Close Brothers

Modern Merchant Banking

Close Brothers Group plc
Annual Report 2018

To help the people and businesses of Britain **thrive** over the long term

At Close Brothers we provide financial support and advice to small businesses and individuals throughout the UK. Our clients are the makers of things, the wealth creators, the investors and the savers. They are playing an important role driving growth in the British economy and we are supporting them as they grow.

Throughout our history, we have remained focused on upholding our traditional values of service, expertise and relationships. At the same time, we encourage innovation and support enterprise, reflecting how our clients do business.

In all market conditions we remain focused on providing straightforward products and services, maintaining a prudent approach and strong financial position, and building relationships that stand the test of time.

> "Culture is the thing that should be the most distinctive about the organisation and we really think it is."

Preben Prebensen
Chief Executive

Strategic Report 01

Governance 02

Financial Statements 03

The photography within this Annual Report was photographed on location at our clients' businesses. We would like to thank them for their generous support and cooperation.

Our Purpose, Strategy, Culture…

The "Why", "What" and "How"

Close Brothers' purpose is to help the people and businesses of Britain thrive over the long term.

To achieve this, all of our diverse, specialist businesses have a deep industry knowledge so they can understand the challenges and opportunities that our customers and clients face. We support the unique needs of our customers and clients to ensure that they thrive, rather than simply survive, whatever the market conditions.

We believe in putting our customers and clients first, and we have developed a way of describing our approach to ensure that we can always do this; we call it "the why", "the what" and "the how".

The "why" is our purpose, the "what" is our strategy and the "how" is our culture, and these important pillars are at the heart of our organisation.

Our Culture

Expertise

We are committed to fostering a culture that attracts talent, grows and builds the **expertise** of our employees.

Integrity

We insist on trustworthy behaviour and always acting with **integrity** – “doing the right thing”, internally and externally.

Prudence

We take a **prudent**, robust and transparent approach to risk management.

Teamwork

We promote **teamwork** in a fair and open environment, where individuals and their contributions are valued and respected.

Service

We care about delivering excellent **service** and thinking that’s both entrepreneurial and disciplined.

Relationships

We take the time to understand and build strong long-term **relationships** with our clients, customers and all our stakeholders.

Financial Highlights[1]
for the year ended 31 July 2018

Adjusted[2] operating profit

£278.6m

2017: £268.7m

2018	**£278.6m**
2017	£268.7m
2016	£233.6m
2015	£224.9m
2014	£193.7m

Adjusted[3] basic earnings per share

140.2p

2017: 133.6p

2018	**140.2p**
2017	133.6p
2016	128.4p
2015	120.5p
2014	101.0p

Return on opening equity[4]

17.0%

2017: 18.1%

2018	**17.0%**
2017	18.1%
2016	18.9%
2015	19.5%
2014	17.9%

Ordinary dividend per share[5]

63.0p

2017: 60.0p

2018	**63.0p**
2017	60.0p
2016	57.0p
2015	53.5p
2014	49.0p

Operating profit before tax

£271.2m

2017: £262.5m

Basic earnings per share

136.2p

2017: 130.2p

Profit attributable to shareholders

£202.3m

2017: £191.2m

1 Financial Highlights with the exception of profit attributable to shareholders presented on the basis of continuing operations, which exclude the unsecured retail point of sale finance business classified as a discontinued operation for the 2017 and 2018 financial years. See page 27 for more details on the basis of presentation.
2 Adjusted operating profit/(loss) is stated before amortisation of intangible assets on acquisition of £7.4 million (2017: £6.2 million), exceptional items of £nil (2017: £nil), and loss from discontinued operations of £2.9 million (2017: £3.9 million).
3 Excludes amortisation of intangible assets on acquisition, discontinued operations and the tax effect of such adjustment.
4 Return on opening equity calculated as adjusted operating profit after tax and non-controlling interests on opening equity less non-controlling interests.
5 Represents the final dividend proposed for the respective years together with the interim dividend declared and paid in those years.

Front cover:
Photographed on location at Bromford Iron & Steel.

Our Culture

Expertise

We are committed to fostering a culture that attracts talent, grows and builds the **expertise** of our employees.

Photographed on location at Bromford Iron & Steel.

Our Businesses

Specialist **Businesses**

Close Brothers is a leading UK merchant banking group providing lending, securities trading and wealth management services. We operate principally in the UK and employ around 3,300 people.

Banking

Read more about Banking
See pages 34 to 37

Retail

Adjusted operating profit[1]

£81.1m

The Retail segment provides loans to predominantly retail customers, through a network of intermediaries.

The **Motor Finance** business provides point of sale finance for the acquisition of predominantly used cars, motorcycles and light commercial vehicles. It operates through a network of c.7,000 independent motor dealers and has approximately 260,000 customers in the UK and Ireland.

Loan book: **£1.7 billion**
Average loan size: **c.£6,000**
Typical LTV[2]: **80-85%**

The **Premium Finance** business finances insurance payments for over two million companies and individuals, via a network of c.1,700 insurance brokers, allowing their customers to spread the cost of insurance premiums over a number of instalments.

Loan book: **£1.0 billion**
Average loan size: **c.£600**
Typical LTV[2]: **90-95%**

Commercial

Adjusted operating profit

£76.1m

The Commercial segment lends principally to SMEs, both through its direct sales force and via broker distribution channels.

The **Asset Finance** business has c.24,000 customers and provides commercial asset financing, hire-purchase and leasing solutions for a diverse range of assets and sectors, including the financing of commercial vehicles, machine tools, contractors' plant, printing equipment, aircraft and medical equipment. Our highly specialist sales force operates through 15 offices throughout the UK and Ireland.

Loan book: **£2.1 billion**
Average loan size: **c.£40,000**
Typical LTV[2]: **85-90%**

The **Invoice Finance** business works with c.2,300 small businesses, providing debt factoring, invoice discounting and asset-based lending, and also includes our smaller specialist businesses such as Novitas Loans, a specialist provider of finance to the legal profession, and Brewery Rentals, which provides solutions for brewery equipment and container maintenance in the UK and Germany.

Loan book: **£0.7 billion**
Average loan size: **c.£400,000**
Typical LTV[2]: **80%**

Property

Operating profit

£94.6m

The **Property** business specialises in short-term residential development finance, refurbishment and bridging loans in London, the South East and selected regional locations. We lend to c.700 professional property developers with a focus on small to medium-sized residential developments.

Loan book: **£1.8 billion**
Average loan size: **c.£1.4 million**
Typical LTV[2]: **50-60%**

Photographed on location at Alicat Workboats Ltd.

Securities

Read more about Securities
See pages 38 and 39

Winterflood

Operating profit

£28.1m

Our Securities division comprises **Winterflood**, a leading UK market-maker for retail stockbrokers and institutions. Winterflood deals in c.15,000 securities in the UK and overseas, and trades with over 600 retail stockbrokers, wealth managers, platforms, institutional asset managers and other market counterparties, providing continuous liquidity through our market-leading execution services, supported by our strong proprietary technology. Our traders have extensive experience of executing orders in a range of market conditions, enabling us to trade successfully and profitably over many years.

Average bargains per day: **c.68,000**

Total counterparties: **c.600**

Asset Management

Read more about Asset Management
See pages 40 and 41

Asset Management

Adjusted operating profit

£23.1m

Close Brothers Asset Management provides financial advice and investment management services to private clients in the UK. We offer financial planning advice with over 110 professional advisers across the country. We also provide a range of investment management services, including full bespoke management, managed portfolios and funds, distributed both directly via our own advisers and bespoke investment managers, and through third party IFAs.

Total client assets: **£12.2 billion**

Managed assets: **£10.4 billion**

Note:
Loan to value ratios are for illustrative purposes only and may not be representative of all loan types. The profile of individual loans may vary significantly.
1 Presented as continuing operations excluding the unsecured retail point of sale finance business, which has been classified as a discontinued operation in the group's income statement.
2 Typical LTV on new business. Motor Finance LTV is the average LTV in the UK, based on the retail price of the vehicle financed. Premium Finance LTV is based on premium advanced.

Chairman's Statement

Strong and distinctive **Culture**

Having completed my first full year as chairman of the board, I am delighted to introduce this year's Annual Report.

This has been another successful year for Close Brothers, as we have continued to deliver strong returns to our shareholders, while maintaining high levels of service for our customers and partners and strong engagement and commitment from our employees.

The group has delivered continued growth in profit and earnings, with a strong return on opening equity of 17.0%. The Banking businesses have continued to deliver growth at good returns in a competitive market. Winterflood achieved another strong year and the Asset Management business has made significant progress with strong growth in both client assets and profits.

The board is pleased to recommend a final dividend of 42.0p per share. If approved at the Annual General Meeting, this will take the full-year dividend to 63.0p, a 5% increase on last year, in line with our progressive dividend policy.

Dividend per share

63.0p

2017: 60.0p

Business Model and Strategy

Close Brothers has a distinctive and long-established business model, and we take a long-term, sustainable approach to every aspect of our business. This means maintaining prudent and consistent underwriting standards, even in competitive markets, treating our customers and partners fairly and supporting and developing our employees. The business has continued to invest for the future so that we can continue to deliver value to our customers and maximise opportunities over the long term.

We remain strongly committed to this distinctive model, which is deeply embedded in the organisation and in our corporate culture. At the same time, we constantly challenge ourselves on strategy to ensure that our business continues to meet customers' needs and maximise our business opportunities in the longer term. The board has spent significant time debating the risks and opportunities that arise from changing customer behaviour, technology, regulation and the wider economic and political environment, to ensure the decisions we make today continue to deliver value in years to come.

A Strong and Distinctive Culture

Across its diverse businesses and employee base, the group has a strong and distinctive culture which recognises both a common sense of purpose and the differentiation of our individual businesses. During the last year the board has overseen work to develop a statement of the group's overriding purpose and the cultural attributes which support it: service, expertise and relationships together with teamwork, prudence and integrity.

These help us to define and articulate the common attributes which underpin our long track record of acting ethically and responsibly in our dealings both with external stakeholders and with each other. They support the strong reputation we have built with customers, clients, partners, and other stakeholders, which is critical to the long-term sustainability of our business.

Customer Engagement

In the last year I have had the opportunity to experience first hand the genuine engagement our people have with customers and partners across our businesses, and the diversity of our customer base. In all parts of our business, our personal approach and local presence give us a deep understanding of our customers' needs and what they value most in our interaction with them.

During the year we have further formalised our collection and analysis of customer feedback. This has helped us to understand better where our personal service matters most, and where we can best use technology to improve our customers' experience and serve them more effectively — both now and in the future.

A Talented and Diverse Workforce

I have also been deeply impressed by the continued passion and engagement of our people, in serving our clients and in doing the right thing for the organisation and for the communities we interact with. Building a deep and diverse talent pool, and maintaining the engagement of our people, remains a core strategic priority for the group.

We also continue to make good progress on increasing the diversity of our workforce. During the year we have become signatories of the Women in Finance Charter, with a target of 30% female senior managers by 2020, and have further initiatives in place to extend our diversity beyond gender and to support social mobility.

Our wider corporate responsibility is important to our people, and we maintain a range of programmes to support the causes that matter most to them, as well as promoting charitable work and community engagement amongst our wider employee base. Some of these are detailed further in the Sustainability Report on pages 44 to 54.

Board Changes
During the year, we announced that Jonathan Howell would be stepping down from his role as group finance director following the Annual General Meeting in November, and on behalf of the board I would like to thank him for his very substantial contribution to the group over the last 10 years.

We were pleased to appoint Mike Morgan, chief financial officer of the group's Banking division, as his successor following an extensive search process. Mike brings a wealth of experience and deep knowledge of the group, and his appointment ensures strong continuity in the management team.

Our Employees
Finally, I would personally like to thank all of our employees for their hard work and very significant contribution over the last year. Their relentless engagement and support is critical to delivering service to our clients and continuing to help the people and businesses of Britain thrive over the long term.

Michael N. Biggs
Chairman

25 September 2018

> We remain strongly committed to our distinctive model, which is deeply embedded in the organisation and in our corporate culture.

Michael N. Biggs
Chairman

Photographed on location at Alicat Workboats Ltd.

Chief Executive's Statement

Managing for the **Long term**

I am pleased to report another good performance, achieving both strong profitability and significant strategic progress in the last financial year. All of our businesses have continued to maximise performance, while at the same time focusing on opportunities for future years.

The consistent application of our business model underpins our long track record of performance in a range of market conditions. We continue to prioritise margins and underwriting over growth, and we maintain our investment through the cycle and for the long term. We maintain strong funding and capital positions and a prudent level of dividend cover, which supports a long track record of holding or increasing our dividend.

Our strategic priorities are clear and unchanged: to protect, improve and extend our successful business model, providing exceptional service to our customers and clients across lending, savings, trading and wealth management. Together with our distinctive culture, this ensures that we can continue to deliver on our collective purpose over the long term.

Strong, Sustainable Profitability

The group achieved another year of strong profitability, with adjusted operating profit up 4% to £279 million and a return on opening equity of 17.0%, reflecting good performance in all three of our divisions. On a statutory basis, operating profit before tax from continuing operations increased 3% to £271 million.

In Banking we achieved 2% growth in adjusted operating profit to £252 million. We have seen no significant change in the operating environment for our lending businesses, and the market overall remains competitive. We continue to focus on maintaining our prudent approach to lending, evidenced by our strong net interest margin at 8.0%, and conservative loan to value ratios across our businesses. The credit environment remains benign, and bad debts have remained near historical lows with no significant change in credit performance across the portfolio.

Return on opening equity

17.0%

2017: 18.1%

Adjusted basic earnings per share

140.2p

2017: 133.6p

"Retaining and attracting engaged and expert employees is critical to the delivery of our service proposition to customers."

Preben Prebensen
Chief Executive

Notwithstanding our disciplined approach, we have achieved another year of loan book growth, with underlying growth broadly in line with last year at 6.6%. This reflects our strong customer proposition and the diversification benefits of our loan portfolio, with our core Property, Premium and Invoice Finance businesses in particular continuing to achieve good growth. Our Asset Finance business also grew, despite significant competition in this market, while the Motor Finance loan book contracted slightly. We have also seen an increasing contribution from some of our smaller specialist businesses.

Winterflood delivered another strong result, with operating profit in line with the prior year at £28 million, benefiting from consistently high trading activity across the UK market. Trading performance was consistently strong throughout the year, with no loss days.

The Asset Management business has moved forward significantly in the last year, reporting 17% growth in managed assets, which now exceed £10 billion, and a 33% increase in adjusted operating profit to £23 million. This reflects good new business levels across both our direct and intermediated distribution channels, and continued strong demand for both our advice and investment management product offerings.

Managing our Business for the Long Term
We take a long-term approach to managing our business, ensuring that our lending criteria, funding and capital position are sustainable as the market environment changes. This in turn allows us to deliver good returns to shareholders and support our customers in a wide range of market conditions.

During the year, we further strengthened and diversified our funding position, and we have maintained a strong capital position, with a common equity tier 1 capital ratio well ahead of minimum requirements at 12.7%.

We also work continuously to respond to evolving regulatory requirements. The last year has seen the successful implementation of a number of regulatory initiatives, including GDPR and MiFID II, as well as the transition to IFRS 9. We are also investing in cyber security to ensure we protect our business and our clients' data.

We continue to carefully monitor developments with regard to the UK's exit from the European Union.

Service, Expertise and Relationships
Providing exceptional service to our customers and clients is at the heart of our strategy, and manifests itself in long-term customer relationships, high levels of repeat business and strong net promoter scores across our businesses.

Our core values of service, expertise and relationships are central to our proposition to customers and our corporate culture, and we operate in markets where high quality, personal service is a real and sustainable differentiator.

Our customers are varied and diverse, comprising over two million individuals and SMEs, across a range of both regulated and unregulated financial services. We access our clients both directly and through a wide network of intermediaries and distribution partners.

Across our group we have close to 900 customer-facing staff, delivering a tailored, personal service proposition to their clients and intermediaries.

During the last year we have undertaken a significant review to understand better the evolving needs of our customer base, making it easier for them to do business with us, and make better use of technology. This has included a detailed mapping of the customer journey across our Retail businesses, resulting in a number of process enhancements. We have also rolled out an extensive "Voice of the Customer and Partner" programme, creating a framework to more formally listen, analyse and act upon feedback from our customers and partners.

Retaining and attracting engaged and expert employees is critical to the delivery of our service proposition to customers, and we are pleased that our regular employee surveys continue to demonstrate strong employee engagement.

Our distinctive culture is the foundation of our organisation, which unites our people, our strategy, and our collective sense of purpose. During the year we have conducted an extensive piece of work to articulate and define the cultural attributes which unite our workforce, and have added prudence, integrity and teamwork to our long standing core values of service, expertise and relationships. Together these define our culture and the positive behaviours that underpin the high service levels we deliver to our customers.

In the last year we have also formalised our corporate purpose statement – to help the people and businesses of Britain thrive over the long term – which has generated strong engagement and positive feedback from employees across the group.

Chief Executive's Statement continued

"Our strategic priorities remain unchanged: to protect, improve and extend our model to deliver long-term value."

Preben Prebensen
Chief Executive

Photographed on location at Biggin Hill Heritage Hangar Ltd.

Investing for the Long Term

Maintaining our investment through the cycle is critical to sustaining high levels of service for customers and adapting our offering as their needs evolve. We have a number of investment programmes under way to enhance our customer proposition and maximise the potential of our business for the long term.

Our ongoing investment in the Premium Finance business and associated technology has supported strong new business levels in recent years. We have also commenced a multi-year investment programme in our Motor Finance business, to enhance our service to dealers and end customers, and respond to evolving customer behaviour in this market.

We are also investing to optimise our funding and capital efficiency. Next year we will roll out our new deposit platform, which will enable us to provide a wider range of retail deposit products and an online offering, while further improving the customer experience. We are also making good progress on developing the models, systems and processes required to use the Internal Ratings Based ("IRB") approach, which will optimise our capital position and better reflect the risk profile of our lending portfolio longer term.

We recognise that the disciplined management of costs is critical to our ability to maintain profitability and invest through the cycle. We remain focused on controlling our expenditure alongside continued investment, while maintaining the high service levels and personal touch which are at the heart of our client proposition.

Expanding to Maximise our Potential

We are constantly looking to maximise market opportunities for our businesses, both in existing and new markets. In recent years this has included the expansion of our Property business into UK regional markets, focusing on commuter hubs around major cities where there is strong, structural demand for new family housing. The last year has also seen the successful expansion of our Invoice Finance business, and growth in the Brewery Rentals business which provides financing and servicing of beer kegs and casks to the brewery industry.

In the 2017 financial year we acquired Novitas, a specialist provider of loans to the legal profession. The business has seen strong growth since acquisition and expansion of its product offering in the litigation finance market with a loan book of over £80 million at the year end.

Winterflood is diversifying its income by expanding its presence in the institutional market, and we continue to develop Winterflood Business Services, which provides outsourced dealing and execution services to fund managers in the UK.

We have seen strong growth in our Asset Management business with net inflows exceeding £1 billion in the last year. We continue to see good long-term growth potential in this business, and have further expanded its growth capacity by optimising our adviser force and recruiting additional portfolio managers.

In addition to maximising growth within existing markets, we continue to actively explore new business and adjacent market opportunities which fit with our business model and risk appetite and have a number of new business initiatives at various stages of maturity.

We are continuing to assess the market opportunity for asset finance and other services in the German market, albeit this remains at an early stage.

On 14 September we announced the sale of our unsecured retail point of sale finance business, which had a loan book at 31 July 2018 of £66.2 million. After gradually and incrementally developing this business and assessing the market opportunity over the last several years, we have concluded that it does not provide a long-term fit with our predominantly secured business model. The sale is expected to complete in the current calendar year, subject to regulatory approval and other customary conditions.

