81.9**	81.9
Provisions	**14.0**	26.1
Other	**33.4**	55.2
	251.3	304.5

Provisions movement in the year:

	Claims £ million	Property £ million	Other £ million	Total £ million
Group				
At 1 August 2008	10.1	3.8	10.7	24.6
Utilisation	(0.1)	(0.2)	(2.7)	(3.0)
Charge/(release)	(1.8)	3.3	3.0	4.5
At 31 July 2009	8.2	6.9	11.0	26.1
Utilisation	(4.6)	–	(5.3)	(9.9)
Charge/(release)	(0.8)	(0.3)	(1.1)	(2.2)
At 31 July 2010	**2.8**	**6.6**	**4.6**	**14.0**

	Property £ million	Other £ million	Total £ million
Company			
At 1 August 2008	0.7	5.9	6.6
Utilisation	(0.2)	(0.4)	(0.6)
Charge/(release)	3.2	(0.5)	2.7
At 31 July 2009	3.7	5.0	8.7
Utilisation	–	(1.0)	(1.0)
Charge/(release)	–	(0.3)	(0.3)
At 31 July 2010	**3.7**	**3.7**	**7.4**

Property provisions are in respect of leaseholds where rents payable exceed the value to Close Brothers Group plc or in respect of potential dilapidations. Claims and other items for which provisions are made arise in the normal course of business. The timing and outcome of these claims and other items are uncertain.

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

20. Settlement balances and short positions

	2010 £ million	2009 £ million
Settlement balances	**498.1**	505.2
Short positions held for trading:		
Debt securities	**48.6**	71.4
Equity shares	**18.4**	14.1
	565.1	590.7

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

Included in loans and overdrafts from banks is £402.2 million of committed sale and repurchase facilities with a residual maturity of between three months and one year (2009: £405.1 million with a residual maturity of between one and two years). The group issued £200 million of 6.5% senior unsecured fixed rate notes in February 2010 due to mature on 10 February 2017 which have been classified as debt securities in issue. Of the debt securities in issue, £20.8 million mature on 20 April 2015 and £197.8 million on 10 February 2017.

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
At 31 July 2009							
Deposits by banks	17.2	19.6	10.6	0.6	–	–	48.0
Deposits by customers	768.7	916.6	345.5	814.9	73.9	–	2,919.6
Loans and overdrafts from banks	26.6	0.6	199.7	1,003.6	110.0	–	1,340.5
Debt securities in issue	–	–	–	–	–	21.4	21.4
	812.5	936.8	555.8	1,819.1	183.9	21.4	4,329.5

22. Subordinated loan capital

Final maturity date	Prepayment date	Initial interest rate	2010 £ million	2009 £ million
2020	2015	7.39%	**30.0**	30.0
2026	2021	7.42%	**15.0**	15.0
2026	2021	7.62%	**30.0**	30.0
			75.0	75.0

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

The Notes

23. Share capital

Group and company	2010 million	2010 £ million	2009 million	2009 £ million
Authorised				
Ordinary shares of 25p each	**200.0**	**50.0**	200.0	50.0
Allotted, issued and fully paid				
At 1 August 2009	**149.5**	**37.4**	149.4	37.3
Exercise of options	**0.2**	**–**	0.1	0.1
At 31 July	**149.7**	**37.4**	149.5	37.4

24. Company reserves

	Profit and loss account £ million	Other reserves £ million
At 1 August 2008	525.5	(19.4)
Profit attributable to shareholders	49.9	–
Dividends paid	(55.2)	–
Shares purchased	–	(22.1)
Shares released	–	4.3
Other movements	(2.3)	(0.2)
At 31 July 2009	517.9	(37.4)
Profit attributable to shareholders	9.4	–
Dividends paid	(55.5)	–
Shares purchased	–	(2.3)
Shares released	–	9.5
Other movements	5.4	0.8
At 31 July 2010	**477.2**	**(29.4)**

Movements in the group reserves are now presented in the consolidated statement of changes in equity on page 53.

25. Capital management

The FSA supervises the group on a consolidated basis and receives information on the capital adequacy of, and sets capital requirements for, the group as a whole. In addition a number of subsidiaries are directly regulated by the FSA. The aim of the capital adequacy regime is to promote safety and soundness in the financial system. It is structured around three "pillars": Pillar 1 on minimum capital requirements; Pillar 2 on the supervisory review process; and Pillar 3 on market discipline. The group's Pillar 1 information is presented in the table on the next page. Under Pillar 2, the group has completed a self assessment of risks in a process known as the "Internal Capital Adequacy Assessment Process". This has been reviewed by the FSA and the process culminated in the FSA providing "Individual Capital Guidance" on the level of capital the group and its regulated subsidiaries are required to hold. Pillar 3 aims to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment process. Pillar 3 disclosures can be found on the group's website www.closebrothers.co.uk/pillar3disclosures.aspx.

The group's policy has always been to be well capitalised and soundly funded. The group's approach to capital management is driven by strategic and organisational requirements, while also taking into account the regulatory and commercial environments in which it operates. In addition to maintaining a strong capital base to support the development of the business it is also important to ensure the group meets regulatory capital requirements at all times, and therefore maintains capital adequacy ratios comfortably above minimum regulatory requirements.