Management Changes

During the year we announced that Jonathan Howell, group finance director since 2007, has decided to leave the group to pursue the next stage of his career. I would like to extend my personal thanks to Jonathan for his excellent contribution over many years.

Mike Morgan, currently chief financial officer of the group's Banking division, will take up the position of group finance director and I look forward to working closely with him.

Finally I would like to thank all our employees who continue to work relentlessly to support the success of the group, and to help the people and businesses of Britain thrive over the long term.

Outlook

In the Banking division, we will maintain our disciplined approach and expect continued growth at good returns benefiting from the diversity of our portfolio. Bad debts remain low, with no significant change in credit performance to date, and our strong margins and service led customer relationships position us well to respond to any change in market conditions.

Winterflood has performed well since the financial year end, but remains sensitive to any change in trading conditions.

In Asset Management, we are focused on building further scale in the business, by growing client assets both organically and through selective hires and opportunistic acquisitions.

Overall, we remain well positioned to continue performing well in a range of market conditions.

Preben Prebensen
Chief Executive

25 September 2018

Our Culture

Integrity

We insist on trustworthy behaviour and always acting with **integrity** – "doing the right thing" internally and externally.

Photographed on location at Alicat Workboats Ltd.

Business Model

Close Brothers has an established reputation as a responsible bank with a distinctive, prudent business model and a long-term approach. We focus on providing straight-forward products and services in sectors we know and understand, and delivering quality and reliability for our clients.

We remain committed to our traditional values of service, expertise and relationships alongside teamwork, integrity and prudence, to help the people and businesses of Britain thrive over the long term.

Our Distinctive Approach

- We focus on our core values which drive strong employee engagement and customer loyalty and are the foundations of our Modern Merchant Banking approach.
- Each of our businesses is a specialist in its own niche market, driven by a strong customer led proposition and long-term client relationships.
- Across our businesses we have a deep knowledge of the industry sectors and asset classes we serve, which allows us to provide firmer lending decisions and faster access to funds when clients need them most.
- We apply our lending criteria consistently at all stages in the financial cycle, which protects the quality and returns of our lending while providing continuity of service for our clients.
- We take a prudent approach to managing our financial resources. We maintain a prudent maturity profile, with diverse sources of funding, and a conservative capital position throughout the cycle.
- Our lending is predominantly secured, with conservative loan to value ratios, small loan sizes and short maturities.

"The consistent application of our business model underpins our long track record of performance."

Preben Prebensen
Chief Executive

Business Model continued

Long established proven business model

Strong customer led proposition

Our specialist expertise and personal approach give us a deep understanding of our customers' needs and values, which allows us to offer high service levels and fast, flexible solutions for our clients and intermediaries.

Disciplined approach through the cycle

We consistently apply our disciplined underwriting criteria, conservative loan to value ratios and strong margin at all stages of the financial cycle. Combined with maintaining prudent levels of funding, liquidity and capital this ensures we remain resilient in a range of market conditions.

Continuous investment within the model

We continue to invest in our businesses to enhance our customer proposition and identify new products and opportunities within the boundaries of our model. Our focus on quality of returns and prudent funding and capital management enables us to reinvest through the cycle.

Driving sustainable outcomes and business performance

Consistent client service in all market conditions

Our prudent approach to managing our financial position and capital base enables us to lend consistently to our clients under responsible terms in all market conditions. We are there for our clients even when others may pull back, and this has contributed to high repeat business and strong customer loyalty across our businesses.

Engaged employees

We continue to recruit, develop and retain high calibre employees by recognising their values, supporting and motivating them to realise their fullest potential. Our staff underpin our culture of service, expertise and relationships, alongside teamwork, integrity and prudence, and are proud of the positive impact we have on our clients and the communities we operate in.

Sustained business performance

Our strong customer focus and disciplined approach have supported a consistently strong return on net loan book at all stages of the financial cycle, ranging from 2.3% to 3.7% over the last 10 years. Our consistent application of underwriting discipline and responsible lending criteria has resulted in a low bad debt ratio ranging from 0.6% to 2.6% over the same period.

Resulting in positive outcomes for our stakeholders

Strong shareholder returns

We have achieved consistent profitability and strong returns for shareholders in a range of market conditions, and continue to deliver over the long term. This is reflected in our progressive dividend policy, which has returned a sustained and growing dividend to our shareholders over many years.

Sustained loan book growth

We do not manage our businesses to a growth target, but instead prioritise the consistency of our lending criteria and maintaining our strong returns. The strength of our client proposition has supported a loan book growth of between 6% and 23% over the last 10 years across a range of market conditions.

Strong net inflows

We continue to increase the scale and profitability of the Asset Management division through strong net inflows from a range of channels. This year we generated net inflows of 12% on opening managed assets, ahead of our range of between 6% to 10% annually in previous years.

Consistent trading profitability

Winterflood has a long track record of profitable trading in a wide range of market conditions, with no loss days in the last financial year.

Strong returns

17.0%[1]

Return on opening equity, ranging from 10% to 20% over the last 10 years.

63.0p

Since listing in 1984, our dividend has grown progressively to 63.0p in 2018.

Growth

£7.3bn[2]

Our loan book is now over £7 billion, and our lending to SMEs and individuals has more than trebled over the last 10 years.

12%

Annual net inflows are 12% of opening managed assets, and have ranged from 6% to 10% in the previous four years.

Good stakeholder outcomes

89%

Our latest employee survey once again demonstrates strong employee engagement across our businesses, with an overall score of 89%.

+50

Net promoter scores in excess of +50 across a number of our businesses, including +50 in Premium Finance, +73 in retail deposits and +61 in bespoke asset management, demonstrate consistently high customer satisfaction.

Read more about our employee engagement and net promoter scores
See pages 46 and 48

1 Based on results from continuing operations, excluding the unsecured retail point of sale finance business, which has been classified as a discontinued operation in the group's income statement.
2 The loan book at 31 July 2018 excludes the unsecured retail point of sale finance loan book of £66.2 million, which was classified as held for sale at the balance sheet date.

Photographed on location at Haynes Ford Ltd.

Strategy and Key Performance Indicators

Our overriding strategic objective is to provide exceptional service to our customers and clients across lending, savings, trading and wealth management.

Strategic objectives	2018 progress	Future priorities
Protect: A long-term approach to how we run our business. 1. Maintain prudent underwriting and strong margins in our lending 2. Maintain a sound level of funding, liquidity and capital 3. Maintain a disciplined approach to cost management and operational efficiency	• Maintained disciplined underwriting, prudent loan to value ratios and strong margin in a competitive environment. • Maintained prudent capital position with good headroom to regulatory requirements. • Further strengthened and diversified funding position with issue of senior unsecured bond and second motor securitisation. • Consistent trading profitability at Winterflood, with no loss days. • Successful implementation of MiFID II, GDPR and IFRS 9 requirements.	• Maintain disciplined underwriting and margin in competitive environments. • Maintain capital flexibility in an evolving regulatory environment and progress plans towards an Internal Ratings Based approach. • Monitor and ensure compliance with regulatory change, including MiFID II and the FCA's key focus areas. • Monitor developments with the UK's exit from the EU, and maintain our disciplined business model to minimise any impact. • Continue to invest in operational resilience and cyber capabilities.
Improve: Engaging and investing to strengthen our proposition. 4. Invest in technology, people and products to improve our customer proposition and operating efficiency 5. Help our customers do business with us by adapting to their needs and leveraging new technology 6. Empower our employees through training, development and diversity	• Continued high repeat business across the group. • Positive feedback from customers and partners via strong net promoter scores across a range of our businesses. • Ongoing investment in Premium Finance and Motor Finance to improve customer and intermediary service. • Investment in a new customer deposit platform, increasing our range of deposit products, providing our customers with more ways to access us through online self-service channels, and improving customer experience. • Developed an extensive Voice of the Customer and Partner programme to listen, analyse and act upon feedback from our customers and partners.	• Invest in our customer propositions and technology to improve product offering, increase customer retention and generate new income streams. • Monitor customer needs, preferences and trends in technology through research and responding to customer feedback and engagement to continue to adapt and compete. • Ensure we retain and attract staff and maximise productivity by responding to employee feedback, training and developing our people and empowering them through investment in tools and technology.
Extend: Creating future value through maximising our potential and identifying new opportunities. 7. Maximise the opportunity in each of our markets, within the boundaries of the model 8. Identify new products and adjacent market opportunities	• Strong net inflow levels in Asset Management from both direct and intermediated channels. • Selective regional expansion in Property Finance targeted at major cities and family housing with strong structural demand. • Novitas contributing strong growth since acquisition. • Continued to grow Winterflood's volumes in the institutional market.	• Maximise lending opportunities while maintaining disciplined approach. • Continue growing client assets and making opportunistic acquisitions in Asset Management. • Continue to identify and explore new business areas that fit with our specialist business model and generate strong returns. • Develop new customer centric capabilities in treasury deposit platform. • Maximise trading opportunities for Winterflood in both retail and institutional markets.

Strategic Report 01
Governance 02
Financial Statements 03

We take a long term, sustainable approach by focusing on ways to protect, improve and extend our model. This in turn allows us to deliver excellent client outcomes, engaged and productive employees and strong returns to shareholders in a wide range of market conditions.

Key performance indicators

Common equity tier 1 capital ratio per cent

2018	**12.7**
2017	12.6
2016	13.5

Funding cover of loan book per cent

2018	**132**
2017	127
2016	127

Net interest margin[1] per cent

2018	**8.0**
2017	8.1
2016	8.2

Bad debt ratio[1] per cent

2018	**0.6**
2017	0.6
2016	0.6

Banking expense/income ratio[2] per cent

2018	**49**
2017	48
2016	49

Employee engagement per cent

2018	**89**
2017	89

Net promoter scores 2018

Retail deposits brand	73
Bespoke asset management	61
Premium Finance	50

Property repeat business per cent

2018	**77**
2017	75

Loan book growth[3] per cent

2018	**7**
2017	7
2016	12

Net inflows per cent

2018	**12**
2017	9
2016	6

Creating long-term shareholder value

Group return on opening equity[2] per cent

2018	**17.0**
2017	18.1
2016	18.9

Adjusted basic earnings per share[2] pence

2018	**140.2**
2017	133.6
2016	128.4

Dividend per share pence

2018	**63.0**
2017	60.0
2016	57.0

1 The calculation of the net interest margin and bad debt ratio for 2018 and 2017, excludes the unsecured retail point of sale finance loan book from both the opening and closing loan book. This does not result in any change to the ratios previously published for the 2017 financial year.
2 Numbers for 2017 and 2018 are in respect of continuing operations.
3 For 2018, underlying loan book growth of 6.6% excludes the unsecured retail point of sale finance book of £66.2 million (31 July 2017: £36.7 million) which was held for sale at 31 July 2018.

Principal Risks and Uncertainties

Risk Management

The group faces a number of risks in the normal course of business providing lending, deposit taking, wealth management services and securities trading.

As set out in the strategy section on the previous pages, the protection of our established business model is a key strategic objective. As a result the management of the risks we face is central to everything we do. The key elements to the way we manage risk are as follows:

- Adhering to our established and proven business model outlined on pages 14 to 17;
- Implementing an integrated risk management approach based on the concept of "three lines of defence"; and
- Setting and operating within clearly defined risk appetites, monitored with defined metrics and set limits.

Further details on our approach to risk management are set out on pages 71 and 72. Risk management is overseen by the board Risk Committee and its key areas of focus over the last financial year are set out on pages 74 and 75. We believe the key risks facing the group include: the current economic uncertainty, especially the impact of the UK's departure from the EU and how that may impact our customers; the regulatory landscape and how it may impact some or all of our businesses; the competitive environment; and maintaining operational resilience in the face of growing cyber threats.

Risks and Uncertainties

The following pages set out the principal risks and uncertainties which may impact the group's ability to deliver its strategy, how we seek to mitigate these risks and the change in the perceived level of risk over the year. While we constantly monitor our portfolio for emerging risks, the group's activities, business model and strategy remain unchanged. As a result, the principal risks and uncertainties which the group faces and our approach to mitigating them remain broadly consistent with prior years. This consistency in approach has underpinned the group's track record of trading successfully and supporting our clients over many years.

The summary below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties faced by the group but reflect those which the group currently believes may have a significant impact on its performance and future prospects.

Key: = No change | ↘ Risk decreased | ↗ Risk increased

Risk/uncertainty	Mitigation	Change
Credit losses As a lender to small businesses and individuals, the bank is exposed to credit losses if customers are unable to repay loans and outstanding interest and fees. At 31 July 2018 the group had loans and advances to customers amounting to £7.3 billion. The group also has exposure to counterparties with which it places deposits or trades, and also has in place a small number of derivative contracts to hedge interest rate and foreign exchange exposures.	We seek to minimise our exposure to credit losses from our lending by: • Applying strict lending criteria when testing the credit quality and covenant of the borrower; • Maintaining consistent and conservative loan to value ratios with low average loan size and short-term tenors; • Lending on a predominantly secured basis against identifiable and accessible assets; • Maintaining rigorous and timely collections and arrears management processes; and • Operating strong control and governance both within our lending businesses and with oversight by a central credit risk team. Our exposures to counterparties are mitigated by: • Conservative management of our liquidity requirements and surplus funding with £1.1 billion placed with the Bank of England; • Continuous monitoring of the credit quality of our counterparties within approved set limits; and • Winterflood's trading relating to exchange traded cash securities being settled on a delivery versus payment basis. Counterparty exposure and settlement failure monitoring controls are also in place.	= Bad debts have again remained low during the year to 31 July 2018 while other counterparty exposures are broadly unchanged with the majority of our liquidity requirements and surplus funding placed with the Bank of England. We continue to monitor closely the uncertainty over Brexit combined with rising consumer debt levels and potential increases in interest rates. This uncertainty, combined with the low level of current credit losses, could increase the risk of higher credit losses in the future. Further commentary on the credit quality of our loan book is outlined on pages 34 to 37. Further details on loans and advances to customers and debt securities held are in notes 11 and 12 on pages 127 and 128 of the financial statements. Our approach to credit risk management and monitoring is outlined in more detail in note 28 on page 149.

Risk/uncertainty | **Mitigation** | **Change**

Economic environment

Any downturn in economic conditions may impact the group's performance through:

- Lower demand for the group's products and services;
- Lower investor risk appetite as a result of financial markets instability;
- Higher credit losses as a result of customers' inability to service debt and lower asset values on which loans are secured; and
- Increased volatility in funding markets.

Mitigation

The group's business model aims to ensure that we are able to trade successfully and support our clients in all economic conditions. By maintaining a strong financial position we aim to be able to absorb short-term economic downturns, continuing to lend when competitors pull back and in doing so build long-term relationships by supporting our clients when it really matters.

We test the robustness of our financial position by carrying out regular stress testing on our performance and financial position in the event of adverse economic conditions.

Change

=

Economic uncertainty remains elevated in our view. While UK economic performance has remained resilient in the last year, the current period of uncertainty is likely to continue, reflecting both ongoing Brexit negotiations and wider global events.

Further commentary on the attributes and resilience of the group's business model is shown on pages 14 to 17.

Legal and regulatory

Failure to comply with existing legal, regulatory or tax requirements, or to react to changes to these requirements, may have negative consequences for the group.

Failing to treat customers fairly, to safeguard client assets or to provide advice and products which are in clients' best interests has the potential to damage our reputation and may lead to legal or regulatory sanctions including litigation and customer redress. This applies to current, past and future business.

Similarly, changes to regulation and taxation can impact our financial performance, capital and liquidity and the markets in which we operate.

Mitigation

The group seeks to manage these risks by:

- Providing straightforward and transparent products and services to our clients;
- Maintaining a prudent capital position with headroom to minimum capital requirements;
- The implementation of appropriate policies, standards and procedures and the use of risk-based monitoring programmes to test adherence;
- The provision of clear advice on legal and regulatory requirements, including in relation to the scope of regulatory permissions;
- Responding in an appropriate, risk-based and proportionate manner to any changes to the legal and regulatory environment and those driven by any strategic initiatives;
- Investing in training for all staff including anti-money laundering, bribery and corruption, conduct risk, data protection and information security. Additional tailored training for relevant employees is provided in key areas such as complaint handling;
- Maintaining constructive and positive relationships and dialogue with regulatory bodies and tax authorities; and
- Reviewing and approving new products and services through a clear governance and approval process.

Change

=

Financial services businesses remain the subject of significant regulatory scrutiny. Minimum capital requirements are increasing as regulatory buffers are phased in and remain subject to change by regulators.

In addition to the regulatory uncertainties associated with Brexit, there has been growing regulatory focus on consumer borrowing, particularly within Motor Finance, and on customer experience within the asset management industry.

Principal Risks and Uncertainties continued

Risk/uncertainty	Mitigation	Change
Technology and operational resilience Robust, contemporary and secure technology is fundamental to enabling the group to: • Provide a high quality customer experience across our businesses; • Respond and adapt to emerging opportunities and risks; • Protect client and company data; and • Counter the evolving cyber threat. Failure to keep up with changing customer expectations or provide reliable, secure IT solutions has the potential to impact group performance.	The group continues to invest in its technology with investment projects underway across a number of businesses in order to enhance our customer offering. The group has strong governance in place to oversee its major projects. We continue to strengthen our cyber capabilities through further investment in tools and technical expertise as well as specific activities designed to mitigate cyber security risk. In the last year these have included a company-wide awareness campaign, phishing exercises and crisis management simulations. We have in place, and regularly test, operational resilience capabilities, including crisis management, business continuity and disaster recovery plans.	Industry, market and regulatory focus on operational resilience has increased during the year. Recent incidences of operational disruption to financial services firms and corresponding customer impact have demonstrated the heightened importance of operational resilience. This remains a key area of focus for the group, particularly as the rate of technology-driven disruption, including the impact and severity of cyber attacks, continues to increase. We continue to invest in and upgrade our IT infrastructure and operating practices. This will continue to improve our customer proposition, simplify our technology architecture and enhance resilience to cyber attacks. For further information on our response to cyber threats see page 75 of the Risk Committee Report.
Competition The group operates in competitive markets and experiences high levels of competition from both traditional and new players. Currently we are experiencing particularly high levels of competition within the Motor Finance business and the intermediated part of the asset finance market. Elevated levels of competition may impact the group's ability to write loans at its desired risk and return criteria, resulting in lower new business volumes and loss of market share.	The group's long track record of successful trading is supported by a consistent and disciplined approach to pricing and credit quality, even in competitive markets. This allows us to lend profitably and continue to support our customers at all stages in the financial cycle. We build long-term relationships with our clients and intermediaries based on: • The speed and flexibility of services; • Our local presence and personal approach; • The experience of our people and subject matter experts; and • Offering tailored and client-driven product solutions. This differentiated approach and the consistency of our lending results in strong customer relationships and high levels of repeat business. We are further protected by the diversity of our loan book and product portfolio, which provides resilience against competitive pressure in any one part of our markets.	Despite high levels of competition across each of our businesses, our approach remains unchanged as we focus on supporting our clients, maintaining underwriting standards and investing in our business. Further commentary on the market environment of the Banking division is outlined on page 35. Our business model is set out on pages 14 to 17.