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 2010 and 2009. 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 capital ratios remained strong with core tier 1 ratio of 13.9% (2009: 14.8%) and total capital ratio of 15.8% (2009: 16.6%). The fall in the capital ratios was principally due to a significant increase in risk weighted assets as a result of growth in the loan book, including the acquisition of GMAC Commercial Finance Limited (UK) invoice financing loan book.

Regulatory capital (core tier 1 and total) increased during the year due to an increase in retained earnings and other reserves, and the recognition of unrealised gains on available for sale equity shares in total capital (2009: deduction of unrealised losses on available for sale equity shares from tier 1 capital). The composition of capital remained consistent with 88.2% (2009: 89.3%) of the total capital consisting of core tier 1 capital.

	2010 £ million	2009 £ million
Core tier 1 capital		
Called up share capital	**37.4**	37.4
Share premium account	**275.9**	274.5
Retained earnings and other reserves	**490.6**	477.8
Minority interests	**2.5**	4.3
Deductions from core tier 1 capital		
Intangible assets	**(107.5)**	(107.6)
Goodwill in associates	**(51.9)**	(49.0)
Investment in own shares	**(43.7)**	(50.9)
Unrealised losses on available for sale equity shares	**–**	(4.6)
Core tier 1 capital after deductions	**603.3**	581.9
Tier 2 capital		
Subordinated debt	**75.0**	75.0
Unrealised gains on available for sale equity shares	**7.6**	–
Tier 2 capital	**82.6**	75.0
Deductions from total of tier 1 and tier 2 capital		
Participation in a non-financial undertaking	**(1.8)**	(4.8)
Other regulatory adjustments	**(0.3)**	(0.5)
Total regulatory capital	**683.8**	651.6
Risk weighted assets (notional)		
Credit and counterparty risk	**3,230.8**	2,840.2
Operational risk[1]	**971.9**	993.8
Market risk[1]	**136.0**	102.8
	4,338.7	3,936.8
	%	%
Core tier 1 capital ratio	**13.9**	14.8
Total capital ratio	**15.8**	16.6

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

Reconciliation between equity and core tier 1 capital after deductions

	2010 £ million	2009 £ million
Equity	**754.4**	697.7
Regulatory deductions from equity:		
Intangible assets	**(107.5)**	(107.6)
Goodwill in associates	**(51.9)**	(49.0)
Other reserves not recognised for core tier 1 capital:		
Cash flow hedging reserve	**3.6**	9.7
Available for sale movements reserve[1]	**4.7**	31.1
Core tier 1 capital after deductions	**603.3**	581.9

[1]Total available for sale movements reserve less unrealised losses on available for sale equity shares.

The Notes

26. Investments in subsidiaries

The group's principal subsidiaries as permitted by Section 410(2) of the Companies Act 2006, at 31 July 2010 were:

Name of subsidiary	Principal activity	Equity held by group %	Country of registration and operation
Close Asset Finance Limited	Commercial asset financing	100	England
Close Asset Management Holdings Limited	Asset management holding company	100	England
Close Brothers Holdings Limited[1]	Group holding company	100	England
Close Brothers Limited	Treasury, property and insurance premium financing, and bank holding company	100	England
Winterflood Securities Limited	Market-making	100	England

[1]Direct subsidiary of the company.

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

On 4 January 2010 the group acquired the invoice financing loan book of GMAC Commercial Finance Limited (UK) for a premium to net book value of up to £4.0 million in cash. The loan book acquired of £93.8 million is not regarded as material in the context of the group's financial statements and therefore the information that would be required for material acquisitions by IFRS 3 has not been disclosed.

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

27. Investments in associates

	Associates	
Share of net assets/(liabilities)	**2010 £ million**	2009 £ million
Share of profit before tax	**8.2**	22.8
Share of tax	**(2.5)**	(6.2)
Share of profit after tax[1]	**5.7**	16.6
Dividends paid	**(8.2)**	(19.1)
Foreign exchange revaluation	**4.3**	12.2
Classification to subsidiary on increase in stake	**–**	(11.0)
	1.8	(1.3)
Carrying amount at 1 August	**71.9**	73.2
Carrying amount at 31 July	**73.7**	71.9

[1]Share of profit after tax in 2009 includes £0.5 million relating to discontinued operations.

The group has eight (2009: eight) associates. The associates owe £nil (2009: £nil) to the group. The group's share of the aggregated revenue of its associates in the year to 31 July 2010 amounted to £27.3 million (2009: £73.6 million). The group's share of the aggregated assets and liabilities of its associates at 31 July 2010 amounted to £43.7 million (2009: £44.1 million) and £21.0 million (2009: £19.4 million) respectively.

28. Contingent liabilities and commitments

Contingent liabilities

Financial Services Compensation Scheme

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

The FSCS raises annual levies from the banking industry to meets its management expenses and compensation costs and individual institutions make payments based on their level of market participation. The group has accrued £1.3 million (2009: £1.3 million) for its share of levies that will be raised by the FSCS, including the interest on the loan from HM Treasury, in respect of the levy years to 31 March 2011.

Other

The group has contingent liabilities in respect of guarantees arising in the normal course of business amounting to £1.4 million (2009: £10.0 million).

The company has given guarantees in respect of subsidiaries' bank facilities of £186.6 million (2009: £204.7 million) and subsidiaries' property leases of £9.1 million (2009: £9.8 million). In addition, the company has given guarantees in respect of the subordinated loan capital set out in note 22 on page 81.