Risk/uncertainty	Mitigation	Change
Employees The quality and expertise of our employees is critical to the success of the group. The loss of key individuals or teams may have an adverse impact on the group's operations and ability to deliver its strategy.	The group seeks to attract, retain and develop staff by: • Operating remuneration structures which are competitive and recognise and reward performance; • Creating an inclusive environment that nurtures development; • Implementing succession planning for key roles; • Improving our talent pipeline via our graduate and school leavers programmes, and training academy in asset finance; • Investing in training and development for all staff; and • Delivering leadership development programmes that identify current and future leaders for the group.	= Our highly skilled people are likely to be targeted by competitors but we are confident in our ability to retain key employees. Further detail on the employee survey and our investment in our people is outlined in the Sustainability Report on pages 44 to 47.
Funding and liquidity The Banking division's access to funding remains key to support our lending activities and the liquidity requirements of the group.	Our funding approach is based on the principle of "borrow long, lend short". The average maturity of funding allocated to the loan book was 23 months at 31 July 2018. This compares to our weighted average loan maturity of 14 months. Our funding is diversified both by source and channel, and by type and tenor. Liquidity in our Banking division is assessed on a daily basis to ensure adequate liquidity is held and remains readily accessible in stressed conditions. At 31 July 2018 the group's funding position was strong with total available funding equal to 132% of the loan book. This provides a prudent level of liquidity to support our lending activities.	= While economic uncertainty always has the potential to impact funding markets, the group remains conservatively funded and continues to have access to a wide range of funding sources and products. We have further diversified our funding during the year. This diversity of funding combined with relatively long tenor when compared to the average duration of our lending means we are well placed to meet any future market challenges or constraints. Further commentary on funding and liquidity is provided on pages 30 and 31. Further financial analysis of our funding is shown in note 19 on page 134 of the financial statements.
Market risk Market volatility impacting equity and fixed income exposures and/or changes in interest and exchange rates have the potential to impact the group's performance.	Our policy is to minimise interest rate risk by matching fixed and variable interest rate assets and liabilities and using swaps where appropriate. The capital and reserves of the group do not have interest rate liabilities and as such are not hedged. Foreign exchange exposures are generally hedged using foreign exchange forwards or currency swaps with exposures monitored daily against approved limits. Winterflood is a market-maker providing liquidity to its clients in equity and fixed income instruments. Our trading is predominantly short term with most transactions settling within two days. Trading positions are monitored on a real time basis.	= The group's approach and the underlying risks are unchanged. Further detail on the group's exposure to market risk is outlined in note 28 on pages 152 to 153 of the financial statements. The sensitivity analysis on interest rate exposures shown in note 28 on page 152 demonstrates the limited level of exposure to interest rate and foreign exchange movements.

Our Culture

Prudence

We take a **prudent**, robust and transparent approach to risk management.

Photographed on location at Biggin Hill Heritage Hangar Ltd.

Financial Overview

> Our resilient business model continued to deliver another good performance in the 2018 financial year.

Photographed on location at Castle Air Ltd.

Robust and Transparent

Return on opening equity
17.0%
2017: 18.1%

Adjusted operating profit
£278.6m
2017: £268.7m

Close Brothers achieved another year of strong profitability, reflecting good performance in all three of our divisions.

The group delivered another good performance, with adjusted operating profit up 4% to £278.6 million (2017: £268.7 million) and statutory operating profit before tax from continuing operations up 3% to £271.2 million (2017: £262.5 million). The operating margin remained flat on the prior year at 35% (2017: 35%).

The Banking division continued to perform well, delivering an adjusted operating profit of £251.8 million (2017: £247.4 million), up 2% on the prior year, with higher income and continued low bad debts across the businesses. Winterflood delivered another strong result, with operating profit of £28.1 million (2017: £28.1 million), in line with the prior year. Asset Management continued its good performance, achieving strong net inflows, with adjusted operating profit of £23.1 million (2017: £17.4 million). Group net expenses, which include the central functions such as finance, legal and compliance, risk and human resources, were broadly unchanged at £24.4 million (2017: £24.2 million).

Adjusted operating income increased 6% to £805.8 million (2017: £761.4 million), driven by good income growth in the Banking businesses and in Asset Management.

Adjusted operating expenses increased 6% to £480.5 million (2017: £453.7 million), with most of the uplift seen in Banking, where we continue to invest in a number of business initiatives and infrastructure projects. In Asset Management costs also increased, driven by higher staff costs reflecting ongoing growth in the business. Overall, both the group's expense/income and compensation ratios were stable at 60% (2017: 60%) and 37% (2017: 37%) respectively.

The bad debt ratio remained low at 0.6% (2017: 0.6%), reflecting the continued prudent application of our lending criteria and the current benign credit environment.

The tax charge in the period was £67.0 million (2017: £68.8 million), which corresponds to an effective tax rate of 25% (2017: 26%), reflecting the reduction in the corporation tax rate during the year.

As a result, adjusted basic earnings per share ("EPS") from continuing operations increased 5% to 140.2p (2017: 133.6p), generating a strong return on opening equity ("RoE") of 17.0% (2017: 18.1%). Basic EPS from continuing operations increased 5% to 136.2p (2017: 130.2p).

Since the financial year end, the group has announced the sale of its unsecured retail point of sale finance business, which has been treated as a discontinued operation in the income statement for 2018 and in the comparable year, and as an asset held for sale on the balance sheet at 31 July 2018. The loss from discontinued operations was £2.2 million (2017: £2.8 million) net of tax.

Basic EPS from continuing and discontinued operations increased 5% to 134.7p (2017: 128.3p).

The board is proposing a final dividend per share of 42.0p (2017: 40.0p), resulting in a full-year dividend per share of 63.0p (2017: 60.0p), an increase of 5% on the prior year. This reflects our progressive dividend policy, which aims to provide sustainable dividend growth year on year, while maintaining a prudent level of dividend cover. Subject to shareholder approval at the Annual General Meeting, the final dividend will be paid on 20 November 2018 to shareholders on the register at 12 October 2018.

Basis of Presentation

The group presents its results on both a statutory and adjusted basis. Adjusted measures are presented on a basis consistent with prior periods and are used for internal management reporting purposes. Adjusted measures exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; any exceptional items, which are non-recurring and do not reflect trading performance; and discontinued operations.

In the 2018 financial year, adjusted operating profit excludes amortisation of intangible assets on acquisition of £7.4 million (2017: £6.2 million), exceptional items of £nil (2017: £nil), and loss from discontinued operations of £2.9 million (2017: £3.9 million). Discontinued operations relate to the unsecured retail point of sale finance business, which has been classified as a discontinued operation in the group's income statement for the 2017 and 2018 financial years. The related assets and liabilities are classified as held for sale on the group's balance sheet at 31 July 2018.

Financial Overview continued

Group Income Statement

	2018 £ million	2017 £ million	Change %
Continuing operations			
Adjusted operating income	**805.8**	761.4	6
Adjusted operating expenses	**(480.5)**	(453.7)	6
Impairment losses on loans and advances	**(46.7)**	(39.0)	20
Adjusted operating profit	**278.6**	268.7	4
Banking	**251.8**	247.4	2
Retail	**81.1**	82.8	(2)
Commercial	**76.1**	72.6	5
Property	**94.6**	92.0	3
Securities	**28.1**	28.1	–
Asset Management	**23.1**	17.4	33
Group	**(24.4)**	(24.2)	1
Amortisation of intangible assets on acquisition	**(7.4)**	(6.2)	19
Operating profit before tax	**271.2**	262.5	3
Tax	**(67.0)**	(68.8)	(3)
Profit after tax from continuing operations	**204.2**	193.7	5
Loss from discontinued operations	**(2.2)**	(2.8)	(21)
Loss attributable to non-controlling interests	**(0.3)**	(0.3)	–
Profit attributable to shareholders: continuing and discontinued operations	**202.3**	191.2	6
Adjusted basic earnings per share (continuing operations)	**140.2p**	133.6p	5
Basic earnings per share (continuing operations)	**136.2p**	130.2p	5
Basic earnings per share (continuing and discontinued operations)	**134.7p**	128.3p	5
Dividend per share	**63.0p**	60.0p	5
Return on opening equity	**17.0%**	18.1%	

To maintain consistency with the income statement and reflect the group's continuing operations, the calculation of the bad debt ratio, net interest margin and return on net loan book for the Banking division excludes the unsecured retail point of sale finance loan book from both the opening and closing loan book. This does not result in any change to the ratios previously published for the 2017 financial year. Underlying loan book growth of 6.6% excludes the unsecured retail point of sale loan book of £66.2 million (31 July 2017: £36.7 million).

Balance Sheet

The structure of our balance sheet remains unchanged, with the majority of assets and liabilities relating to our lending activities. Loans and advances to customers make up the majority of our assets. These are c.90% secured and short-term in nature, with an average maturity of approximately 14 months (31 July 2017: 14 months).

Other items on the balance sheet include treasury assets held for liquidity purposes, and settlement balances in our Securities division. Intangibles, property, plant and equipment, and prepayments are included as other assets. Liabilities are predominantly made up of customer deposits and both secured and unsecured borrowings to fund the loan book.

In the year, total assets increased by £965.8 million to £10.3 billion (31 July 2017: £9.3 billion), driven by loan book growth in the year, as well as an increase in treasury assets. Total liabilities increased £853.1 million to £8.9 billion (31 July 2017: £8.0 billion), driven by higher customer deposits and an increase in borrowings, including the issue of a senior unsecured bond.

Total equity increased to £1.3 billion (31 July 2017: £1.2 billion), principally reflecting profit in the period, partially offset by dividend payments of £91.0 million. The group's return on assets remained broadly stable at 2.0% (31 July 2017: 2.1%).

IFRS 9

The provisions of IFRS 9 Financial Instruments apply to the group from 1 August 2018. Under IFRS 9, impairment losses are recognised in the group's financial statements on a forward looking basis, taking into account both the risk profile of the loan book and the macroeconomic outlook at the balance sheet date. This will result in earlier recognition of bad debts in the group's financial statements, and consequently a higher balance of bad debt provisions on the balance sheet, compared to the incurred loss approach under IAS 39.

The implementation of IFRS 9 is expected to increase bad debt provisions on the balance sheet by £59.0 million at 1 August 2018, resulting in a £44.9 million reduction in shareholders' equity and a £14.1 million increase in deferred tax assets.

This increase principally reflects the additional forward looking provision on performing and underperforming loans, as well as a broader definition of default compared to IAS 39 and the addition of a macroeconomic overlay.

This corresponds to a 49 bps reduction in the group's CET1 capital ratio on a fully loaded basis, in line with the group's expectation of a 45-55 bps impact. The group will be applying the European Banking Authority's transitional arrangements, which phase in the initial impact over a period of five years and, therefore, the impact on the group's regulatory capital position in the 2019 financial year will be minimal at 2 bps.

The group will be publishing an IFRS 9 transition document with further details on the implementation of IFRS 9 in early November.

Capital

The group's strong capital generation has allowed us to support continued loan book growth in the year while maintaining capital ratios comfortably ahead of minimum requirements. Overall, the CET1 capital ratio increased marginally to 12.7% (31 July 2017: 12.6%), reflecting continued strong profitability and loan book growth in the period. The total capital ratio decreased marginally to 15.0% (31 July 2017: 15.2%).

In the last year, we generated £93.8 million of CET1 capital, reflecting £202.3 million of profit in the year, partly offset by dividends paid and foreseen of £93.9 million, an increase in intangibles, and other movements in reserves. As a result, CET1 capital increased 9% to £1,084.4 million (31 July 2017: £990.6 million).

Group Balance Sheet

	31 July 2018 £ million	31 July 2017 £ million
Loans and advances to customers	**7,297.5**	6,884.7
Treasury assets[1]	**1,435.4**	1,029.0
Market-making assets[2]	**635.8**	643.4
Other assets	**882.3**	728.1
Total assets	**10,251.0**	9,285.2
Deposits by customers	**5,497.2**	5,113.1
Borrowings	**2,501.1**	2,041.2
Market-making liabilities[2]	**565.5**	556.9
Other liabilities	**338.5**	338.0
Total liabilities	**8,902.3**	8,049.2
Equity	**1,348.7**	1,236.0
Total liabilities and equity	**10,251.0**	9,285.2

1 Treasury assets comprise cash and balances at central banks and debt securities held to support lending in the Banking division.
2 Market-making assets and liabilities comprise settlement balances, long and short trading positions and loans to or from money brokers.

Group Capital Position

	31 July 2018 £ million	31 July 2017 £ million
Common equity tier 1 capital	**1,084.4**	990.6
Total capital	**1,282.3**	1,196.2
Risk weighted assets	**8,547.5**	7,859.0
Common equity tier 1 capital ratio	**12.7%**	12.6%
Total capital ratio	**15.0%**	15.2%
Leverage ratio	**10.6%**	10.7%

Risk weighted assets also increased 9% to £8.5 billion (31 July 2017: £7.9 billion), reflecting continued loan book growth and particularly strong growth in our property development loan book which is risk weighted at 150% under the standardised approach.

Our leverage ratio, which is a transparent measure of capital strength not affected by risk weightings, remains very strong at 10.6% (31 July 2017: 10.7%).

These capital ratios remain comfortably ahead of minimum regulatory requirements. Our fully loaded minimum CET1 capital ratio requirement, effective July 2019, is 9.0%, including all applicable buffers and a 1.1% pillar 2 add-on, with a total capital requirement of 13.4%. Accordingly, we continue to have good headroom of c.370 bps in our CET1 capital ratio, and c.160 bps in the total capital ratio.

This leaves us well placed to support continued growth in the loan book and absorb any foreseen regulatory changes, including the proposed Basel 3 reforms and the impact of IFRS 9.

We are also continuing to develop the models, systems and processes required to use the Internal Ratings Based approach for capital, which we believe will better reflect the risk profile of our lending longer term. We currently expect to submit our formal application to the PRA during the 2019 calendar year.

Common equity tier 1 capital ratio

12.7%

31 July 2017: 12.6%

Photographed on location at G&H Sheet Fed Ltd.

Financial Overview continued

Total funding

£9.6bn

31 July 2017: £8.8bn

Treasury assets

£1.4bn

31 July 2017: £1.0bn

Funding

The primary purpose of our treasury function is to manage funding and liquidity to support the lending businesses. We maintain a conservative approach, with diverse funding sources and a prudent maturity profile, which increases resilience and helps to manage changes in the cost of funding.

Overall, the funding environment remained favourable during the year. Total funding increased to £9.6 billion (31 July 2017: £8.8 billion) and accounted for 132% (31 July 2017: 127%) of the loan book at the balance sheet date. Our average cost of funding of 1.6% (2017: 1.7%) was marginally below the prior year, reflecting new lower cost funding, including a £200 million public motor securitisation issued in November 2017.

The loan book growth in the year was primarily funded by an increase in customer deposits and unsecured funding. Deposits increased 8% to £5.5 billion (31 July 2017: £5.1 billion) with rises in both retail and corporate deposits. The latter represents around two-thirds of the deposit base. Unsecured funding increased to £1.4 billion (31 July 2017: £1.1 billion), reflecting the successful issuance of a £250 million senior unsecured bond in April 2018.

Our range of secured funding facilities include securitisations of our Premium and Motor Finance loan books. We have made limited use of the Term Funding Scheme, which accounted for c.5% of our total funding at the year end.

We have maintained a prudent maturity profile. Term funding, with a residual maturity over one year, increased to £5.0 billion (31 July 2017: £4.8 billion) and now covers 68% (31 July 2017: 69%) of the loan book. The average maturity of funding allocated to the loan book increased to 23 months (31 July 2017: 21 months), while the average loan book maturity remained at 14 months (31 July 2017: 14 months).

During the year we invested in a new deposit platform, which will allow us to offer a wider range of savings products and to add online capability to our channels of distribution. The programme will enable us to further diversify our funding as well as improve the customer experience. We anticipate the new platform to be rolled out during the 2019 financial year.

Our strong credit ratings have been reaffirmed by both Moody's Investors Services ("Moody's") and Fitch Ratings ("Fitch"). Moody's rates Close Brothers Group ("CBG") A3/P2 and Close Brothers Limited ("CBL") Aa3/P1, with stable outlook. Fitch rates both CBG and CBL A/F1 with stable outlook.

Photographed on location at G&H Sheet Fed Ltd.

Group Funding[1]

	31 July 2018 £ million	31 July 2017 £ million
Customer deposits	**5,497.2**	5,113.1
Secured funding	**1,360.3**	1,297.3
Unsecured funding[2]	**1,421.2**	1,120.3
Equity	**1,348.7**	1,236.0
Total available funding	**9,627.4**	8,766.7
Of which term funding (>1 year)	**4,958.5**	4,766.2
Total funding as % of loan book	**132%**	127%
Term funding as % of loan book	**68%**	69%
Average maturity of term funding (excluding equity)	**43 months**	38 months
Average maturity of funding allocated to loan book[3]	**23 months**	21 months

1 Numbers relate to core funding and exclude working capital facilities at the business level.
2 Unsecured funding excludes £14.6 million (2017: £16.1 million) of non-facility overdrafts included in borrowings and includes £295.0 million (2017: £295.0 million) of undrawn facilities.
3 Average maturity of total funding excluding equity and funding held for liquidity purposes.

Group Liquidity

	31 July 2018 £ million	31 July 2017 £ million
Bank of England deposits	**1,140.4**	805.1
Sovereign and central bank debt	**44.5**	43.6
High quality liquid assets	**1,184.9**	848.7[1]
Certificates of deposit	**250.5**	180.3
Treasury assets	**1,435.4**	1,029.0

1 In addition to and not included in the above, at 31 July 2017 the group held £97.5 million of Treasury Bills drawn under the Funding for Lending Scheme that were not in repurchase agreements.

The group maintains a strong liquidity position, ensuring it is comfortably ahead of both internal risk appetite and regulatory requirements. The majority of our liquidity requirements and surplus funding are held in the form of high quality liquid assets.

We regularly assess and stress test our liquidity requirements and continue to comfortably meet the liquidity coverage ratio requirements under CRD IV, with a 12-month average liquidity coverage ratio of 1,038%. Treasury assets increased to £1.4 billion (31 July 2017: £1.0 billion) and were predominantly held on deposit with the Bank of England, giving us continued good headroom to both internal and external liquidity requirements.

Our Culture

Teamwork

We promote **teamwork** in a fair and open environment, where individuals and their contributions are valued and respected.

Banking

The Banking division delivered another year of good returns, as we maintain our pricing and underwriting discipline.

Banking adjusted operating profit was up 2% to £251.8 million (2017: £247.4 million), as good loan book growth was partly offset by a marginal reduction in the net interest margin, increased investment and the non-recurrence of provision releases in the prior year. Statutory operating profit from continuing operations increased 1% to £249.9 million (2017: £246.5 million).

The loan book grew 6.0% (2017: 7.0%), with underlying growth of 6.6% excluding the unsecured retail point of sale finance portfolio. This growth reflects our strong customer proposition and the diversification benefits of our loan portfolio, with growth in most of our core businesses, as well as an increasing contribution from some of our smaller, specialist businesses. The return on net loan book remained strong at 3.5% (2017: 3.6%).

Adjusted operating income was up 5% at £581.0 million (2017: £551.1 million), supported by loan book growth at strong margins across the lending businesses.

The net interest margin remained strong at 8.0% (2017: 8.1%), albeit with slightly lower yield compared to the prior year. Our strong margins and service led customer relationships position us well to respond to any change in market conditions.

Adjusted operating expenses increased 7% to £282.5 million (2017: £264.7 million), as we continue to invest in a number of new strategic projects and new business initiatives, including a new multi-year investment programme in Motor Finance and to support our planned application for IRB.

Staff costs, which represent the majority of the cost base, also increased, reflecting continued growth in both front office and support functions. The expense/income ratio was marginally up to 49% (2017: 48%), while the compensation ratio remained flat on the prior year at 29%.

We have seen no change in credit performance and the bad debt ratio remained low at 0.6% (2017: 0.6%), although slightly higher on the prior year, which benefited from £7.5 million of bad debt provision releases. The credit environment remained benign overall and we continue to see low levels of arrears across the businesses.

Key Financials

Continuing operations[1]	2018 £ million	2017 £ million	Change %
Adjusted operating income	**581.0**	551.1	5
Adjusted operating expenses	**(282.5)**	(264.7)	7
Impairment losses on loans and advances	**(46.7)**	(39.0)	20
Adjusted operating profit	**251.8**	247.4	2
Net interest margin[2]	**8.0%**	8.1%	
Expense/income ratio	**49%**	48%	
Bad debt ratio[2]	**0.6%**	0.6%	
Return on net loan book[2]	**3.5%**	3.6%	
Return on opening equity	**20%**	23%	
Average loan book and operating lease assets[3]	**7,261.1**	6,795.6	7

1 Results from continuing operations exclude the unsecured retail point of sale finance business, which has been classified as a discontinued operation in the group's income statement for the 2017 and 2018 financial years.
2 The calculation of the bad debt ratio, net interest margin and return on net loan book excludes the unsecured retail point of sale finance loan book from both the opening and closing loan book. This does not result in any change to the ratios previously published for the 2017 financial year.
3 Re-presented to exclude the unsecured retail point of sale finance loan book in both the 2017 and 2018 financial years and is used to calculate net interest margin, bad debt ratio and return on net loan book.

Photographed on location at
The Morgan Motor Company Ltd.

Strategic Report 01
Governance 02
Financial Statements 03

Loan Book Analysis

	31 July 2018 £ million	31 July 2017 £ million	Change %
Retail	**2,686.4**[1]	2,702.8	(0.6)
Motor Finance	**1,736.3**	1,761.9	(1.5)
Premium Finance	**950.1**[1]	940.9	1.0
Commercial	**2,783.6**	2,552.6	9.0
Asset Finance	**2,071.2**	2,017.0	2.7
Invoice Finance	**712.4**	535.6	33.0
Property	**1,827.5**	1,629.3	12.2
Closing loan book	**7,297.5**[1]	6,884.7	6.0

1 The loan book at 31 July 2018 excludes the unsecured retail point of sale finance loan book of £66.2 million, which was classified as held for sale at the balance sheet date. The loan book at 31 July 2017 includes £36.7 million in relation to this business.

Key Performance Indicators

Net interest margin (%)

2018	**8.0**
2017	8.1
2016	8.2

Bad debt ratio (%)

2018	**0.6**
2017	0.6
2016	0.6

Return on opening equity (%)

2018	**20**
2017	23
2016	26

Return on net loan book (%)

2018	**3.5**
2017	3.6
2016	3.6

Return on opening equity remained strong at 20% (2017: 23%) reflecting continued profitability of the business, offset by continued strong growth in the equity base.

Loan book growth has always been an output of our business model, and we continue to prioritise margin and credit quality over growth. Our portfolio is diverse, which ensures that our business remains resilient through the cycle. Loan book growth was 6.0% in the year to £7.3 billion (31 July 2017: £6.9 billion), with underlying growth of 6.6% excluding the unsecured retail point of sale finance loan book, which was classified as held for sale at the balance sheet date.

We achieved particularly good growth in Property, which has remained resilient to competitive pressure, as well as Invoice Finance, with growth in both the core business and from smaller, specialist areas.

Net interest margin

8.0%

2017: 8.1%

Return on opening equity

20%

2017: 23%

Both Asset and Premium Finance also delivered good growth in the year, while Motor Finance saw a slight contraction, as we prioritise our strict lending criteria in the face of continued competition.

The Republic of Ireland, where we provide Motor, Premium, Asset and Invoice Finance, represents c.10% of the overall Banking loan book. The Irish portfolio also grew in the period, although we now see growth moderating in this market.

Banking continued

Banking: Retail

Continuing operations[1]	2018 £ million	2017 £ million	Change %
Adjusted operating income	**225.5**	218.2	3
Adjusted operating expenses	**(119.2)**	(110.8)	8
Impairment losses on loans and advances	**(25.2)**	(24.6)	2
Adjusted operating profit	**81.1**	82.8	(2)
Net interest margin[2]	**8.4%**	8.5%	
Expense/income ratio	**53%**	51%	
Bad debt ratio[2]	**0.9%**	1.0%	
Average loan book[3]	**2,676.3**	2,575.6	4

1 Results from continuing operations exclude the unsecured retail point of sale finance business, which has been classified as a discontinued operation in the group's income statement for the 2017 and 2018 financial years.
2 The calculation of the bad debt ratio and net interest margin excludes the unsecured retail point of sale finance loan book from both the opening and closing loan book. This does not result in any change to the ratios previously published for the 2017 financial year.
3 Re-presented to exclude the unsecured retail point of sale finance loan book in both the 2017 and 2018 financial years and is used to calculate net interest margin, bad debt ratio and return on net loan book.

> Our strong margins and service led customer relationships position us well to respond to any change in market conditions.

Retail

The Retail segment provides intermediated finance, principally to individuals, through motor dealers and insurance brokers and incorporates our Premium and Motor Finance businesses.

The Retail loan book was broadly flat overall at £2.7 billion (31 July 2017: £2.7 billion), as good underlying loan book growth in Premium Finance was offset by a slight decline in the Motor Finance book and the agreed sale of the unsecured retail point of sale finance business.

Premium Finance delivered good underlying growth of 5% driven by volumes from recent broker wins. The Premium Finance business continues to be well positioned competitively, benefiting from the ongoing multi-year investment programme in its infrastructure aimed at improving both broker and end customer experience.

The Motor Finance loan book reduced 1% to £1.7 billion (31 July 2017: £1.8 billion). The UK book saw a small contraction in the period, as we continue to prioritise margin and credit quality in a highly competitive market. This was partly offset by continued modest growth in the Republic of Ireland, which accounts for 26% (2017: 23%) of the Motor Finance loan book, where we operate through a local partner, First Auto Finance, who provide the distribution and dealer relationships. In both the UK and Ireland, our core product remains hire-purchase contracts for second-hand vehicles, with Personal Contract Plans ("PCP") accounting for 13% of the Motor Finance loan book at 31 July 2018.

On 14 September we announced the sale of our unsecured retail point of sale finance business, which provides finance to consumers through retailers, and had a loan book of £66.2 million (31 July 2017: £36.7 million) at the balance sheet date. After gradually and incrementally developing this business and assessing the market opportunity over the last several years, we have concluded that it does not provide a long-term fit with our predominantly secured business model.

Overall, adjusted operating profit for the Retail segment of £81.1 million (2017: £82.8 million) was marginally down on the prior year, and statutory operating profit from continuing operations reduced to £80.8 million (2017: £82.4 million). This was due to ongoing investment in both Premium and Motor Finance as well as lower income in the Motor Finance business.

Adjusted operating income was up 3% year on year at £225.5 million (2017: £218.2 million) with the net interest margin broadly stable at 8.4% (2017: 8.5%).

Adjusted operating expenses increased 8% to £119.2 million (2017: £110.8 million), as our multi-year investment in both Premium Finance and, more recently, the Motor Finance business continues. The investment programme in our Motor Finance business is still in its early stage and is aimed at improving the service proposition, streamlining operational processes and increasing sales effectiveness. As a result, the expense/income ratio increased to 53% (2017: 51%).

Credit performance remains in line with our expectations at this stage of the cycle, with the bad debt ratio at 0.9% (2017: 1.0%), reflecting continued commitment to our strict lending criteria.

Commercial

The Commercial segment focuses on specialist, secured lending principally to the SME market and includes Asset and Invoice Finance, including smaller specialist businesses such as Novitas Loans, a specialist provider of finance to clients of the legal profession acquired in 2017, and Brewery Rentals, which provides service and finance solutions for brewery equipment and containers in the UK and Germany.

The overall Commercial loan book increased 9% to £2.8 billion (31 July 2017: £2.6 billion), with growth across all businesses, but particularly in the core Invoice Finance business, Novitas Loans and Brewery Rentals. The Asset Finance loan book was also up 3% in the year, notwithstanding active competition from both new and existing lenders in this market.

Adjusted operating profit of £76.1 million (2017: £72.6 million) was up 5%, driven by good income growth and continued low bad debt. Statutory operating profit increased 3% to £74.5 million (2017: £72.1 million).

Banking: Commercial

	2018 £ million	2017 £ million	Change %
Operating income	**225.5**	213.3	6
Adjusted operating expenses	**(132.2)**	(125.2)	6
Impairment losses on loans and advances	**(17.2)**	(15.5)	11
Adjusted operating profit	**76.1**	72.6	5
Net interest margin	**7.9%**	8.0%	
Expense/income ratio	**59%**	59%	
Bad debt ratio	**0.6%**	0.6%	
Average loan book and operating leases	**2,856.4**	2,676.8	7

Banking: Property

	2018 £ million	2017 £ million	Change %
Operating income	**130.0**	119.6	9
Operating expenses	**(31.1)**	(28.7)	8
Impairment losses on loans and advances	**(4.3)**	1.1	
Operating profit	**94.6**	92.0	3
Net interest margin	**7.5%**	7.7%	
Expense/income ratio	**24%**	24%	
Bad debt ratio	**0.2%**	(0.1%)	
Average loan book	**1,728.4**	1,543.3	12

Retail
Adjusted operating profit

£81.1m

2017: £82.8m

Commercial
Adjusted operating profit

£76.1m

2017: £72.6m

Property
Operating profit

£94.6m

2017: £92.0m

Operating income of £225.5 million (2017: £213.3 million) was 6% higher than the prior year, reflecting growth in the loan book. Despite ongoing pricing pressure in the Asset Finance market, we have maintained a strong net interest margin of 7.9% (2017: 8.0%), which remains ahead of the industry.

Costs grew by 6% to £132.2 million (2017: £125.2 million), driven by ongoing investment in new initiatives. These include our Technology Services business, where we offer financing solutions for IT infrastructure, the expansion of our Asset Finance offering into Germany, and post-acquisition integration of Novitas Loans. Despite this ongoing investment, the expense/income ratio remained stable at 59% (2017: 59%).

The bad debt ratio remained in line with the prior year at 0.6% (2017: 0.6%), with good overall credit performance.

Property
The Property segment is focused on specialist residential development finance to established professional developers in the UK. We do not lend to the buy-to-let sector, or provide residential or commercial mortgages.

Property delivered another year of strong loan book growth at 12%, to £1.8 billion (31 July 2017: £1.6 billion). We continue to see strong structural demand in our core market of property development finance for new build family housing with an average unit price of £500,000. London and the South East represent c.70% of the portfolio, however growth also remains strong in regional locations around major commuting hubs such as Manchester, Birmingham and Bristol. Our long track record, expertise and quality of service ensure the business remains resilient to competitive pressures and continues to generate high levels of repeat business.

The business delivered an operating profit of £94.6 million (2017: £92.0 million), up 3% on the prior year. The net interest margin reduced slightly to 7.5% (2017: 7.7%), predominantly reflecting the mix of new business in the period. The bad debt ratio was low at 0.2% (2017: -0.1%), with the net recovery in the 2017 financial year reflecting provision releases in that year.

Operating expenses of £31.1 million (2017: £28.7 million) were up 8%, and the expense/income ratio remained at 24% (2017: 24%), reflecting the lower operational requirements of the business with larger transaction sizes at lower volumes.

Securities

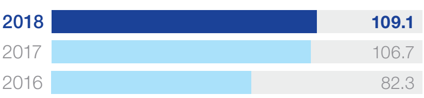
> Winterflood has a long track record of providing continuous liquidity and trading profitably in a wide range of market conditions.

Photographed on location at Winterflood Securities Limited.

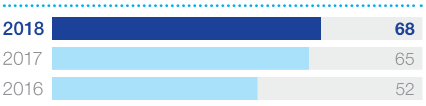
Winterflood delivered another solid performance, with continued retail investor activity supported by increased institutional volumes.

Key Performance Indicators

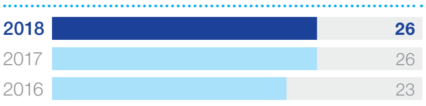
Income (£m)



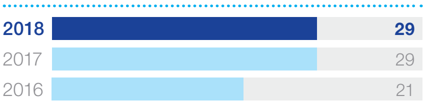
Bargains per day ('000)



Operating margin (%)



Return on opening equity (%)



Operating profit

£28.1m

2017: £28.1m

Return on opening equity

29%

2017: 29%

Key Financials

	2018 £ million	2017 £ million	Change %
Operating income	**109.1**	106.7	2
Operating expenses	**(81.0)**	(78.6)	3
Operating profit	**28.1**	28.1	–
Bargains per day	**68k**	65k	3
Operating margin	**26%**	26%	
Return on opening equity	**29%**	29%	

Winterflood had another strong year, maximising revenue opportunities in mostly favourable market conditions and delivering operating profit of £28.1 million (2017: £28.1 million), in line with the prior year.

Operating income increased 2% to £109.1 million (2017: £106.7 million), reflecting strong trading income across all trading sectors and particularly in AIM, investment trusts and FTSE 350. Geopolitical developments and rising markets attracted higher levels of investor trading activity both on the retail and institutional sides, benefiting most trading sectors. Winterflood is also diversifying its income by increasing its presence in the institutional market, which contributed to income growth in the period.

Average daily bargains increased 3% to 67,520 (2017: 65,286), reflecting increased trading activity. Winterflood had no loss days in the year (2017: one) and at the financial year end had 16 consecutive months without a loss day, notwithstanding some periods of higher market volatility, demonstrating the skill and expertise of our traders.

Operating expenses increased 3% to £81.0 million (2017: £78.6 million), reflecting slightly higher variable costs and settlement fees, as a result of increased trading activity. We also continue to invest in Winterflood Business Services, which provides flexible outsourced dealing, custody and settlement services.

Both the expense/income ratio and the compensation ratio were broadly in line with the prior year, at 74% (2017: 74%) and 47% (2017: 48%) respectively.

Winterflood has a long track record of trading profitably in a range of conditions; however, due to the nature of the business, it always remains sensitive to changes in the market environment.

Asset Management

Asset Management made significant progress in the year, achieving strong net inflows and significant growth in operating profit, with continued good demand for our integrated advice and investment management services.

Strong Performance in the Year
The division delivered a 33% increase in adjusted operating profit to £23.1 million (2017: £17.4 million) and an operating margin of 20% (2017: 17%). Statutory operating profit was also up at £17.6 million (2017: £12.1 million). Managed assets increased 17% to £10.4 billion (31 July 2017: £8.9 billion), with positive net flows of £1,083 million (31 July 2017: £757 million), or 12% (2017: 9%) of opening managed assets.

Operating income increased 12% to £115.5 million (2017: £102.9 million), driven by growth in client assets from both strong net inflows and rising markets. The revenue margin increased to 98 bps (2017: 96 bps) reflecting growth of our integrated wealth management offering, which combines advice and investment management.

Adjusted operating expenses increased 8% to £92.4 million (2017: £85.5 million), and the expense/income ratio improved to 80% (2017: 83%) reflecting the benefits of operating leverage. The increase in expenses was predominantly driven by staff costs, reflecting greater numbers of support staff and hiring of investment managers. The compensation ratio remained in line with the prior year at 55% (2017: 55%).

The increase in staff costs was partly offset by ongoing savings from the consolidation of custody, trading and administration onto a single platform, enabling investment in people to drive growth in our advice and investment management offering.

Positive Inflows Across All Channels
After seeing strong growth in the first half, we continued to sustain good net inflows alongside mixed market conditions in the second, achieving 17% growth in managed assets to £10.4 billion (31 July 2017: £8.9 billion). For the full year, net inflows increased 43% to £1,083 million (2017: £757 million), with strong flows both directly from our own advisers and investment managers, and through third party IFAs. Positive market movements contributed a further £395 million (2017: £588 million) growth in managed assets.

During the year we saw positive inflows into our investment propositions from the 2017 acquisitions of EOS Wealth Management and Adrian Smith & Partners, both of which are now fully incorporated into our integrated wealth management offering and making strong contributions. We also benefited from the addition of new clients and managed assets resulting from hiring additional high net worth investment managers.

Advised assets under third party management decreased by 18% following transfers of assets into our management. Overall total client assets grew 10% to £12.2 billion (31 July 2017: £11.2 billion).

Our investment strategy focuses on delivering long-term returns to clients using a prudent investment approach tailored to an individual client's risk profile. Over the year, all our funds and segregated strategies have continued to deliver strong positive risk-adjusted returns. Relative to their peer group, 11 of our 14 unitised funds have outperformed their respective Investment Association sectors, and our segregated bespoke investment strategies have continued to outperform their ARC peer group average returns.

Adjusted operating profit

£23.1m

2017: £17.4m

Net inflows on opening managed assets

12%

2017: 9%

> "We continue to see good long-term growth potential in our Asset Management business."

Strategic Report 01
Governance 02
Financial Statements 03

Key Financials

	2018 £ million	2017 £ million	Change %
Investment management	**75.2**	63.7	18
Advice and other services[1]	**39.6**	37.1	7
Other income	**0.7**	2.1	(67)
Operating income	**115.5**	102.9	12
Adjusted operating expenses	**(92.4)**	(85.5)	8
Adjusted operating profit[2]	**23.1**	17.4	33
Revenue margin (bps)	**98**	96	
Operating margin	**20%**	17%	
Return on opening equity	**34%**	26%	

1 Income from advice and self-directed services, excluding investment management income.
2 Excluding the OLIM Investment Managers ("OLIM") business sold in 2017, the adjusted operating profit increased by 49% to £23.1 million (2017: £15.5 million), with an underlying operating margin of 20% (2017: 15%).

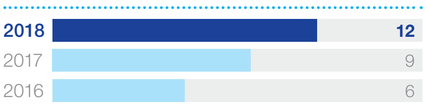
Movement in Client Assets

	31 July 2018 £ million	31 July 2017 £ million
Opening managed assets	**8,900**	8,047
Inflows	**1,961**	1,884
Outflows	**(878)**	(1,127)
Net inflows	**1,083**	757
Market movements	**395**	588
Disposals	**–**	(492)
Total managed assets	**10,378**	8,900
Advised only assets	**1,841**	2,257
Total client assets[1]	**12,219**	11,157
Net flows as % of opening managed assets	**12%**	9%

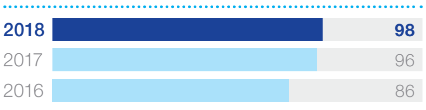
1 Total client assets include £4.2 billion (31 July 2017: £3.7 billion) of assets that are both advised and managed.

Key Performance Indicators

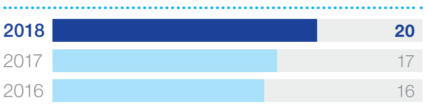
Net inflows as % of opening managed assets



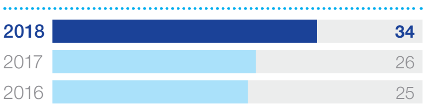
Revenue margin (bps)



Operating margin (%)



Return on opening equity (%)



Photographed on location at Cosworth Ltd.

During the year, our focus remained on providing excellent service to our clients, while optimising our adviser productivity, allowing us to drive operating leverage, revenue growth and net inflows.

In addition, we have made significant progress implementing strategic technological changes to improve our operating efficiency, and support our ability to offer a range of alternative propositions. We will continue to invest through selective hiring of advisers and investment managers, as well as opportunistic acquisitions, and we see good growth potential for the business longer term.

Our Culture

Service

We care about delivering excellent **service** and thinking that's both entrepreneurial and disciplined.

Photographed on location at Cosworth Ltd.

Sustainability Report

Committed to making a **Positive impact**

At Close Brothers we take a long-term approach to managing our business, and always strive to act responsibly, ethically and with integrity.

This underpins our reputation as a prudent and responsible business, and supports our commitment to helping clients, customers, employees and the communities we operate in thrive over the long term.

A Sustainable Approach

We regularly engage with our customers, clients and employees to understand and deliver what matters most to them, and maintaining strong, trusted client relationships and the engagement and support of our people are key strategic objectives. As part of this, we also strive to make a positive impact on the communities we operate in, encourage a diverse and inclusive workplace, and minimise our impact on the environment.