	2010 £ million	2009 £ million
Commitments		
Memorandum items		
Undrawn facilities, credit lines and other commitments to lend:		
Within one year	**539.8**	328.3
After more than one year	**0.1**	1.0
	539.9	329.3

Other commitments

The group is committed to purchase minority interests in certain subsidiaries at agreed fair valuations. While not material, these minority interests were recognised, where appropriate, in the fair values attributed to the acquisition of the subsidiaries.

Subsidiaries had contracted capital commitments relating to capital expenditure of £0.9 million (2009: £2.5 million) and contracted commitments to invest in private equity funds of £3.2 million (2009: £4.3 million).

Future minimum lease payments under non-cancellable operating leases due:

	2010		2009	
	Premises £ million	**Other £ million**	Premises £ million	Other £ million
Within one year	**11.3**	**1.1**	10.9	0.8
Between one and five years	**37.5**	**1.2**	36.6	1.3
After more than five years	**16.6**	**0.1**	23.7	0.1
	65.4	**2.4**	71.2	2.2

The Notes

29. Related party transactions

Transactions with key management

For the purposes of Related Party Disclosures (IAS 24) key management comprise the executive directors. The directors believe that they exclusively comprise the key management personnel of the company, with the authority and responsibility for planning, directing and controlling, directly or indirectly, its activities.

The remuneration of individual directors is shown in the Report of the Board on Directors' Remuneration on pages 38 to 48.

	2010 £ million	2009 £ million
Directors' emoluments		
Salaries and fees	**1.6**	1.6
Benefits and allowances	**0.2**	0.2
Performance related awards in respect of the current year:		
Cash	**1.2**	1.7
Deferred	**2.0**	0.7
	5.0	4.2
Severance payments	**–**	0.8
Share-based awards	**1.5**	(0.2)
Company pension contributions	**0.2**	0.2
	6.7	5.0

During the year directors' gains upon exercise of options, expensed to the Income Statement in previous years, totalled £0.7 million (2009: £2.1 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 2010 attributable, in aggregate, to key management were £1.0 million (2009: £0.4 million).

Transactions with former director

In March 2010, the group purchased 1,250 ordinary shares of Winterflood from Mr. M.A. Hines, a former director of Close Brothers Group plc and Winterflood. The price paid represented fair value.

Transactions with associates

One of our associates has a banking relationship with a group entity which has been entered into in the normal course of business. Amounts included in deposits by customers relating to this relationship at 31 July 2010 were £11.7 million (2009: £3.0 million).

30. Pensions

The group operates defined contribution pension schemes and a defined benefits pension scheme for eligible employees. Assets of all schemes are held separately from those of the group. The charge to the income statement for the group pension schemes was £6.7 million (2009: £8.9 million) and is included within administrative expenses.

Defined benefits pension scheme

The group's only defined benefits pension scheme ("the scheme") was closed to new entrants in August 1996. At 31 July 2010 this scheme had 15 (2009: 16) active members, 69 (2009: 76) deferred members and 21 (2009: 14) pensioners. The remainder of this note relates exclusively to the scheme.

Contributions to the scheme have been determined by an independent qualified actuary based on triennial valuations using the attained age method. The most recent such valuation was at 31 July 2009, when the agreed company contribution rate was increased from 29.5% to 31.5% of pensionable salaries per annum with effect from 1 April 2010. In addition, the group agreed to contribute an additional £8.4 million towards the current funding deficit, with £2.8 million paid in the current financial year and two further payments of £2.8 million to be paid on or before 1 August 2011 and 1 July 2012. The group estimates a contribution of £3.2 million to the scheme during the year to 31 July 2011.

The valuation was based upon the following main actuarial assumptions:

	2010 %	2009 %
Inflation rate	**3.3**	3.6
Rate of increase in salaries	**2.0**	2.0
Rate of increase in pensions in payment	**3.3**	3.6
Discount rate for scheme liabilities	**5.4**	6.0
Expected return on the scheme's assets:		
Equities	**7.6**	8.6
Bonds	**4.1**	4.6
Cash	**3.9**	4.4
Mortality assumptions[1]:		
Existing pensioners from age 65, life expectancy (years):		
Men	**23.4**	23.2
Women	**24.9**	24.8
Non-retired members currently aged 50, life expectancy from age 65 (years):		
Men	**25.4**	25.2
Women	**27.0**	26.9

[1]Based on standard tables SAPS S1 Light produced by the CMI Bureau of the Institute and Faculty of Actuaries, together with projected future improvements in line with the Medium Cohort subject to a 1.5% per annum underpin.

Expected return on equities are determined by reference to Towers Watson's Global Investment Committee's ten year outlook as at 30 June 2010 as adjusted for the inflation assumption disclosed above. Expected return on government bonds of 3.9% are based on the 20 year FTSE fixed interest gilts yield as at 31 July 2010. The expected return on corporate bonds of 4.9% is based on the iBoxx over 15 year AA corporate bond yield of 5.4% reduced by 0.5% for default risk. Expected return on cash is determined by reference to Towers Watson's Global Investment Committee's ten year outlook as at 30 June 2010 as adjusted for the inflation assumption disclosed above.