A commitment to corporate responsibility is embedded in our corporate culture and supported by a range of policies and procedures. Our employees are involved in a wide range of community and environmental initiatives, and sustainability matters appear regularly on the senior management agenda.

This report sets out how we address our wider corporate responsibility, focused on four key areas: our employees, customers, communities and the environment, helping the people and businesses of Britain thrive.

Four focus areas	For a sustainable approach	Creating and preserving value
Employees p46 for more information	Our culture, values and strong client focus support engaged and motivated staff	Remaining an attractive employer who engages, rewards and develops a diverse and productive workforce
Customers p48 for more information	Long-term lasting relationships and continuous feedback enabling us to provide reliable quality of service, expertise and personal approach	Consistently supporting our customers' interests to help them thrive over the long term
Communities p51 for more information	Understanding and valuing the communities within which we operate, helping them thrive by making a lasting contribution	Creating long-term value and a lasting positive impact in the communities where we operate
Environment p52 for more information	Appreciating the importance of our environment and taking steps to reduce our impact and protect our surroundings	Acting responsibly to ensure a sustainable approach for our environment and our business

Photographed on location at
Barfoots of Botley Ltd.

Performance measures			Initiatives
89% employee engagement score	**89%** score for treating employees fairly	**100** emerging leaders developed	• Annual measurement of employee engagement • Inclusion targets set for Women in Finance Charter • UpReach internship programme supporting social mobility
+50[1] Premium NPS score	**+61**[1] in Asset Management Bespoke NPS score	**77%** repeat business in Property	• Voice of the Customer programme to listen and act on client feedback
£327,718 in charitable donations		**80** SME apprentices	• Trustee leadership programme expansion • Matched giving to charities through employee payroll and volunteering schemes • Apprentice programme in its fourth year
25% reduction in GHG emissions on prior year		**28%** reduction in GHG emissions per employee	• Green Team of employee representatives championing environmental sustainability • Five-year environmental strategy to be implemented in 2019

1 Read more about net promoter scores on page 48.

Sustainability Report continued

Supporting our Employees

Our people underpin everything we do to deliver the highest levels of service and position us well for the future.

We strive to create an environment where our employees are supported and motivated towards realising their full potential, and continually monitor our means to engage, reward and develop our staff to ensure Close Brothers remains an attractive employer.

Feedback From our People
We believe that engaged employees are more likely to remain enthusiastic about their work and their organisation, and are committed to ensuring they feel valued and supported to perform better and stay with us longer. We engage with our staff through a regular externally run group-wide Employee Opinion Survey.

This comprehensive Employee Opinion Survey runs on a two-year cycle, which gives our businesses the opportunity to analyse the results in detail and formulate meaningful and effective action plans to take forward. Our aim is to maintain those areas of strength that our employees value the highest alongside enhancing those areas we could continue to improve.

In order to provide up to date insights on employee engagement and action plan progression, in March 2018 all employees were sent a brief "pulse" employee engagement survey. Employee engagement is a measure of the extent to which staff are enthusiastic about their jobs, their level of commitment to the company, and how motivated they are to put effort into their work. The results showed the group-wide engagement scores remained high, with an overall score of 89% consistent with the previous survey. We had a strong overall response rate of 82% which lends credibility to these results.

Developing our People
During the year we continued to deliver and implement a number of initiatives promoting development across the group, as well as building our pipeline of programmes to continue to attract and retain talent.

All our employees have access to our learning portal, which offers a wide range of practical tools, workshops and e-learning on a range of topics. The average number of training hours across the group has remained broadly consistent with the prior year at 8.6 hours per employee.

Our established programmes for school leavers and graduates continue to develop our new talent pipeline, providing on-the-job learning and supporting study towards professional qualifications. Internal career mobility continues to be a focus of our leadership teams, with regular talent forums built into our performance management and succession planning processes. Over the past year we have also piloted new talent development programmes throughout the group to identify and support up and coming talent through a series of structured learning opportunities and exposure to different teams and networks.

Our Sales Academy, launched in 2015, continues to demonstrate our commitment to developing entry level sales talent with a new cohort starting in September 2018 comprising a mix of internal and external candidates.

The Asset Management division continues to run its Advice Academy to develop the skills and knowledge of advice related staff. The Trainee Adviser programme builds on this by supporting individuals with a transition into a financial adviser role.

Our Emerging Leaders programme is now in its sixth cohort, focusing on individual leadership development, management and coaching skills to develop our pool of future leaders. Over 100 individuals have completed the programme so far, with the majority progressing throughout the organisation. This year we also launched our Group Leadership programme to build capability across the organisation in line with our bespoke leadership framework. This programme focuses on developing skills in strategic leadership and leading high-performance teams.

Remuneration and Benefits
We believe that our staff should be rewarded fairly and transparently, and we therefore ensure that remuneration across the group is linked to clear and transparent objectives. We are confident that the enhanced benefits package introduced in the prior year remains fit for purpose and satisfies employee expectations.

To encourage our staff to save for the future and build long-term share ownership, we offer a Save As You Earn scheme, as well as a Buy As You Earn share incentive plan allowing employees to acquire shares on a monthly basis out of pre-tax earnings, both of which remain popular offerings.

The group continues to pay all staff at or above the national living wage, which is in excess of the national minimum wage.

Diversity and Equality
We are committed to creating an environment that allows all our employees to feel proud to work for us, regardless of their gender, age, race, ethnicity, disability, sexual orientation or background. We are pleased that our employees feel we are inclusive, with our latest Employee Opinion Survey indicating that 89% of our people believe that Close Brothers treats employees fairly.

Employee engagement

89%

2017: 89%

Participation in long-term ownership schemes

48%

2017: 48%

Talented females offered 30% Club mentoring

52

Gender Diversity

	Male	Female
Number of board directors[1]	5	3
Number of directors of subsidiaries[2]	62	8
Number of senior employees, other than board directors[3]	40	12
Number of employees, other than board directors and senior employees	1,676	1,413

1 Includes non-executive directors, excluded from group headcount calculations. Figures at 31 July 2018.
2 Includes subsidiary directors who are excluded from group headcount calculations.
3 Senior employees identified as Material Risk Takers who are not directors or subsidiary directors.

Our broad ambitions around inclusion mean we have been focusing on improving diversity at all levels through a number of initiatives. We have recently joined Stonewall, a leading LGBTQ+ rights charity, and the Employers Network for Equality and Inclusion ("ENEI") to help shape our thinking and activities.

This year we were proud to announce we had signed up to the Women in Finance Charter pledge to improve gender balance across financial services. As part of our pledge, we aim to have 30% female senior management individuals by 2020, which aligns with our continued membership of the 30% Club, an institution focused on promoting good gender balance within companies at all levels. Our workforce remains diverse, with 46% female employees, and our female board representation comfortably exceeds the current average female representation on FTSE 250 boards of 24%. We also have a broad age range of employees with 25% of our employees being under 30 years old and 15% over 50.

We are supportive of social mobility and creating an organisation with equal opportunities for all, regardless of background. This year we have begun working with the charity UpReach to launch an internship programme for undergraduates from less-advantaged backgrounds. We embrace flexible working wherever possible throughout all our businesses, and aim to promote the advantages of everyday flexibility to enable all our employees to balance their work and home lives effectively. We offer enhanced parental leave to all new parents, and provide emergency backup care for employees with caring responsibilities.

Inclusion is a regular agenda item at executive committee meetings to ensure we are delivering on our commitments. We have also developed a dashboard of key diversity metrics which are provided to business leaders. We run workshops aimed at raising awareness about unconscious bias, and our recruitment system allows us to monitor the diversity of job applicants to ensure we are attracting potential candidates from a variety of backgrounds.

Our Equal Opportunity and Dignity at Work policy is in place to ensure equal and respectful treatment for all our employees. This includes additional support to disabled employees and their needs, and reflects our strong commitment to creating and promoting a diverse workforce, with focus on supporting all individuals irrespective of their gender, race, age, disability, sexual orientation or religion. We apply this approach across all our people related activities, including compensation review, talent and succession planning, leadership programmes, the development of our benefits package, recruitment, and training and development.

Sustainability Report continued

Supporting our Customers

Our customers are typically small to medium-sized enterprises and individuals who value our reliable, high quality service and personal approach. We are proud of the long term, lasting relationships we have with our customers and clients, and the consistently high levels of repeat business that they entrust us with.

Creating Customer Value

Putting customers' interests at the heart of our business is central to our success, and is underpinned by our core values of service, expertise and relationships. We work with businesses of many sizes to help them support growth, improve their infrastructure or invest in new assets, and help individuals with a variety of products and services to manage their finances, execute trades, look after their money securely and plan for the future.

Throughout this year we undertook extensive research into our customers, markets and the technology trends which are shaping the expectations of customers now and into the future. We have used these insights to inform and evolve our proposition, and have increased our focus on monitoring and improving the experience of our customers and partners across the group.

Our group-wide purpose statement underlines our commitment to both our customers and to the people who serve them. Aligned to our group purpose, within our Banking division we have started to define a Bank wide customer vision outlining how best we can deliver on service, expertise and client relationships. The priority themes we have identified from this piece of work will ensure we continue to deliver value for our customers in the long term.

We have also made good progress in delivering consistent, simple and accessible digital services to our customers across our businesses. Our online customer journeys have benefited from the development of digital design tools and guidelines, testing the usability of our digital services at the design phase, and conducting accessibility training for all of our businesses. We have continued to invest in our people by training a further 50 employees in "Design Thinking", a user-centred design framework for improving the customer journey.

Customer Feedback

We are committed to behaving ethically and responsibly in all our dealings with customers, and continuously listen to their feedback to help improve their experience and satisfaction. Customer forums and surveys take place at both a divisional and business unit level and enable us to better understand and manage their changing needs and expectations.

We continuously listen to our customers, and we have engaged with them by conducting surveys, face to face research and focus groups with current, past and potential customers across all of our major businesses in the past year. This has deepened our understanding of what our customers think of us and what they want from our products and services both now and on an ongoing basis.

This year we began a "Voice of the Customer and Partner" programme to listen, analyse and act upon feedback from our customers. We also invite our customers to present at customer forums so that our leadership teams can hear directly from clients, and learn what they like about conducting business with us and what we could do better. The information gathered from these programmes forms a core part of our governance of customer service, and is aligned to the key customer principles that we measure ourselves against on a monthly basis. It also gives the Board of Directors, Executive Committee and business managers clear visibility that we are continuing to act in our customers' best interests.

Our strong focus on maintaining and improving customer experience is reflected in the consistently high scores we achieve in customer and partner surveys across our businesses. Net Promoter Scores ("NPS") are a measure of a customer's likelihood to recommend us, and reflects their overall satisfaction with us as a business. Unfavourable ratings are deducted from favourable ratings; hence a score above 0 is good, and above 50 is excellent. We achieve strong scores across our customer offerings, and our high levels of repeat business are evidence of consistent customer satisfaction

Bespoke Asset Management NPS

+61

Premium Finance NPS

+50

Property repeat business

77%

2017: 75%

Photographed on location at Crompton Way Motors.

across the group. Furthermore, amongst our intermediaries our Motor Finance business was rated a preferred finance provider in 70% of cases.

Responsible Finance

Within the Banking division, we measure ourselves against five key customer principles:

- We are responsible lenders and deposit takers.
- We seek to ensure the right outcomes for our customers.
- We endeavour to ensure our pricing is fair and appropriate.
- We are clear and consistent in the way we communicate with customers.
- We expect our standards to be upheld by our partners.

To support these customer principles we have a wide range of policies in place across all our divisions to ensure that our staff and management are aware of their responsibilities towards our customers. We promote best practice and strict compliance with relevant rules and regulations, and maintain standards through a range of compulsory training for all employees.

Our conduct risk framework includes monthly management information that provides senior management with a broad view of conduct related behaviours.

We are further enhancing this reporting by creating a bespoke set of metrics for each of our businesses that will give increased visibility of the customer experience. This management information is analysed and assessed each month to provide assurance that we treat customers fairly and continue to operate in line with our customer principles.

We are also committed to treating our suppliers fairly, and this year were pleased to achieve Corporate Certification for Ethical Procurement from the Chartered Institute of Procurement and Supply ("CIPS"). We meet with our largest suppliers on a regular basis to ensure that both parties are attaining optimum value from the relationship.

Our privacy policy ensures the protection and correct treatment of client data in accordance with the Data Protection Act 1998. As part of our continuing focus on protecting and handling customer information, we delivered a programme of cross-functional changes in advance of the General Data Protection Regulation ("GDPR") taking effect in May 2018. We have strengthened our operating model focusing on both cyber security and data protection, and continue to invest to appropriately protect customer information.

Monitoring and enhancing our systems and controls to safeguard customers' data and protect our business remains a high priority, and we continue to invest in expertise and technology to strengthen our internal capabilities. We also remain a member of the government's Cyber Security Information Sharing Partnership, which provides early warning of potential system failure or cyber-attack and allows intelligence sharing across the industry.

We strive to ensure that our complaints handling process is as fair as possible and we continuously review and improve internal processes to deliver prompt and satisfactory outcomes for our customers. We take all complaints seriously, and each division monitors customer complaints separately to ensure they are dealt with quickly and efficiently, and that actions are taken to address issues at their root cause.

We have policies and training in place to ensure our staff can identify vulnerable customers and that they are treated fairly in our interaction with them. This remains an area of focus for our Customer Forums and through regular thematic reviews of our conduct.

Sustainability Report continued

> We take a long term, sustainable approach to every aspect of our business, treating our customers and partners fairly and supporting and developing our employees.

Michael N. Biggs
Chairman

Photographed on location at the AMRC Training Centre.

Supporting our Communities

Supporting and engaging with our communities goes hand-in-hand with our group-wide purpose of helping the people and businesses of Britain thrive over the long term.

We aim to contribute long-term value and a lasting positive impact in the communities where we operate. We maintain a range of programmes that support the causes that matter most to our employees, and promote charitable work and community engagement across all our businesses.

Supporting our Communities

Our long-running and unique initiatives continue to support our communities and help SMEs secure the skills they need for the future. The Close Brothers SME Apprentice Programme is now in its fourth phase and continues to contribute to the funding of new apprentices in the manufacturing and transport sectors. To date we have funded 60 of these apprentices in the manufacturing sector in and around the Sheffield and Birmingham area, demonstrating our long-term commitment to helping SMEs secure the skills they need for future growth.

Close Brothers Asset Management continues to run our Trustee Leadership programme in partnership with social enterprise Cause 4, and the Clothworkers Company. This programme provides an opportunity for professionals to take on a board level role within a charity while also providing the charities themselves with a fresh and diverse pool of potential board members. The programme is open to Close Brothers' employees as well as external professionals. Since inception, over 800 professionals have taken part in our Trustee programmes in London, Manchester and Bristol. We will launch further programmes in The Midlands and Scotland this autumn.

Our Emerging Chairs programme is an evolution of the Trustee Leadership programme and is aimed at existing Trustees who wish to become Chairs. The first Emerging Chairs programme took place in November 2017 and the second is planned for November 2018.

Charitable Activities

We continue to invest in a number of community-based initiatives and support the charitable causes that our employees are passionate about. We have a dedicated committee on charitable and community activities chaired by our group head of human resources and supported by employees across the group. This committee meets regularly to discuss and propose new initiatives with input from our control functions when required. We also have a number of local committees which run initiatives to raise funds for local charities.

We ask our employees to choose their preferred community and health charity partners directly as part of the regular employee survey. The NSPCC has been selected as our community charity partner and Cancer Research UK as our health charity partner, the latter now for a sixth year. Funds raised from group-wide activities are split equally between these two charities.

We continue to run an annual group-wide charity week, consisting of a wide range of locally organised events for staff as well as group-wide initiatives. This year we collectively raised over £126,000 during the 2018 charity week, a 24% increase on the amount raised last year, making it our most successful ever.

Employee volunteers are key contributors to the planning and running of these events, and we actively encourage our staff to fundraise and volunteer for the charities they support. The Close Brothers Matched Giving Scheme matches 50% of funds raised or donates £8 per hour of voluntary time given by employees. We also match funds raised by other local, organised fundraising activities, encouraging employees to work together to raise money for causes that are close to their hearts.

In addition, we match contributions under our Payroll Giving scheme, which allows employee donations to be made directly from pre-tax salary. Around 14% of employees across the group are signed up to Payroll Giving, allowing us to maintain our Payroll Giving Quality Mark Gold Award for the eighth consecutive year. Importantly, 199 different charities are now supported on an ongoing basis through our staff's generosity.

SME apprentices[1]

80

Trustee appointments

55

Charitable donations

£327,718

2017: £257,264

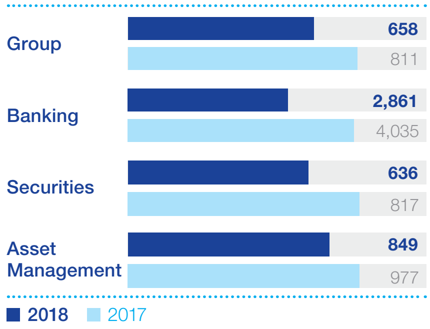
1 Represents 60 funded to date and a further 20 committed for the 2019 financial year.

Sustainability Report continued

Supporting our Environment

We recognise the importance of the environment in which we operate and appreciate the importance it has to our clients and external stakeholders. This year we have made considerable progress in reducing our electricity and fleet emissions, demonstrating our ongoing efforts to lower our impact on the environment.

GHG Scope 1 and 2 Emissions by Division (tCO_2e)



Our Environmental Impact

As a financial services company we have limited direct exposure to natural resources and environmental impact. However, we are aware of our responsibility to protect natural resources and act sustainably. We continue to monitor ways to reduce our environmental impact by lowering our energy consumption, reducing emissions and increasing recycling.

In addition, we remain a significant provider of finance to the green energy sector, supporting schemes for wind, solar and hydro power developments.

As in prior years, we monitor our energy consumption and greenhouse gas emissions across the business via a third party provider. We also participate in the CDP (formerly the "Carbon Disclosure Project"), which involves disclosure of our greenhouse gas emissions on a voluntary basis.

Most of the impact we have on our environment is a result of staff travel, our supply chain and our office network. Our employees are encouraged to lower their own environmental impact on an individual basis by leasing low emission cars and participating in the cycle to work scheme.

Each of our businesses manages its resources and recycling locally, and we work closely with all of our business locations to encourage the implementation of additional ways to reduce energy use. This year we have changed our head office waste contractor to a company that ensures zero waste goes to landfill. Waste recycling is encouraged in all our offices, and this year our head office alone saved 359 trees by doing so.

Consideration of environmental risks and ethical standards is explicitly required as part of any credit underwriting proposal under our bank Credit Policy. We only lend against asset types defined in our credit policies and do not finance arms or onshore oil development, or lend internationally outside narrowly defined areas.

Greenhouse Gas ("GHG") Emissions

In accordance with the GHG Protocol framework, we have calculated the GHG emissions associated with our Scope 1 and 2 operations. Scope 1 includes fuel emissions from buildings and company vehicles and Scope 2 includes our emissions from electricity.

In 2018, our total GHG emissions were 5,004 tonnes of carbon dioxide equivalent ("tCO_2e"), equating to 1.55 tCO_2e per employee, down 25% overall and 28% per employee since 2017. Our continued efforts towards our environmental impact are reflected in a reduction across both Scope 1 and Scope 2 emissions in 2018.

The largest source of GHG emissions is our Scope 1 fuel emissions from company vehicles, yet this has come down considerably on the prior year. This reflects a large increase in the number of hybrid alternative fuel vehicles in the company fleet, and more strategic placement of our travelling staff leading to a 27% reduction in road travel since 2017.

Our Scope 2 electricity consumption continues to reduce on previous years, and illustrates our ongoing commitment to improve energy efficiency in our offices. We also benefited from improvements in the national grid, which led to a reduction of the UK-wide electricity emissions factor by approximately 15% in the period.