The surplus/(deficit) of the scheme disclosed below has been accounted for as an asset/(liability) of the group:

	2010 £ million	2009 £ million	2008 £ million	2007 £ million	2006 £ million
Fair value of scheme assets:					
Equities	**19.7**	15.9	15.2	19.3	16.9
Bonds	**6.1**	5.0	4.4	3.5	3.4
Cash	**3.5**	2.7	3.3	1.1	1.3
Total fair value of scheme assets	**29.3**	23.6	22.9	23.9	21.6
Present value of scheme liabilities	**(30.9)**	(26.8)	(24.4)	(23.3)	(21.4)
Unrecognised actuarial loss	**3.2**	1.6	–	–	–
Surplus/(deficit)	**1.6**	(1.6)	(1.5)	0.6	0.2

Actuarial losses in the year not recognised by the group amount to £1.6 million (2009: loss of £1.8 million).

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

	2010 £ million	2009 £ million
Carrying amount at 1 August	**(26.8)**	(24.4)
Current service cost	**(0.3)**	(0.3)
Interest expense	**(1.6)**	(1.5)
Contributions by members	**(0.1)**	(0.1)
Benefits paid	**1.0**	1.3
Actuarial loss	**(3.1)**	(1.8)
Carrying amount at 31 July	**(30.9)**	(26.8)

The Notes

30. Pensions continued

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

	2010 £ million	2009 £ million
Carrying amount at 1 August	**23.6**	22.9
Expected return on scheme assets	**1.8**	1.7
Contributions by members	**0.1**	0.1
Contributions by employer	**3.3**	2.7
Benefits paid	**(1.0)**	(1.3)
Actuarial gain/(loss)	**1.5**	(2.5)
Carrying amount at 31 July	**29.3**	23.6

The actual return on scheme assets was an increase of £3.3 million (2009: decrease of £0.8 million).

History experience of actuarial gains and losses:

	2010 £ million	2009 £ million	2008 £ million	2007 £ million	2006 £ million
Experience gains/(losses) on scheme assets	**1.5**	(2.5)	(3.6)	0.5	0.5
Experience gains/(losses) on scheme liabilities	**–**	1.5	(0.6)	(1.5)	0.2
Impact of changes in assumptions on scheme liabilities	**(3.1)**	(3.3)	1.6	0.8	(0.3)
Total actuarial gains/(losses) on scheme liabilities	**(3.1)**	(1.8)	1.0	(0.7)	(0.1)

31. Share-based awards

The following share-based awards have been granted under the 1995 Executive Share Option Scheme, Save As You Earn ("SAYE") Scheme, 2004 Long Term Incentive Plan ("LTIP"), 2009 Long Term Incentive Plan ("LTIP") and the discretionary annual performance arrangement satisfied by deferred shares. The general terms and conditions for these share-based awards are described on pages 43 and 44.

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

	Executive share options		SAYE		2004/2009 LTIP		Deferred share awards[1]	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
At 1 August 2008	4,575,022	699.0p	859,578	638.7p	1,952,594	–	1,411,418	–
Granted	–	–	1,143,352	428.0p	1,089,083	–	637,333	–
Exercised	(464,915)	455.5p	(14,021)	578.4p	(34,574)	–	(259,854)	–
Forfeited	(222,027)	917.7p	(704,428)	624.2p	–	–	–	–
Lapsed	(774,732)	793.5p	(11,451)	454.0p	(716,632)	–	(82,877)	–
At 31 July 2009	3,113,348	696.3p	1,273,030	459.8p	2,290,471	–	1,706,020	–
Granted	–	–	279,516	616.0p	1,080,410	–	167,586	–
Exercised	(816,090)	566.9p	(83,478)	523.3p	(95,118)	–	(661,491)	–
Forfeited	–	–	(91,791)	490.6p	–	–	–	–
Lapsed	(785,811)	825.0p	(70,317)	575.5p	(461,760)	–	(11,314)	–
At 31 July 2010	**1,511,447**	**699.2p**	**1,306,960**	**480.8p**	**2,814,003**	**–**	**1,200,801**	**–**
Exercisable at:								
31 July 2010	**1,511,447**	**699.2p**	**–**	**–**	**34,128**	**–**	**853,421**	**–**
31 July 2009	2,795,175	700.7p	–	–	7,824	–	429,048	–

[1]Deferred Share Awards also include Matching and Restricted awards granted to new employees on commencement of employment with the Group. During 2009, 375,304 such awards were made; "Granted" awards in 2009 has been adjusted to reflect this.

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

	2010	2009
Executive Share Options	**765.9p**	609.9p
SAYE	**706.4p**	652.4p
2004 LTIP	**748.5p**	557.8p
Deferred Share Awards	**762.6p**	659.9p

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

	Options outstanding 2010		Options outstanding 2009	
Exercise price range	**Number outstanding**	**Weighted average remaining contractual life Years**	Number outstanding	Weighted average remaining contractual life Years
Executive share options				
Between £4 and £5	**185,637**	**2.2**	485,538	3.2
Between £5 and £6	**151,901**	**1.2**	365,020	2.2
Between £6 and £7	**438,276**	**4.2**	604,786	5.2
Between £7 and £8	**522,519**	**3.2**	1,240,490	2.7
Above £10	**213,114**	**0.2**	417,514	1.2
SAYE				
Between £4 and £5	**951,279**	**2.7**	1,070,939	3.7
Between £5 and £6	**–**	**–**	65,075	0.8
Between £6 and £7	**349,725**	**3.0**	103,498	2.3
Between £8 and £9	**5,956**	**1.8**	33,518	1.4
LTIP				
Nil	**2,814,003**	**2.3**	2,290,471	2.5
Deferred Share Awards[1]				
Nil	**1,200,801**	**4.0**	1,706,020	4.5
Total	**6,833,211**	**2.8**	8,382,869	3.2

[1]Deferred Share Awards also include Matching and Restricted awards granted to new employees on commencement of employment with the Group. During 2009, 375,304 such awards were made.

In order to satisfy a number of the above awards the company has purchased Treasury and ESOT shares. 4.8 million (2009: 5.5 million) and 2.3 million (2009: 2.7 million) of these shares were held respectively, at the year end.

For the share-based awards granted during the year, the weighted average fair value of those options at 31 July 2010 was 565p (2009: 289p). The main assumptions for the valuation of these share-based awards comprised:

Exercise period	Share price at issue	Exercise price	Expected volatility	Expected option life in years	Dividend yield	Risk free interest rate
SAYE						
1 December 2012 to 31 May 2013	770.0p	616.0p	46.0%	3	5.3%	2.4%
1 December 2014 to 31 May 2015	770.0p	616.0p	39.0%	5	5.3%	2.7%
LTIP						
8 November 2012 to 17 November 2013	730.0p	–	44.0%	3	5.3%	1.9%
Deferred Share Awards						
1 September 2011 to 30 September 2016	793.0p	–	–	–	–	–

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

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32. Consolidated cash flow statement reconciliation

	2010 £ million	2009 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit on ordinary activities before tax	**99.3**	98.3
Tax paid	**(29.7)**	(21.0)
(Increase)/decrease in:		
Interest receivable and prepaid expenses	**21.5**	(20.8)
Net settlement balances and trading positions	**(82.3)**	80.2
Net money broker loans against stock advanced	**105.0**	(118.5)
Increase/(decrease) in:		
Interest payable and accrued expenses	**(19.3)**	8.3
Depreciation, amortisation and impairment losses on goodwill	**22.3**	35.1
Net cash inflow from trading activities	**116.8**	61.6
(Increase)/decrease in:		
Loans and advances to banks not repayable on demand	**2.0**	(1.9)
Loans and advances to customers	**(453.9)**	(38.9)
Floating rate notes held to maturity	**10.4**	4.0
Floating rate notes classified as available for sale	**139.3**	(3.4)
Debt securities held for liquidity	**(0.6)**	(285.0)
Other assets less other liabilities	**17.0**	5.0
Increase/(decrease) in:		
Deposits by banks	**0.1**	(250.2)
Deposits by customers	**195.9**	277.9
Loans and overdrafts from banks	**(162.1)**	227.1
Non-recourse borrowings	**–**	(165.0)
Net cash outflow from operating activities	**(135.1)**	(168.8)
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and associates		
Cash consideration in respect of current year purchases	**–**	(17.9)
Loan stock redemptions and deferred consideration paid in respect of prior year purchases	**(0.4)**	(2.1)
Net movement in cash balances	**–**	0.3
	(0.4)	(19.7)
(c) Analysis of net cash inflow in respect of the sale of subsidiaries		
Cash consideration received	**–**	75.3
Cash and cash equivalents disposed of	**–**	(24.2)
	–	51.1
(d) Analysis of changes in financing		
Share capital (including premium) and subordinated loan capital:		
Opening balance	**386.9**	386.4
Shares issued for cash, net of transaction costs	**1.4**	0.5
Closing balance	**388.3**	386.9
(e) Analysis of cash and cash equivalents		
Cash and balances at central banks	**452.7**	1.7
Loans and advances to banks repayable on demand	**158.4**	194.4
Certificates of deposit	**672.1**	1,202.2
	1,283.2	1,398.3

Cash and cash equivalents comprise balances which have an original maturity of three months or less, together with highly liquid investments. The portfolio of floating rate notes classified as available for sale were reclassified during the prior period for cash flow presentation purposes since the majority of the portfolio had been hedged as collateral for sale and repurchase agreements and the market for those instruments was no longer regarded as highly liquid due to the prevailing economic environment.

33. Financial risk management

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

The group's financial risk management objectives are summarised within "Internal control and risk management" in the Corporate Governance section on pages 33 and 34. 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 to the financial statements.

(a) Classification

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

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

The Notes

33. Financial risk management continued

	Held for trading £ million	Fair value through profit or loss £ million	Held to maturity assets £ million	Available for sale assets £ million	Loans and receivables £ million	Other financial assets/ liabilities £ million	Total £ million
At 31 July 2009							
Assets							
Cash and balances at central banks	–	–	–	–	1.7	–	1.7
Settlement balances	–	–	–	–	508.7	–	508.7
Loans and advances to banks	–	–	–	–	196.5	–	196.5
Loans and advances to customers	–	–	–	–	2,364.9	–	2,364.9
Debt securities	37.9	–	19.4	1,039.7	1,202.2	–	2,299.2
Equity shares	24.0	12.6	–	25.4	–	–	62.0
Loans to money brokers against stock advanced	–	–	–	–	158.3	–	158.3
Derivative financial instruments	–	–	–	–	–	32.5	32.5
	61.9	12.6	19.4	1,065.1	4,432.3	32.5	5,623.8
Liabilities							
Settlement balances and short positions	85.5	–	–	–	–	505.2	590.7
Deposits by banks	–	–	–	–	–	48.0	48.0
Deposits by customers	–	–	–	–	–	2,919.6	2,919.6
Loans and overdrafts from banks	–	–	–	–	–	1,340.5	1,340.5
Debt securities in issue	–	–	–	–	–	21.4	21.4
Subordinated loan capital	–	–	–	–	–	75.0	75.0
Derivative financial instruments	–	–	–	–	–	21.9	21.9
	85.5	–	–	–	–	4,931.6	5,017.1

(b) Valuation hierarchy

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:

- 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 arms 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;

- 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”).