Due to its relative size the Banking division continues to account for the majority of our GHG emissions.

A full breakdown of our 2018 GHG emissions, together with corresponding data for 2017, is shown in the table opposite.

Calculation

We continue to gather increasing levels of data alongside an independent third party environmental analytics and reporting company. This verifies the accuracy of our data and enables us to monitor our performance and develop strategic insight and plans of action.

Reduction in GHG emissions

25%

2017: 1%

Reduction in GHG emissions per employee

28%

2017: 7%

Reduction in Scope 2 electricity

30%

2017: 2%

GHG Emissions Summary (tCO_2e)

Scope	GHG emissions source	2018	2017
Scope 1	Fuel (Buildings)	**191**	172
	Fuel (Owned vehicles)	**2,525**	3,199
Scope 2	Electricity	**2,288**	3,269
Total GHG emissions		**5,004**	6,640
Average number of employees		**3,234**	3,114
Total per employee		**1.55**	2.13

Our total GHG emissions are reported as tCO_2e and are calculated in line with the GHG Protocol framework. In addition to reporting our total Scope 1 and 2 emissions, we have also disclosed the emissions per employee as an intensity metric to enable a comparable analysis in future disclosures.

Green Initiatives

We continue to monitor and report our GHG emissions on an ongoing basis, working to improve our energy efficiency across our businesses. We encourage our offices to report their Scope 3 emissions for water and waste each quarter, where this information is available, to facilitate continued performance monitoring.

We recently established a "Green Team" of employee representatives across our businesses to champion and raise the profile of environmental sustainability. They undertake a suite of activities to assess our environmental impact, and promote group-wide initiatives to improve our performance in this area.

We are also in the process of developing a comprehensive five-year environmental strategy in partnership with our third party environmental consultants to be implemented early in 2019. This is planned to include reviews of our peer comparatives and key stakeholder impact, and engagement with our staff to better inform us of how our own people feel we are performing.

Photographed on location at Barfoots of Botley Ltd.

Sustainability Report continued

Gender pay gap

We are confident that men and women are paid equally for performing equivalent roles across our business, and are committed to taking all steps possible to reduce our gender pay gap.

The gender pay gap is defined as the difference between the average earnings male and female colleagues receive, as a percentage of men's earnings. Our median group-wide gender pay gap was 41.7% at 5 April 2017.

While the existence of this pay gap is disappointing, it is also in line with our financial services competitors and comparators. The overwhelming majority of our gender pay gap exists because women hold fewer senior positions within the group. If we instead look at the differences in average pay between males and females in the same salary band the gap drops to 1.6%. We are confident that this remaining gap is due to differences in roles and responsibilities within each pay band, and that all employees are paid equally when they are performing the same role.

We already exceed the government's target of 33% of board members being women, and are broadly in line with the Hampton-Alexander gender targets for executives and their direct reports. Over the next year, we plan to take further action to tackle the gender pay gap through a number of initiatives and commitments. Our Asset Finance Sales Academy has a primary focus of improving our female representation in sales, and all entry level programmes now have an explicit objective to seek a 50:50 gender balance split. We aim, over the medium term, to improve our female representation of senior managers to 30%, to fall in line with our board representation. We will particularly focus on improving the gender balance in our senior front office roles, where female representation tends to be lower.

We are committed to taking steps to reduce our gender pay gap, and to support our talented female staff through their careers at Close Brothers. Further details of our gender pay gap can be found on our website.

Social Responsibility

Compliance with regulatory requirements is essential not only from the relevant regulator's perspective but also to maintain the trust of our customers.

We have a wide range of policies in place across all of our divisions to ensure that our staff and management comply with all regulatory requirements and adhere to the highest professional and ethical standards in dealing with our customers, suppliers and each other. We require all staff to complete the relevant regulatory training on an annual basis with further training offered when required, and achieved 100% completion of mandatory training for eligible employees in the year. Some of the group-wide policies and regulations include:

Anti-money laundering regulations

We have implemented policies and procedures in accordance with anti-money laundering regulations and have dedicated money laundering reporting officers where required.

Anti-bribery and corruption policy

We operate a zero tolerance approach to bribery and corruption, ensuring compliance with all applicable anti-bribery and corruption laws and regulations, including the UK Bribery Act 2010.

Whistle-blowing policy

We encourage our employees to report any activity that may constitute a violation of laws, regulations or internal policy and reporting channels are provided to staff for this purpose within the framework of a whistle-blowing policy.

Our comprehensive whistle-blowing procedures comply with the rules that came into effect in September 2016. We have enhanced the existing policies by the appointment of a whistle-blowers' champion and a confidential telephone whistle-blowing service, operated by a third party provider.

Human Rights and Modern Slavery Act

The board gives due regard to human rights considerations, as defined under the European Convention on Human Rights and the UK Human Rights Act 1998.

We are aware of our responsibilities and obligations under the Modern Slavery Act with the appropriate policies and training in place to ensure compliance across the organisation.

The Banking division has also committed to the CIPS Ethical Code of Conduct, which supports our commitment to ensure modern slavery does not exist within our supply chain.

Further details of our compliance with the Modern Slavery Act can be found on our website.

Employee health and safety policy

Our health and safety policy ensures the provision of a safe and healthy working environment for our employees and visitors in accordance with The Management of Health and Safety at Work Regulations 1999.

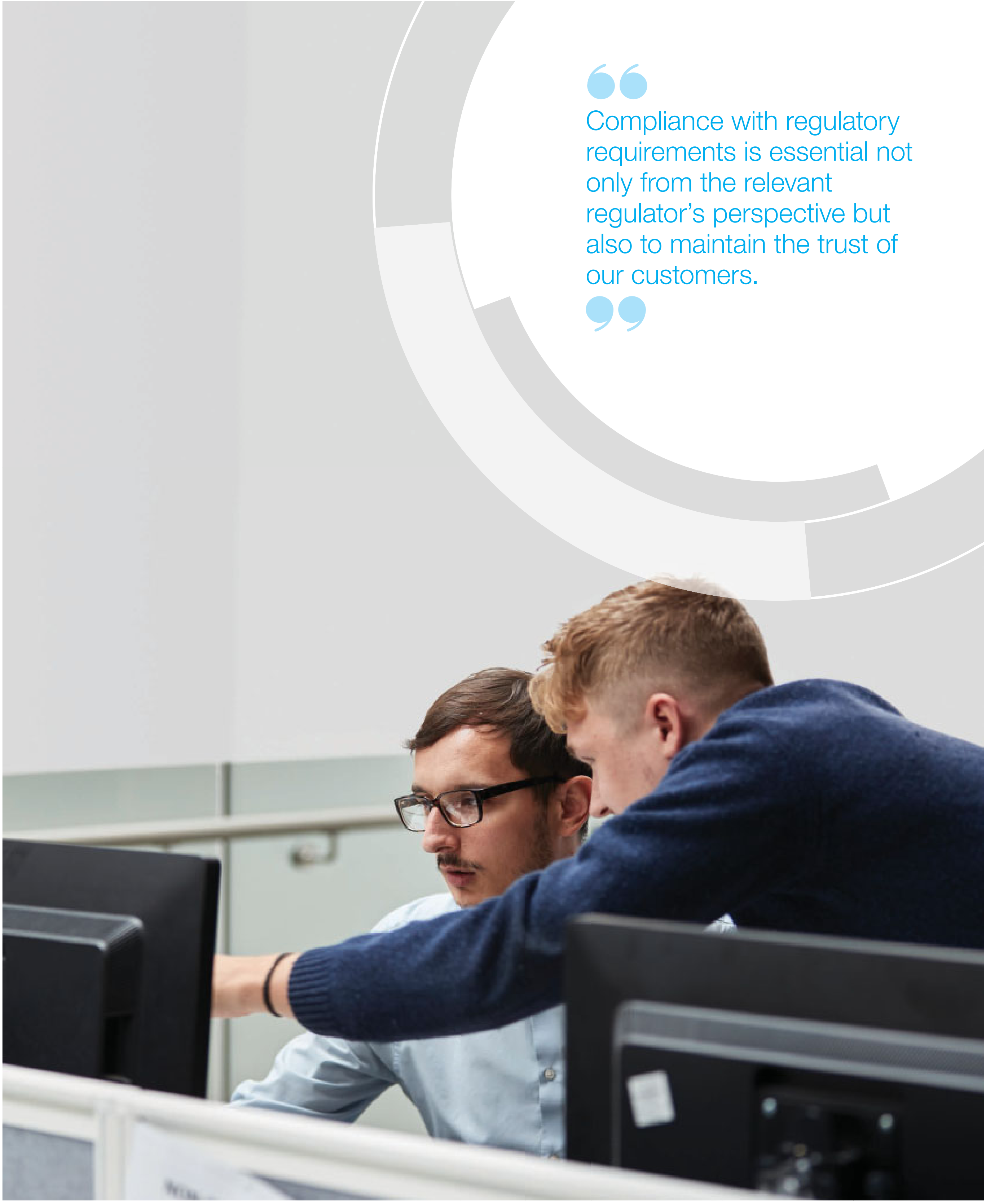
The Health and Safety Committee continues to meet on a quarterly basis and we are proud of the continued progress in successfully raising the profile of health and safety across the business. This year we recorded 43 incidents across all of our sites, of which the majority were related to medical conditions, with only three reportable incidents in the year.

We continue to use an online risk assessment tool to manage site specific risks as appropriate and our Display Screen Equipment risk assessment programme. This year we have also added the assessment of new and expectant mothers to this process.

The Strategic Report was approved by the board and signed on its behalf by:

Preben Prebensen
Chief Executive

25 September 2018



> Compliance with regulatory requirements is essential not only from the relevant regulator's perspective but also to maintain the trust of our customers.

Our Culture

Relationships

We take the time to understand and build strong long-term **relationships** with our clients, customers and all our stakeholders.

Board of Directors

Mike Biggs
Chairman

Board appointment
Mike was appointed a director in March 2017 and chairman of the board from 1 May 2017.

Background and experience
Mike has over 40 years' experience of the financial services industry. Mike was previously chairman of Resolution Limited, the FTSE 100 UK life assurance business, and has acted as both chief executive officer and group finance director of Resolution plc. Prior to that he was group finance director of Aviva plc. Mike is also chairman of Direct Line Insurance Group plc.

Committee membership
Mike is chairman of the Nomination and Governance Committee.

Preben Prebensen
Chief Executive

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

Background and experience
Preben previously spent his career in a number of senior positions at JP Morgan over 23 years, as well as being chief executive of Wellington Underwriting plc from 2004 to 2006, and then chief investment officer and a member of the group executive committee at Catlin Group Limited. Preben is also a non-executive director of The British Land Company PLC.

Elizabeth Lee
Group Head of Legal and Regulatory Affairs

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

Background and experience
Elizabeth joined Close Brothers as general counsel in September 2009. She was previously with Lehman Brothers and General Electric's financial services businesses and prior to that she was a partner at the law firm Richards Butler (now Reed Smith).

Jonathan Howell
Group Finance Director

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

Background and experience
Jonathan was previously group finance director of London Stock Exchange Group plc from 1999 to 2008. Prior to that he was at Price Waterhouse where he qualified as a chartered accountant. He is also a non-executive director of The Sage Group plc, where he is chairman of the Audit and Risk Committee.

Geoffrey Howe
Senior Independent Director

Board appointment
Geoffrey was appointed a director in January 2011 and is the company's senior independent director.

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

Committee membership
Geoffrey is a member of the Audit, Remuneration, Risk, and Nomination and Governance Committees.

Lesley Jones
Independent Non-executive Director

Board appointment
Lesley was appointed a director in December 2013.

Background and experience
Lesley has extensive banking experience, having previously held several line management positions within Citigroup and was group chief credit officer of Royal Bank of Scotland plc from 2008 to 2014. Lesley is also a non-executive director of Northern Bank Limited and N Brown Group plc.

Committee membership
Lesley is chairman of the Risk Committee and a member of the Audit, Remuneration, and Nomination and Governance Committees.

Bridget Macaskill
Independent Non-executive Director

Board appointment
Bridget was appointed a director in November 2013.

Background and experience
Bridget is chairman of First Eagle Holdings LLC and a senior adviser to First Eagle Investment Management LLC, of which she was president and chief executive officer until March 2016. She is also a non-executive director of Jupiter Fund Management plc and of Jones Lang LaSalle Incorporated, and chairman of Cambridge Associates LLC. Bridget was previously a trustee of the TIAA-CREF funds and a non-executive director of Prudential plc, Scottish & Newcastle plc, J Sainsbury plc, Hillsdown Holdings plc and of the Federal National Mortgage Association in the US.

Committee membership
Bridget is chairman of the Remuneration Committee and a member of the Audit, Risk, and Nomination and Governance Committees.

Oliver Corbett
Independent Non-executive Director

Board appointment
Oliver was appointed a director in June 2014.

Background and experience
Oliver is chief financial officer of Hyperion Insurance Group Limited and was formerly finance director of LCH, Clearnet Group Limited and of Novae Group plc. He is a chartered accountant and previously worked for KPMG, SG Warburg, Phoenix Securities (later Donaldson Lufkin Jenrette) and Dresdner Kleinwort Wasserstein, where he was managing director of investment banking. Oliver was also a non-executive director of Rathbone Brothers plc.

Committee membership
Oliver is chairman of the Audit Committee and a member of the Remuneration, Risk, and Nomination and Governance Committees.

Strategic Report 01
Governance 02
Financial Statements 03

Executive Committee

Preben Prebensen
Chief Executive

Elizabeth Lee
Group Head of Legal and Regulatory Affairs

Jonathan Howell
Group Finance Director

Martin Andrew
Asset Management Chief Executive

Rebekah Etherington
Group Head of Human Resources

Adrian Sainsbury
Banking division Managing Director

Robert Sack
Group Chief Risk Officer

Mike Morgan
Banking division Chief Financial Officer

Philip Yarrow
Winterflood Chief Executive

Directors' Report

The directors of the company present their report for the year ended 31 July 2018.

The Strategic Report set out on pages 4 to 54 of this Annual Report, and the Corporate Governance Report, committee reports and the Directors' Remuneration Report set out on pages 80 to 101 of this Annual Report include information that would otherwise need to be included in this Directors' Report. Relevant items are referred to below and incorporated by reference into this report. Readers are also referred to the cautionary statement on page 159 of this Annual Report.

Results and Dividends

The consolidated results for the year are shown on page 108 of the Financial Statements. The directors recommend a final dividend for the year of 42p (2017: 40p) on each ordinary share which, together with the interim dividend of 21p (2017: 20p) paid in April 2018, makes an ordinary distribution for the year of 63p (2017: 60p) per share. The final dividend, if approved by shareholders at the 2018 Annual General Meeting ("AGM"), will be paid on 20 November 2018 to shareholders on the register at 12 October 2018.

Directors

The names of the directors of the company at the date of this report, together with biographical details, are given on pages 58 and 59 of this Annual Report. All the directors listed on those pages were directors of the company throughout the year.

In accordance with the UK Corporate Governance Code, each of the current directors will retire at the 2018 AGM and, with the exception of Jonathan Howell, offer themselves for reappointment at that meeting.

On 25 January 2018, the company announced that Jonathan Howell had informed the board of his decision to leave the company to pursue the next stage of his career. Jonathan will remain in his role as group finance director, an executive member of the board and a member of the Group Executive Committee until the forthcoming AGM.

On 27 June 2018, the company announced that, following a robust search process overseen by the Nomination and Governance Committee, the board had decided to appoint Mike Morgan as group finance director and an executive member of the board. Mike's appointment to the board will be proposed for approval by shareholders at the AGM. Mike has been chief financial officer of the Group's Banking division and a director of Close Brothers Limited, the company's Banking subsidiary, since November 2010. He is also a member of both the Group and Banking Executive Committees. Further information on the process that resulted in Mike's appointment can be found in the report of the Nomination and Governance Committee on page 78 of this Annual Report.

Further details on the directors' remuneration and service contracts or appointment letters (as applicable) can be found in the Directors' Remuneration Report on pages 84 and 85 of this Annual Report.

Directors' interests

The directors' interests in the share capital and listed debt instruments of the company at 31 July and 16 September 2018 are set out on pages 99 and 101 of the Directors' Remuneration Report.

Powers and appointment of directors

The company's articles of association set out the powers of the directors, and rules governing the appointment and removal of directors. The articles of association can be viewed at www.closebrothers.com/investor-relations/investor-information/corporate-governance. Further details on the powers, and appointment and removal of directors, are set out in the Corporate Governance Report on pages 69 and 70 of this Annual Report.

Directors' indemnities and insurance

In accordance with its articles of association, the company has granted a deed of indemnity to each of its directors on terms consistent with the applicable statutory provisions. The deeds indemnify the directors in respect of liabilities (and associated costs and expenses) incurred in connection with the performance of their duties as a director of the company or any associated company. Qualifying third party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were accordingly in force during the course of the year, and remain in force at the date of this report. The company also maintains directors' and officers' liability insurance for its directors and officers.

Company Secretary

The company secretary of Close Brothers Group plc is Alex Dunn. He can be contacted at the company's registered office.

Share Capital

The company's share capital comprises one class of ordinary share with a nominal value of 25p per share. At 31 July 2018, 152,060,290 ordinary shares were in issue, of which 614,911 were held by the company in treasury.

Under section 551 of the Companies Act 2006, the directors may allot equity securities only with the express authorisation of shareholders which may be given in general meeting, but which cannot last more than five years. Under section 561 of the Companies Act, the board may 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.

At the company's 2017 AGM, the directors were authorised to:

- allot shares in the company or grant rights to subscribe for, or convert, any security into shares up to an aggregate nominal amount of £12,646,853;
- allot shares up to an aggregate nominal amount of £25,293,707, for the purposes of a rights issue;
- allot shares having a nominal amount not exceeding in aggregate £1,897,028 for cash without offering the shares first to existing shareholders in proportion to their holdings;
- allot shares having a nominal amount not exceeding £3,794,056 for the purpose of financing a transaction determined by the directors to be an acquisition or other capital investment as defined by the Statement of Principles on Disapplying Pre-Emption Rights published by the Pre-Emption Group; and
- make market purchases of up to 15,176,224 of the company's ordinary shares, equivalent to 10% of the company's issued share capital at the time.

Directors' Report continued

Since the date of the company's 2017 AGM, with the exception of the authority to make market purchases, the directors have not used these authorities. Details of market purchases of the company's ordinary shares during the year can be found below in the section headed "Purchase of Own Shares".

The existing authorities given to the company at the last AGM to allot and purchase shares will expire at the conclusion of the forthcoming AGM. At the AGM, shareholders will be asked to renew these authorities. Details of the relevant resolutions to be proposed will be included in the Notice of AGM.

New issues of share capital

No ordinary shares were allotted and issued during the year. Specifically, no ordinary shares were allotted and issued during the year to satisfy option exercises. Full details of options exercised, the weighted average option exercise price and the weighted average market price at the date of exercise can be found in note 26 on page 141 of the financial statements.

Cancellation of the company's share premium account

At the company's 2017 AGM, shareholders approved a special resolution to cancel the company's share premium account in order to increase the company's distributable reserves. As announced by the company on 13 December 2017, following confirmation from the High Court, the amount of £307,762,365.31, being the entire amount standing to the credit of the company's share premium account, was cancelled and the resulting sum credited to the distributable profits of the company.

Rights attaching to shares

The company's articles of association set out the rights and obligations attaching to the company's ordinary shares. All of the ordinary shares rank equally in all respects.

On a show of hands, each member has the right to one vote at general meetings of the company. On a poll, each member would be 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.