The group's financial instruments which are held at fair value are analysed in the following table at the balance sheet date.

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

Instruments classified as Level 1 predominantly comprise G10 government securities and listed equity shares.

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

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

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

There were no significant transfers between Level 1 and 2 in the period.

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

	Total £ million
At 1 August 2009	23.6
Total gains or losses recognised in the consolidated income statement[1]	3.8
Total gains or losses recognised in the consolidated statement of recognised income and expense	0.2
Purchases and issues	0.2
Sales and settlements	(10.9)
At 31 July 2010	**16.9**

[1]Transfers from the consolidated statement of recognised income and expense to the income statement on impairment of available for sale level 3 equity shares are not included in the above table. During the year an £8.5 million transfer was made.

The Notes

33. Financial risk management continued

The gains or losses recognised in the consolidated income statement relating to instruments held at the year end amounted to £0.6 million.

(c) Credit risk
Credit risk is the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion 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.

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.

Maximum exposure to credit risk
The maximum exposure to credit risk at 31 July 2010, before taking account of any collateral and credit risk mitigation, was:

	2010 £ million	2009 £ million
Cash and balances at central banks	**452.7**	1.7
Settlement balances	**541.7**	508.7
Loans and advances to banks	**158.5**	196.5
Loans and advances to customers	**2,912.6**	2,364.9
Debt securities	**1,636.2**	2,299.2
Equity shares	**59.9**	62.0
Loans to money brokers against stock advanced	**86.0**	158.3
Derivative financial instruments	**23.0**	32.5
Undrawn commitments	**539.9**	329.3
Guarantees	**1.4**	10.9
Total maximum exposure to credit risk	**6,411.9**	5,964.0

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

The group has entered into a repurchase agreement whereby floating rate notes to the value of £553.6 million (2009: £551.6 million) have been lent in exchange for cash of £401.4 million (2009: £397.7 million) which has been included within loans and overdrafts from banks. The agreement matures in November 2010 and the group has agreed to enter into a similar transaction with a maturity of November 2011. These floating rate notes remain on the group's balance sheet and the group retains the risk and rewards of ownership.

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

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

Financial assets

Loans and advances to customers

Credit risk management and monitoring

Within the Banking division the overall credit risk appetite and policy is set by the Risk and Compliance Committee. Retail, Commercial and Property each use credit underwriting and monitoring measures appropriate to the diverse and specialised nature of their lending.

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

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

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

Credit risk classification

Loans and advances to customers within the Banking division, as disclosed in note 12 on pages 71 and 72, are segmented between the following categories for credit risk reporting: neither past due nor impaired; past due but not impaired; impaired.

Neither past due nor impaired

The following table shows the ageing of loans and advances to customers split by credit assessment method which are neither past due nor impaired. This demonstrates the short-term nature of the lending, with £1.6 billion having a contractual maturity of less than twelve months. These loans and advances 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.

	2010 Loans and advances to customers			2009 Loans and advances to customers		
	Individually assessed £ million	**Collectively assessed £ million**	**Total £ million**	Individually assessed £ million	Collectively assessed £ million	Total £ million
Within one month	**297.4**	**173.4**	**470.8**	184.8	126.3	311.1
Between one and three months	**157.1**	**252.8**	**409.9**	145.8	240.8	386.6
Between three months and one year	**155.6**	**558.8**	**714.4**	100.3	484.6	584.9
Over one year	**208.5**	**774.4**	**982.9**	111.9	638.8	750.7
	818.6	**1,759.4**	**2,578.0**	542.8	1,490.5	2,033.3

Past due but not impaired

Loans and advances to customers are classed 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 or collateral 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.

	2010 Loans and advances to customers			2009 Loans and advances to customers		
	Individually assessed £ million	**Collectively assessed £ million**	**Total £ million**	Individually assessed £ million	Collectively assessed £ million	Total £ million
Within one month	**48.1**	**11.3**	**59.4**	65.9	11.0	76.9
Between one and three months	**27.5**	**0.7**	**28.2**	23.6	0.2	23.8
Between three months and one year	**26.6**	**1.3**	**27.9**	24.0	–	24.0
Over one year	**5.0**	**1.8**	**6.8**	1.2	–	1.2
	107.2	**15.1**	**122.3**	114.7	11.2	125.9

The Notes

33. Financial risk management continued

Impaired

The factors considered in determining whether assets are impaired are outlined in the accounting policies in note 1(n) on page 59. 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 any potential recoveries and realisation of security or collateral. This methodology is applied by the Property lending businesses 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. This methodology is applied by the Retail lending 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 29% (2009: 26%).

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

	2010 Loans and advances to customers			2009 Loans and advances to customers		
	Individually assessed £ million	Collectively assessed £ million	Total £ million	Individually assessed £ million	Collectively assessed £ million	Total £ million
Gross impaired loan	**192.1**	**107.3**	**299.4**	144.8	132.1	276.9
Provisions	**(58.1)**	**(29.0)**	**(87.1)**	(39.3)	(31.9)	(71.2)
Net impaired loans	**134.0**	**78.3**	**212.3**	105.5	100.2	205.7

The amount of interest income accrued on impaired loans and advances was £20.2 million (2009: £13.9 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.

Settlement balances

Credit risk management and monitoring

The credit risk presented by settlement balances in the Securities division is limited as such balances represent delivery versus payment transactions where delivery of securities occurs simultaneously with payment. The credit risk is therefore limited to the change in market price of a security between trade date and settlement date and not the absolute value of the trade. The Securities businesses are market-makers and trade with the intention of matching demand and supply for any given security. They trade on a principal only basis. The Securities businesses trade only with regulated counterparties including stockbrokers, wealth managers, institutions and hedge funds who are either approved by the FSA or equivalent in the EU or US.

Credit risk classification

Settlement balances are classed as neither past due nor impaired when the respective trades have not yet reached their settlement date. Settlement balances are classed as past due but not impaired when trades fail to be settled on their contractual settlement date. The credit risk presented by settlement balances which are past due is mitigated by the delivery versus payment mechanism, which requires counterparties to settle the open trade when market conditions allow, as well as by the Securities businesses trading only with regulated counterparties. Counterparty exposure and settlement failure monitoring controls are in place as part of an overall risk management framework and settlement balances past due are actively managed.

	2010			2009		
	Neither past due nor impaired	Past due but not impaired	Total	Neither past due nor impaired	Past due but not impaired	Total
Within one month	**486.0**	**47.5**	**533.5**	458.0	41.7	499.7
Between one and three months	**–**	**4.4**	**4.4**	–	4.5	4.5
Between three months and one year	**–**	**1.6**	**1.6**	–	3.5	3.5
Over one year	**–**	**2.2**	**2.2**	–	1.0	1.0
	486.0	**55.7**	**541.7**	458.0	50.7	508.7

Concentration risk and quality of financial assets
Loans and advances are spread across asset classes, short-term, secured and with a low average loan size in order to avoid concentration risk in the loan book and associated collateral.

The credit quality of the counterparties with whom the group places deposits or whose debt securities the group holds is monitored by the Risk and Compliance Committee within the Banking division which establishes specific 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 and counterparty risk, and the measures taken to mitigate or manage these risks, are considered further within the Principal Risks and Uncertainties section of the Business Review on pages 22 to 26.

(d) Market risk
Market risk is the risk that arises from adverse movements in equity, bond, interest rate, foreign exchange or other traded markets 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 on page 75.

The sensitivities below are based upon reasonably possible changes in interest rate scenarios, including parallel shifts in the yield curve. At 31 July 2010 a 1.0% increase or a 0.5% decrease (2009: a 2.0% increase or a 0.5% decrease) in interest rates compared to actual rates would increase/(decrease) the group's annual net interest income by the following amounts, prior to mitigation:

	2010 £ million	2009 £ million
1.0% increase (2009: 2.0% increase)	**3.1**	5.1
0.5% decrease (2009: 0.5% decrease)	**(1.6)**	(1.3)

At 31 July 2010 a 1.0% increase or a 0.5% decrease (2009: a 2.0% increase or a 0.5% decrease) in interest rates compared to actual rates would increase/(decrease) the group's equity by the following amounts, prior to mitigation:

	2010 £ million	2009 £ million
1.0% increase (2009: 2.0% increase)	**5.6**	3.6
0.5% decrease (2009: 0.5% decrease)	**(2.9)**	(0.9)

Foreign currency risk
The group has a number of currency investments in subsidiaries and associates and has chosen not to hedge those 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 2010 changes in exchange rates would increase/(decrease) the group's equity by the following amounts:

	2010 £ million	2009 £ million
20% strengthening of sterling against the US dollar (2009: 20% strengthening)	**(19.4)**	(18.0)
20% strengthening of sterling against the euro (2009: 20% strengthening)	**(8.7)**	(8.0)

The group would experience an equal and opposite increase in equity should sterling weaken against these currencies by the same percentage.

The group has additional material currency assets and liabilities primarily as a result of activities 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 on page 75. Other potential group exposures arise from share trading settled in foreign currency in the Securities division, and small foreign currency equity investments. The group has policies and processes in place to manage foreign currency risk, and as such the impact of any reasonably expected exchange rate fluctuations would not be material.

The Notes

33. Financial risk management continued

Market price risk

Trading financial instruments: Debt securities and equity shares

The group's trading activities relate to Winterflood and Seydler. The following table shows the group's trading book exposure to market price risk.

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

For the year ended 31 July 2009	Highest exposure £ million	Lowest exposure £ million	Average exposure £ million	Exposure at 31 July £ million
Equities				
Long	51.2	21.2	34.0	24.0
Short	29.9	6.8	13.0	14.1
			21.0	9.9
Debt securities				
Long	124.0	16.6	43.5	37.9
Short	118.7	14.5	44.0	71.4
			(0.5)	(33.5)

With respect to the long and short positions on debt securities respectively, £20.7 million and £19.1 million (2009: £11.9 million and £11.0 million) were due to mature within one year.

The average exposure has been calculated on a daily basis. The highest and lowest exposures occurred on different dates and therefore a net position of these exposures does not reflect a spread of the trading book. The basis on which the trading book is valued each day is given in the accounting policies in note 1(p) on pages 59 and 60.