The articles of association and applicable legislation provide that the company can decide to restrict the rights attaching to ordinary shares in certain circumstances (such as the right to attend or vote at a shareholders' meeting), including where a person has failed to comply with a notice issued by the company under section 793 of the Companies Act 2006.

Deadline for voting rights

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the AGM, to be held on 15 November 2018, will be set out in the Notice of AGM.

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 articles of association set out certain circumstances in which the directors of the company can refuse to register a transfer of ordinary shares.

The company is not aware of any arrangements between its shareholders that may result in restrictions on the transfer of shares and/or voting rights.

Directors and employees of the group are required to comply with applicable legislation relating to dealing in the company's shares as well as the company's share dealing rules. These rules restrict employees' and directors' ability to deal in ordinary shares at certain times, and require the employee or director to obtain permission prior to dealing. Some of the group's employee share plans also contain restrictions on the transfer of shares held within those plans.

Purchase of Own Shares

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

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

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

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

During the year the company made market purchases of 523,616 Treasury Shares with an aggregate nominal value of £130,904.00, representing 0.3% of its issued share capital, for an aggregate consideration of £7.4 million. It transferred 211,819 shares out of treasury, to satisfy share option awards, for a total consideration of £2.3 million.

At 31 July 2018, the company held 614,911 Treasury Shares with a nominal value of £0.2 million. The maximum number of Treasury Shares held at any time during the year was 680,342 with a nominal value of £0.2 million.

Employee Share Trust
Ocorian Trustees (Jersey) 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 26 on page 141 of the financial statements. The trustee has waived its right to dividends on all shares held within the trust.

During the year, the employee share trust made market purchases of 581,286 ordinary shares.

Substantial Shareholdings
Details of substantial shareholdings in the company are set out in the Corporate Governance Report on page 73 of this Annual Report.

Articles of Association
The company's articles of association were last amended in November 2009. They may only be amended by a special resolution of the company's shareholders. The articles of association can be viewed at www.closebrothers.com.

Corporate Governance Statement
The company is required by the Disclosure Guidance and Transparency Rules to prepare a corporate governance statement including certain specified information. Information fulfilling the requirements of the corporate governance statement can be found in this Directors' Report and the Corporate Governance Report, committee reports and Directors' Remuneration Report on pages 66 to 101 of this Annual Report. This information is incorporated by reference into this Directors' Report.

Strategic Report
The company's Strategic Report can be found on pages 4 to 54 of this Annual Report.

Business activities
The group's business activities, together with a description of future developments (including the factors likely to affect future development and performance) and its summarised financial position, are set out in the Strategic Report.

Employment practices and greenhouse gas emissions
Information on the company's employment practices (including with respect to disabled employees and employee involvement) and greenhouse gas emissions is set out in the Sustainability Report on pages 44 to 54 of the Strategic Report.

Significant Agreements Affected by a Change of Control
A number of agreements to which the company is a party may take effect, alter or terminate upon a change of control of the company. These include certain insurance policies, bank facility agreements and employee share plans.

The group had committed facilities totalling £1.4 billion at 31 July 2018 which contain clauses requiring lender consent for any change of control. Should consent not be given, a change of control would trigger mandatory repayment of those 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.

Financial Instruments
Details of the group's financial instruments can be found in notes 11 to 14, 18 to 20 and 28 to the financial statements. The notes begin on page 115.

Financial 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 described on pages 71 and 72, and the risks associated with the group's financial instruments are analysed in note 28 on pages 144 to 155 of the financial statements.

Post-Balance Sheet Events
There were no material post-balance sheet events.

Political Donations
No political donations were made during the year (2017: £nil).

Charitable Donations
Further information on the group's charitable activities, and on the charitable donations made in the year, can be found on page 51 as part of the Strategic Report.

Disclosure of Information Under Listing Rule 9.8.4R
As required by Listing Rule 9.8.4CR, the table below sets out the location of information required to be disclosed under Listing Rule 9.8.4R:

Subject	Page
Details of shareholder dividend waivers	See the section headed "Employee Share Trust" on page 63

Directors' Report continued

Research and Development Activities
During the normal course of business, the group continues to invest in new technology and systems and to develop new products and services to improve operating efficiency and strengthen its customer proposition.

Resolutions at the 2018 AGM
The company's AGM will be held on 15 November 2018. Resolutions to be proposed at the AGM include the reappointment of directors, the annual advisory vote to approve the Directors' Remuneration Report, the renewal of the directors' authority to allot shares, the disapplication of pre-emption rights and authority for the company to purchase its own shares.

The full text of each of the resolutions to be proposed at the 2018 AGM will be set out in the Notice of AGM sent to the company's shareholders. A letter from the chairman and explanatory notes will accompany the Notice of AGM.

Auditor
PricewaterhouseCoopers LLP ("PwC") has expressed its willingness to continue in office as the company's external auditor. Resolutions to reappoint PwC and to give the directors the authority to determine the auditors' remuneration will be proposed at the forthcoming AGM. The full text of the relevant resolutions will be set out in the Notice of AGM sent to the company's shareholders.

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

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

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

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

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

Viability Statement
In accordance with provision C.2.2 of the UK Corporate Governance Code, the board confirms that it has a reasonable expectation that the group will continue to operate and meet its liabilities, as they fall due, for the three-year period up to 31 July 2021. A period of three years has been chosen because it is the period covered by: (i) the group's strategic planning cycle; and (ii) the Internal Capital Adequacy Assessment Process ("ICAAP"), which forecasts key capital requirements and other group-wide internal stress testing.

The directors' assessment has been made with reference to:

- the group's current position and prospects – please see the Financial Overview on pages 26 to 31;
- the group's business model and strategy – please see Business Model, and Strategy and Key Performance Indicators on pages 14 to 19; and
- the board's risk appetite, and the robust assessment of the group's principal risks and how these are managed, including the results of the ICAAP – please see Risk and Control Framework on page 71.

The group's strategy and three-year plan are evaluated and approved by the directors on an annual basis. The plan considers the group's future projections of profitability, cash flows, capital requirements and resources, and other key financial and regulatory ratios over the period.

The group's principal risks and ICAAP are also evaluated by the directors on an annual basis, including the results of two separate ICAAP stress scenarios.

Directors' Responsibility Statement

The directors, whose names and functions are listed in the Directors' Report, are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group and parent company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements, and whether United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law have been followed for the parent company financial statements, subject to any material departures disclosed and explained in the group and parent company financial statements; and
- prepare the group and parent company financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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

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

Each of the directors confirms that, to the best of their knowledge:

- the group and parent company financial statements, prepared in accordance with the relevant financial reporting frameworks, give a true and fair view of the assets, liabilities, financial position and profit or loss of the group and parent company respectively;
- the Strategic Report, together with the Directors' Report and the Corporate Governance Report, include a fair review of the development and performance of the business and the position of the group and parent company, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the group and parent company's position, performance, business model and strategy.

By order of the board

Alex Dunn
Company Secretary

25 September 2018

Corporate Governance Report

Chairman's Introduction

I am pleased to introduce the Corporate Governance Report for the year ended 31 July 2018. It includes an overview of the group's governance structure, its risk and control framework, and a description of the key activities of the board and its committees during the year as part of its oversight of the group's strategy, business model and performance.

The board strongly believes that robust corporate governance makes a significant contribution to the long-term success of the group and the achievement of its strategy. We are committed to ensuring that the principles of good corporate governance are reflected throughout the group's governance framework. I am pleased to report that, as in prior years, the company has complied with the principles and provisions of the UK Corporate Governance Code during the year. Further details of the company's approach to corporate governance and how it complies with the Code can be found later in this report.

2018 has been a busy year for corporate governance reform in the UK. The board has monitored developments closely, including the publication of a new Corporate Governance Code. The strength of the group's existing corporate governance framework means it is well placed for the implementation of the new Code, which will first apply to the company in the financial year ending 31 July 2020. The board and its committees have already spent time assessing the implications for the group and over the coming months we will continue to consider the actions required in a small number of areas to deliver compliance with the new Code.

During the year the board has used formal meetings and other opportunities to discuss the group's performance and delivery of its strategy with group and divisional executives. As part of its decision-making and scrutiny, the board has considered the interests of the company's stakeholders, as well as risks arising from the wider regulatory, economic and political environment.

The board recognises its role in establishing and monitoring the group's purpose and values. To that end, the board spent time in the year overseeing the development of the group's purpose statement and key cultural attributes, which are set out at the beginning of this Annual Report.

The board has been unchanged this year. However, in January we announced that after 10 years as group finance director, Jonathan Howell will be leaving the company following the forthcoming Annual General Meeting to pursue the next stage of his career. The Nomination and Governance Committee oversaw an extensive search process, involving internal and external candidates, to identify Jonathan's successor. In June, we were pleased to announce that Mike Morgan, chief financial officer of our Banking division, will succeed Jonathan as group finance director. Mike's appointment as a director will be proposed for approval at the AGM. On behalf of the board, I would like to thank Jonathan for his significant contribution to the group over so many years.

This year, in line with the Corporate Governance Code, the board appointed an external evaluator to review its effectiveness and performance. The review concluded that the board is strong and effective. The board welcomes the findings and we will work to consider opportunities for incremental improvements during the year ahead. Further details of the evaluation can be found on pages 70 and 71.

The board's four committees continue to play an important role in the governance of the group, and in helping the board operate effectively and efficiently. Reports from each of the committees, describing their activities during the year, are set out later in this report.

Executive remuneration remains an important topic, and I was pleased that the group's new remuneration policy received the strong support of shareholders at last year's AGM. The Directors' Remuneration Report, which includes further detail on the application of the new policy during the year, can be found later in this section of the Annual Report.

Engagement and dialogue with shareholders continue to be very important to the board. Personally, I have been pleased to meet with a number of our shareholders during the year. The company's AGM, which will take place on 15 November 2018, is a valuable opportunity for me and my fellow directors to meet with shareholders, and for shareholders to raise questions about the performance of the group. I very much look forward to discussing the group's progress and the work of the board with shareholders at that meeting.

Michael N. Biggs
Chairman

25 September 2018

UK Corporate Governance Code

The UK Corporate Governance Code, as published by the Financial Reporting Council ("FRC") in April 2016 (the "Code"), has been applied by the company throughout the financial year. A copy of the Code can be found on the FRC's website: www.frc.org.uk.

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

It is the board's view that throughout the year the company has complied with the principles and provisions set out in the Code. Further detail as to how the company has complied with the Code is set out in the remainder of this Corporate Governance Report.

In July 2018, the FRC published a revised version of the Code (the "Revised Code"), which applies to accounting periods beginning on or after 1 January 2019. The Revised Code is therefore not applicable to the company in the year under review, but the company will report under it with respect to the financial year ending 31 July 2020. Further information on the Nomination and Governance Committee's consideration of the Revised Code can be found in the Committee's report on page 79. A copy of the Revised Code can be found on the FRC's website: www.frc.org.uk.

The Board

Leadership of the board

The board's primary role is to provide leadership, and to ensure that the company is appropriately managed and delivers long-term shareholder value. It sets the group's strategic objectives, monitors management's performance against those objectives and provides direction for the group as a whole. The board also supervises the group's operations, with the aim of ensuring that it maintains a framework of prudent and effective controls which enables risks to be properly assessed and appropriately managed.

Board size and composition

The board has eight members: the chairman, three executive directors and four independent non-executive directors. The board's members come from a range of backgrounds and it is structured to ensure that no individual or group of individuals is able to dominate the decision-making process and no undue reliance is placed on any individual.

Details of the individual directors and their biographies are set out on pages 58 and 59.

Board diversity

The board acknowledges the benefits that diversity can bring to the board and to all levels of the group's operations. It recognises the importance of having a board with a range of skills, knowledge and experience. It also embraces the benefits to be derived from having directors who come from a diversity of backgrounds, bringing different perspectives and the challenge needed to ensure effective decision-making.

The board comprises three female and five male members. This means that more than a third of the directors are women.

The board actively considers its diversity as part of discussions around succession planning and talent management throughout the year. It is committed to making board appointments on the basis of merit against objective and defined criteria, following a consideration of the balance of skills, experience, knowledge and diversity required. The Nomination and Governance Committee ensures that the external search firms that it uses to assist with board appointments engage with candidates from a broad and diverse range of backgrounds and experience in drawing up long-lists for consideration.

The board will look for opportunities to further improve the diversity of the board, where it is consistent with the skills, experience and expertise required at a particular point in time.

The board remains committed to improving diversity at all levels of the group's operations. As such, it supports, and is updated on, diversity initiatives in place below board level across the group. Further information on these initiatives can be found on pages 46 and 47 of the Strategic Report.

Matters reserved to the board

A number of key decisions are reserved for, and may only be made by, the board. These specific matters and decisions are set out in a formal schedule, which enables the board and executive management to operate within a clear governance framework. The schedule of matters reserved to the board is reviewed annually and is published on the company's website.

The matters and decisions specifically reserved for the board include:

- responsibility for the overall direction of the group and oversight of the group's management;
- approval of the group's strategy and monitoring its delivery;
- oversight of risk management, regulatory compliance and internal control;
- ensuring adequate financial resources, including approving the group's Recovery and Resolution Plans, and the Internal Capital Adequacy Assessment Process ("ICAAP");
- changes to the group's dividend policy and significant changes in accounting policies;
- approving acquisitions, disposals, other transactions and expenditure over certain thresholds;
- changes to the capital structure of the group;
- approval of communications to shareholders;
- changes to the structure, size and composition of the board, following recommendations from the Nomination and Governance Committee;
- approval of corporate governance matters, including the evaluation of the performance of the board and its committees;
- leading the development of the group's culture framework; and
- approval and oversight of the group's policy framework.

Corporate Governance Report continued

Board and committee meeting attendance 2017/2018

During the year the board held seven regular scheduled meetings. In addition, all members of the board attended an off-site strategy session with senior management over two days in May.

The annual schedule of board meetings is decided a substantial time in advance in order to ensure, so far as possible, the availability of each of the directors. In the event that directors are unable to attend meetings, they receive papers in the normal manner and have the opportunity to relay their comments and questions 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 attendance of directors at scheduled board and committee meetings of which they were members during the financial year is shown in the table below. Some directors also attended committee meetings as invitees during the year, which is not reflected in the table. Specifically, all members of the board were present at all meetings of the Audit and Risk Committees in the year.

	Board		Audit Committee		Remuneration Committee		Risk Committee		Nomination and Governance Committee	
	Attended	**Total**	Attended	**Total**	Attended	**Total**	Attended	**Total**	Attended	**Total**
Executive directors										
Preben Prebensen	7	**7**								
Jonathan Howell	7	**7**								
Elizabeth Lee	7	**7**								
Non-executive directors										
Mike Biggs	7	**7**							5	**5**
Oliver Corbett	7	**7**	5	**5**	5	**5**	6	**6**	5	**5**
Geoffrey Howe	7	**7**	5	**5**	5	**5**	6	**6**	5	**5**
Lesley Jones	7	**7**	5	**5**	5	**5**	6	**6**	5	**5**
Bridget Macaskill	7	**7**	5	**5**	5	**5**	6	**6**	5	**5**

The board held two additional ad hoc meetings in the year to consider matters relating to the ICAAP and the creation of the company's Euro Medium Term Note Programme. The Nomination and Governance Committee held one additional ad hoc meeting during the year to consider, and recommend to the board, the appointment of Mike Morgan as the new group finance director. These additional meetings are not reflected in the table above.

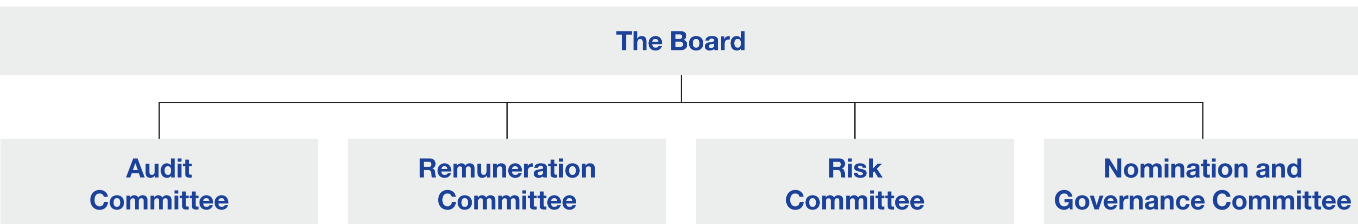
At the end of each of the seven board meetings in the year, the chairman and the other non-executive directors met without any of the executive directors. In addition, the non-executive directors met throughout the year on an informal basis to discuss matters relevant to the group.

Governance Framework

Board governance structure

The board committee structure is shown in the diagram below. The board has delegated responsibility for certain matters to its committees, as set out in written terms of reference which are reviewed annually. These terms of reference outline each committee's role and responsibilities and the extent of the authority delegated by the board. They are available on the company's website at www.closebrothers.com/investor-relations/investor-information/corporate-governance. The chairman of each committee reports regularly to the board on matters discussed at committee meetings.

Reports for each of the board's committees are set out later in this report and they include further detail on each committee's role and responsibilities, and the activities undertaken during the year.



Meetings of the board

At each scheduled meeting the board receives reports from the chief executive and group finance director on the performance and results of the group. In addition, the Banking division managing director, the Banking division chief financial officer, the Asset Management chief executive and the Winterflood chief executive attend each meeting to update the board on performance, strategic developments and initiatives in their respective areas, and the head of legal and regulatory affairs provides updates on legal and regulatory matters. In addition, the board receives regular updates from the group human resources, corporate development, risk, compliance and internal audit functions.

There is an annual schedule of rolling agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the financial and regulatory cycle. Meetings are structured to ensure that there is sufficient time for consideration and debate of all matters. In addition to scheduled or routine items, the board also considers key issues that impact the group, as they arise.

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

Each board meeting includes time for discussion between the chairman and non-executive directors without the executive directors.

Key board activities during the year

During the year, the board has spent time particularly on:

- considering the strategic aims and performance of businesses across the Banking division and the Asset Management division and Winterflood;
- customer matters, including the group's customer experience programme;
- IT and cyber strategy, and associated transformation projects;
- the development of the group's culture framework and purpose statement;
- capital planning and the implications of regulatory changes during the year;
- consideration and approval of the company's issue of notes under its newly created Euro Medium Term Note Programme;
- reviewing the competitive landscape;
- engagement with regulators and regulatory developments during the year, including the General Data Protection Regulation ("GDPR"), Brexit and MiFID II;
- the review and approval of the group's Recovery and Resolution Plans;
- considering and approving the ICAAP and the Internal Liquidity Adequacy Assessment Process;
- the annual review of group risk appetite statements; and
- the triennial external board and committee effectiveness evaluation.

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.

The chairman is Mike Biggs. His other significant commitments are set out in his biography on page 58. The board has considered Mike's chairmanship of Direct Line Insurance Group plc and remains satisfied that those commitments do not restrict him from devoting such time as is necessary to discharging his duties effectively as the company's chairman.

As chairman, Mike is primarily responsible for leading the board and ensuring the effective engagement and contribution of all the directors. His other responsibilities include setting the agenda for board meetings, providing the directors with information in an accurate, clear and timely manner and the promotion of effective decision-making. The chairman is also charged with ensuring that the directors continually update their skills and knowledge and that the performance of the board, its committees and the individual directors is evaluated on an annual basis. Mike also has responsibility for leading the development of the group's culture by the board and for ensuring that the board sets the tone from the top.

The chief executive is Preben Prebensen, who is primarily responsible for the day-to-day management of the group's business. His other responsibilities include coordinating all activities to implement the group's strategic objectives, managing the group's risk exposures in line with board policies and risk appetite, implementing the decisions of the board and facilitating effective communication with shareholders and regulatory bodies. He also has responsibility for overseeing the adoption of the group's culture and values as part of the day-to-day management of the group.

Preben chairs the Executive Committee, the forum that exercises management oversight of the group, including through the monitoring and implementation of strategy and budgetary objectives, as determined by the board. The members of the Executive Committee are shown on page 60.