Based upon the trading book exposure given above, a hypothetical fall of 10% in market prices would result in a £1.3 million (2009: £1.0 million) decrease in the group's income and net assets on the equity trading book and a £0.6 million decrease (2009: £3.4 million increase) on the debt securities trading book. However, the group's trading activity is mainly a stock jobbing business where positions are managed throughout the day on a continuous basis. Accordingly the sensitivity referred to above is purely hypothetical.

Non trading financial instruments

Net gains and losses on non trading financial instruments are disclosed in note 13 on pages 72 and 73.

(e) Liquidity risk

Liquidity risk is the risk of not being able to meet liabilities as they fall due and arises mainly in the Banking division.

The group has a prudent liquidity position with total available funding at 31 July 2010 of £5.6 billion (2009: £5.4 billion). This funding is significantly in excess of its loans and advances to customers at 31 July 2010 of £2.9 billion (2009: £2.4 billion). The group has a large portfolio of high quality liquid assets including cash placed on deposit with the Bank of England, short dated certificates of deposit and gilts. The group measures liquidity risk with a variety of measures including regular stress testing and regular cash flow monitoring, and reporting to both the group and divisional boards.

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

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	**Total £ million**
At 31 July 2010							
Settlement balances	–	498.1	–	–	–	–	**498.1**
Deposits by banks	23.0	25.1	–	–	–	–	**48.1**
Deposits by customers	782.4	789.3	661.0	682.3	256.7	3.0	**3,174.7**
Loans and overdrafts from banks	13.9	498.7	627.3	0.2	50.1	–	**1,190.2**
Debt securities in issue	–	6.5	–	6.5	79.3	219.5	**311.8**
Loans from money brokers against stock advanced	32.7	–	–	–	–	–	**32.7**
Subordinated loan capital	2.3	0.6	–	2.8	53.8	64.0	**123.5**
Derivative financial instruments	–	169.6	237.6	7.4	28.0	0.2	**442.8**
Off balance sheet commitments	27.9	0.1	–	–	–	–	**28.0**
Total	882.2	1,988.0	1,525.9	699.2	467.9	286.7	**5,849.9**

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	Total £ million
At 31 July 2009							
Settlement balances	–	505.2	–	–	–	–	505.2
Deposits by banks	17.2	19.6	2.5	8.3	0.6	–	48.2
Deposits by customers	769.1	924.8	310.1	53.5	935.5	–	2,993.0
Loans and overdrafts from banks	26.7	3.6	24.1	204.4	1,118.2	–	1,377.0
Debt securities in issue	–	–	0.1	0.3	0.8	21.7	22.9
Subordinated loan capital	2.3	0.6	–	2.8	22.5	129.1	157.3
Derivative financial instruments	–	106.0	6.0	8.9	6.0	–	126.9
Off balance sheet commitments	–	0.9	0.6	2.0	9.2	2.3	15.0
Total	815.3	1,560.7	343.4	280.2	2,092.8	153.1	5,245.5

34. Post balance sheet event

Since the year end the group has acquired 100% of Chartwell Group Limited, an IFA with over £650 million of client assets, for consideration of approximately £17 million.

Investor Relations

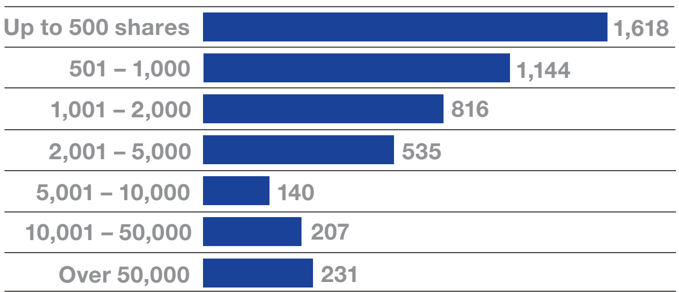
Financial calendar (provisional)

Annual General Meeting	18 November 2010
First quarter Interim Management Statement	18 November 2010
Final dividend payment	19 November 2010
Half year end	31 January 2011
Interim Results	March 2011
Interim dividend payment	April 2011
Third quarter Interim Management Statement	May 2011
Pre close trading statement	July 2011
Financial year end	31 July 2011
Preliminary Results	September 2011

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

Shareholder analysis

The number of shareholders analysed by the quantity of shares they held at 31 July 2010 was:



Cautionary Statement

Certain statements included or incorporated by reference within this report may constitute “forward-looking statements” in respect of the group’s operations, performance, prospects and/or financial condition. By their nature, forward looking statements involve a number of risks, uncertainties and assumptions and actual results or events may differ materially from those expressed or implied by those statements. Accordingly, no assurance can be given that any particular expectation will be met and reliance should not be placed on any forward-looking statement. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. No responsibility or obligation is accepted to update or revise any forward-looking statement resulting from new information, future events or otherwise. Nothing in this report should be construed as a profit forecast. This report does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase any shares or other securities in the company, nor shall it or any part of it or the fact of its distribution form the basis of, or be relied on in connection with, any contract or commitment or investment decisions relating thereto, nor does it constitute a recommendation regarding the shares and other securities of the company. Past performance cannot be relied upon as a guide to future performance and persons needing advice should consult an independent financial adviser. Statements in this report reflect the knowledge and information available at the time of its preparation. Liability arising from anything in this report shall be governed by English Law. Nothing in this report shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.

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Designed by Emperor Design Consultants Ltd
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