The chairman and chief executive have various prescribed responsibilities under the Senior Managers regime overseen by the PRA.

Independent non-executive directors

There have been no changes in the period to the company's independent non-executive directors, who are Geoffrey Howe, Oliver Corbett, Lesley Jones and Bridget Macaskill. The independent non-executive directors are responsible for contributing sound judgement and objectivity to the board's deliberations and the decision-making process. They also provide constructive challenge and scrutiny of the performance of management and delivery of the company's strategy.

Senior independent director

The senior independent director is Geoffrey Howe. The senior independent director acts as a sounding board for the chairman and executive directors and leads the chairman's annual performance review. In addition to the existing channels for shareholder communications, shareholders may discuss any issues or concerns they have with the senior independent director.

Non-executive directors' independence

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

- whether they are independent in character and judgement;
- how they conduct themselves in board and committee meetings;
- whether they have any interests which may give rise to an actual or perceived conflict of interest; and
- whether they act in the best interests of the company, its shareholders and other stakeholders at all times.

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

In addition, the board is satisfied that each non-executive director is able to dedicate the necessary amount of time to the company's affairs.

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 2017 AGM. Further detail regarding these authorisations is set out on pages 61 and 62.

Corporate Governance Report continued

Appointment and removal 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.

In accordance with the Code, all directors retire and submit themselves for reappointment at each AGM. The board will only recommend to shareholders that executive and non-executive directors be proposed for reappointment at an AGM after evaluating the performance of the individual directors.

Letters of appointment or service contracts (as applicable) for individual directors are available for inspection by shareholders at each AGM and during normal business hours at the company's registered office.

The articles of association provide that in addition to any power to remove directors conferred by the Companies Act 2006, the company's shareholders can pass a special resolution to remove a director from office.

Reappointment of directors at the 2018 AGM
Following performance evaluations undertaken during the year, the board has confirmed that each director continues to be effective and demonstrate commitment to their role. On the recommendation of the Nomination and Governance Committee, the board will therefore be recommending that all serving directors standing for re-election at the 2018 AGM be reappointed by shareholders. As previously announced, Jonathan Howell will not be submitting himself for re-election at the AGM.

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

There is a central training programme in place for the directors, which is reviewed and considered by the board. In addition, the chairman discusses and agrees any specific requirements as part of each non-executive director's regular reviews. During the year, training and development activities took a number of forms, including informal meetings with senior management within the businesses and control functions, in-depth business reviews, lunches with emerging leaders and with members of the group's graduate and Aspire programmes, attendance at external seminars and briefings from management and external advisers covering topics such as corporate governance updates, regulatory developments, changes in remuneration regulation and practice, accounting changes (including IFRS 9) and risk modelling. In addition to training organised by the group specifically for the board, directors attend a range of other training and development sessions as part of other roles they hold.

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

Company secretary
The company secretary is responsible for ensuring that board procedures and applicable rules and regulations are observed. All directors have direct access to the services and advice of the company secretary, who also acts as secretary to each of the board committees. The company secretary provides advice and support to the board, through the chairman, on all governance matters and on the discharge of their duties. Directors are able to take independent external professional advice to assist with the performance of their duties at the company's expense.

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

Directors are responsible for notifying the chairman and the company secretary of any actual or potential conflicts as soon as they become aware of them. A procedure has been established, whereby actual and potential conflicts of interest are regularly reviewed and appropriate authorisation sought. This procedure includes mechanisms for the identification of conflicts prior to the appointment of any new director or if a new conflict arises during the year. 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 company secretary maintains a register of conflicts authorised by the board. The board believes this procedure operated effectively throughout the year.

Board and Committee Effectiveness
Annual board and committee evaluation
During the year, in accordance with the Code, the board appointed an external evaluator to carry out an independent review of its effectiveness and that of its committees. The Nomination and Governance Committee considered a shortlist of potential external evaluators drawn up by the company secretary and appointed Margaret Exley CBE of SCT Consultants Ltd to undertake the evaluation. Neither Ms Exley nor SCT Consultants Ltd have any other connections with the company.

The scope and timing of the evaluation were discussed by the Nomination and Governance Committee, and the chairman and company secretary then discussed and agreed the process to be followed with Ms Exley.

Each of the directors and the company secretary completed a confidential questionnaire and then held one-to-one interviews with Ms Exley. In advance of these sessions, Ms Exley was provided with a wide range of documents in response to a request list and observed a meeting of the board.

The evaluation focused on a range of different areas relevant to board effectiveness and corporate governance, including:
- the role and composition of the board;
- the work of the board on strategy;
- performance oversight of the business;
- management of the work of the board;
- talent and succession planning;
- stakeholder engagement;
- committee effectiveness;
- risk management; and
- board behaviours.

Ms Exley presented her report to the board for discussion at its meeting in July 2018. The directors also spent time considering the evaluation at an informal board session in September 2018.

The evaluation concluded that the board is strong and effective. It found the board to be clear on its role and diligent in its execution of that role. Ms Exley noted that the board's composition provides a range of skills and experience which effectively meet the needs of the business. Her report also referred to the strength of the board's engagement with stakeholders. The evaluation found the board's committees to be well chaired, with effective decision-making processes.

The board welcomes the positive findings of the evaluation but will focus during the next financial year on a number of areas with the aim of further improving its effectiveness. The board also considers that improvements have been made in the areas identified for improvement in the internal evaluations undertaken in the previous two years. Recommendations for further incremental improvements arising from this year's evaluation include: considering ways in which the board could gain additional exposure to front line operations; and finding time for further opportunities for board members to spend informal, unstructured time together.

Directors' performance

During the financial year, the chairman holds regular meetings with individual directors at which, among other things, their individual performance is discussed. These discussions form part of the basis for recommending the reappointment of directors at the company's AGM. These discussions include consideration of the director's performance and contribution to the board and its committees, their time commitment and the board's composition.

Chairman's performance

As in previous years, Geoffrey Howe, the senior independent director, has led an annual performance assessment process in respect of the chairman. This involves review meetings during the year with the other non-executive directors, without the chairman being present, and consultation with the chief executive. The senior independent director subsequently provides feedback to the chairman.

Directors' fitness and propriety

In line with its regulatory obligations, the group undertakes annual reviews of the fitness and propriety of all those in Senior Manager Functions, including all of the company's directors and a number of other senior executives. This process comprises assessments of individuals' honesty, integrity and reputation; financial soundness; competence and capability; and continuing professional development. This year's reviews have confirmed the fitness and propriety of all of the company's directors and other senior executives who perform Senior Manager Functions.

Risk and Control Framework

The board has overall responsibility for maintaining a system of internal control to ensure that an effective risk management and oversight process operates across the group. The risk management framework and associated governance arrangements are designed to ensure that there is a clear organisational structure with distinct, transparent and consistent lines of responsibility and effective processes to identify, manage, monitor and report the risks to which the group is, or might become, exposed. The board has a well defined risk appetite with risk appetite measures which are integrated into decision-making, monitoring and reporting processes. Early warning trigger levels are set to drive the required corrective action before overall tolerance levels are reached. The risk management and internal control framework, overseen by a number of committees, including the Risk Committee and the Audit Committee, is the mechanism that ensures the board receives comprehensive risk and control information in a timely manner.

The group maintains a range of internal controls relating to financial management, reporting and control processes, which are designed to ensure the accuracy and reliability of its financial information and reporting. The main features of these controls include consistently applied accounting policies, clearly defined lines of responsibility and processes for the review and oversight of disclosures within the Annual Report. These internal controls are overseen by the Audit Committee.

Identification, measurement and management of risk are fundamental to the success of the group. Over the past 12 months the group has continued to strengthen its risk management framework and further develop the organisation's risk committees, at both a group and business level. These continue to work efficiently and effectively.

The group's risk and control framework is designed to support the capture of business opportunities while maintaining an appropriate balance of risk and reward within the group's agreed risk appetite. It further ensures that the risks to which the group is, or may become, exposed are appropriately identified, and that those which the group chooses to take are managed, controlled and, where necessary, mitigated, so that the group is not subject to material unexpected loss.

The group closely monitors its risk profile to ensure that it continues to align with its strategic objectives as documented on page 18.

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

The board considers that the group's current risk profile remains consistent with its strategic objectives.

Throughout the year the Risk Committee undertakes a robust assessment of the principal risks facing the group, and reviews reports from the risk function on the processes that support the management and mitigation of those risks. As part of this ongoing review process, a specific review of the principal risks and uncertainties facing the group is also carried out by the board. A summary of the group's principal risks and uncertainties is provided on pages 20 to 23.

In addition, the Risk Committee and the Audit Committee, between them, assess and review the adequacy and effectiveness of the group's risk management and internal control arrangements in relation to the group's strategy and risk profile for the financial year. This covers all material controls, including financial, operational and compliance controls. The board reviews the effectiveness of both committees on an annual basis and considers that it has in place systems and controls appropriate for the group's profile and strategy.

Corporate Governance Report continued

The risk management framework is based on the concept of “three lines of defence”, as set out in the table below.

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

Risk Management Framework

First line of defence	Second line of defence	Third line of defence
The Businesses Group Risk and Compliance Committee (Reports to the Risk Committee)	**Risk and Compliance** Risk Committee (Reports to the board)	**Internal Audit** Audit Committee (Reports to the board)
Chief executive delegates to divisional and operating business heads day-to-day responsibility for risk management, regulatory compliance, internal control and conduct in running their divisions or businesses. Business management has day-to-day ownership, responsibility and accountability for: • identifying and assessing risks; • managing and controlling risks; • measuring risk (key risk indicators/early warning indicators); • mitigating risks; • reporting risks; and • committee structure and reporting.	Risk Committee delegates to the group chief risk officer day-to-day responsibility for oversight and challenge on risk-related issues. Risk functions (including compliance) provide support and independent challenge on: • the design and operation of the risk framework; • risk assessment; • risk appetite and strategy; • performance management; • risk reporting; • adequacy of mitigation plans; • group risk profile; and • committee governance and challenge.	Audit Committee mandates the head of group internal audit with day-to-day responsibility for independent assurance. Internal audit provides independent assurance on: • first and second line of defence; • appropriateness/effectiveness of internal controls; and • effectiveness of policy implementation. **Key Features** • Draws on deep knowledge of the group and its businesses; • Independent assurance on the activities of the firm, including the risk management framework; • Assesses the appropriateness and effectiveness of internal controls; and • Incorporates review of culture and conduct.
Key Features • Promotes a strong risk culture and focus on sustainable risk-adjusted returns; • Implements the risk framework; • Promotes a culture of adhering to limits and managing risk exposures; • Promotes a culture of customer focus and appropriate behaviours; • Ongoing monitoring of positions and management and control of risks; • Portfolio optimisation; and • Self-assessment.	**Key Features** • Overarching “risk oversight unit” takes an integrated view of risk (qualitative and quantitative); • Supports through developing and advising on risk strategies; • Facilitates constructive check and challenge – “critical friend”/“trusted adviser”; and • Oversight of business conduct.	

Substantial Shareholdings

The table below sets out details of the interests in voting rights notified to the company under the provisions of the FCA's Disclosure Guidance and Transparency Rules. Information provided by the company pursuant to the Disclosure Guidance and Transparency Rules is publicly available via the regulatory information services and on the company's website.

	16 September 2018	31 July 2018
	Voting rights %	Voting rights %
Standard Life Aberdeen plc group[1]	**16.99**	17.57
M&G Investment Management	**6.58**	6.58
Royal London Asset Management	**5.03**	5.03

1 On 6 August 2018, the Standard Life Aberdeen group notified the company that its interest in voting rights had decreased from 17.57% to 17.24%. On 23 August 2018, the Standard Life Aberdeen group notified the company that its interest in voting rights had decreased from 17.24% to 17.12%. On 31 August 2018, the Standard Life Aberdeen group notified the company that its interest in voting rights had decreased from 17.12% to 16.99%.

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

Stakeholders

The board recognises that, for the company to be successful over the long term, it is important to build and maintain successful relationships with a wide range of stakeholders. When taking decisions, the board considers the interests of, and impact on, key stakeholders, including its relationships with its customers, employees and regulators. Further detail on the company's stakeholders and examples of how the company engages with them is included in the Strategic Report on pages 44 to 54.

Engagement with Shareholders

Investor relations

The board believes it is important to maintain open and constructive relationships with shareholders and for them to have opportunities to share their views with the board. The group has a comprehensive investor relations ("IR") programme to ensure that current and potential shareholders, as well as financial analysts, are kept informed of the group's performance and have appropriate access to management to understand the company's business and strategy.

The group's IR team, reporting to the group finance director, has primary responsibility for managing the group's relationship with shareholders, and they run a structured programme of meetings, calls and presentations around the financial reporting calendar, as well as throughout the year. The IR team regularly seeks investor feedback, directly and via the group's corporate brokers, which is communicated to the board and management. The board is regularly updated on the IR programme through an IR report, which is produced for each board meeting and summarises share price performance, share register composition and feedback from any investor meetings.

The chief executive and group finance director engage with the group's major institutional shareholders on a regular basis. In addition, the chairman arranges to meet with major institutional shareholders to discuss matters such as strategy, corporate governance and succession planning. Separately, the senior independent director is available to meet with shareholders, should they wish to discuss any concerns they may have.

As discussed further in the Directors' Remuneration Report, the chairman of the Remuneration Committee takes part in consultations with major institutional shareholders on remuneration issues from time to time.

Periodically, the group runs seminars covering different parts of its business to provide additional detail to investors and analysts. Relevant presentations, together with all results announcements, annual reports, regulatory news announcements and other relevant documents, are available on the IR section of the company's website (www.closebrothers.com/investor-relations).

The group also engages with leading institutional shareholder bodies and proxy advisers throughout the year.

Annual General Meeting

The directors regard the company's AGM as an important opportunity for all shareholders to engage directly with the board. All shareholders are able to raise questions with 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. All directors were in attendance at the 2017 AGM.

At the AGM, the chairman and the chief executive present a review of the group's business. All voting at general meetings of the company is conducted by way of a poll. All shareholders have the opportunity to cast their votes in respect of proposed resolutions by proxy, either electronically or by post. Following the AGM, the voting results for each resolution are published and made available on the company's website.

By order of the board

Alex Dunn
Company Secretary

25 September 2018

Risk Committee Report

The Risk Committee's principal roles and responsibilities are to support the board in its oversight of risk management across the group.

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

Risk Committee

Chairman's overview

The continuing evolution of the macroeconomic environment and political landscape alongside a demanding regulatory agenda aimed at bolstering the strength and conduct of the banking industry have again kept the Risk Committee fully occupied throughout the year.

I am pleased to report that enhancements to our risk management framework, and a consistent and prudent risk appetite, have each helped to reinforce the group's strong credit performance again this year. We continue to build out our risk capabilities and are satisfied that we have both retained and recruited the skills and talent that we need to meet the challenges and opportunities that lie ahead.

As in previous years, the Committee apportions its time between the planned periodic review of key portfolio risks and the close scrutiny of new business risks as they develop. This approach allows us to ensure that emerging risks are identified and debated and that management's plans for risk mitigation are well understood and appropriately resourced.

Committee roles and responsibilities

The Committee's key roles and responsibilities are to:
- oversee the maintenance and development of a supportive culture in relation to the management of risk;
- review and set risk appetite, which is the level of risk the group is willing to take in pursuit of its strategic objectives;
- monitor the group's risk profile against the prescribed appetite;
- review the effectiveness of the risk management framework to ensure that key risks are identified and appropriately managed; and
- provide input from a risk perspective into the alignment of remuneration with performance against risk appetite (through the Remuneration Committee).

Membership and meetings

The Committee comprises Geoffrey Howe, the senior independent director, and Oliver Corbett and Bridget Macaskill who chair the Audit and Remuneration Committees respectively, and me as chairman. Six scheduled meetings were held during the year.

Full details of members' attendance at these meetings during the year are set out on page 68.

In addition to the members of the Committee, standing invitations are extended to the chairman of the board, the executive directors, the group chief risk officer, the group head of compliance and the group head of internal audit. All attend our Committee meetings as a matter of course and have supported and informed the Committee's discussions.

Other executives, subject matter experts, risk team members and external advisers are invited to attend the Committee from time to time as required, to present and advise on reports commissioned.

I meet frequently with the group chief risk officer and his risk team in a combination of formal and informal sessions, and with senior management across all divisions of the group, to discuss the business environment and to gather their views of emerging risks, business performance and the competitive environment.

Committee effectiveness

As described in more detail on page 70, an external evaluation of the effectiveness of the board and its committees was undertaken during the year in line with the requirements of the UK Corporate Governance Code.

The Committee considers that during the year it continued to have access to sufficient resources to enable it to carry out its duties and has continued to perform effectively.

Activity in the 2018 financial year

The risk function has continued to evolve in 2018. The three lines of defence model is now fully embedded, while the governance structure facilitates effective oversight of risk, both at a group and business level. The risk design has been further strengthened through the organisation of additional specialist skills and resource, in particular with regard to operational resilience oversight. These actions have continued to improve the flow of management information to the Committee, increasing the effectiveness of its challenge and oversight and enhancing visibility on risk and compliance issues identified at all levels across the group.

The risk appetite framework has been supplemented by the use of additional quantitative analysis, supporting the group's risk management capabilities, particularly in response to market events. This has allowed us to adopt and refine risk appetite measures at a more granular level within portfolio management, individual credit-decisioning and risk reporting. The specific portfolio review approach has continued, with particular attention given to the Property, Premium and Motor portfolios, which have all benefited from deep dives by the Risk Committee.

Management of emerging risks has again continued to improve, facilitating organisational readiness for external volatility.

Emerging risk assessment remains a standing agenda item for the Committee's discussion (and indeed, all risk committees within the group) while stress testing capabilities have continued to evolve on a more quantitative basis to support "what if" analysis for one-off events. The potential impacts of Brexit continue to receive focus albeit, given the group's footprint, these are likely to be secondary in nature. Nevertheless, until we have a clearer idea of the final negotiated treaty, they will merit regular review. We continue to develop appropriate contingency plans, and these have been subject to regular challenge by the Committee. We remain satisfied that the group is well positioned to address any foreseeable Brexit outcome.

The group's use of finance and risk models continues to evolve at pace with the development of our IFRS 9 models advancing our overall model inventory. In addition, we have seen the evolution and use of the model risk framework and governance structure. The board and the Committee continue to assess various options for advancing our future modelling approach with the aim of enhancing our risk management capabilities.

The Committee has also overseen the introduction of a new asset and liability management system which supports more quantitative modelling capabilities and sophisticated stress testing techniques.

Operational risk continues to develop in its complexity and we have responded by investing further in systems and process enhancements to support the early identification of negative trends. Our operational resilience has been the subject of much debate at the Committee as we continually review our estate, our IT capabilities and our contingency and disaster recovery plans. Incident simulations have been utilised to good effect and have proved valuable to the Committee in continuing to challenge our resilience preparedness.

Our focus on cyber crime has accelerated during the year, as an increasing number of industry attacks reinforced the importance of strong cyber defences to protect our systems and customer data. The group's GDPR programme is complete, ensuring regulatory alignment and generating enhancements to customer documentation, third party contracts, internal processes, systems changes and the supporting operating model. Our cyber detection and monitoring capabilities have continued to improve, while our cyber security strategy remains under constant review by the board and this Committee to ensure that we are keeping pace with, and responding to, the latest industry developments.

Ensuring that we are fully compliant with the numerous and ever-changing regulatory requirements for financial services firms remains challenging. We continue to engage actively with regulators and industry bodies to ensure that our compliance framework remains appropriate and relevant for all of our businesses. The Compliance team works closely with first and second line colleagues, providing regulatory advice in support of divisional business strategies, as well as shaping policies, delivering training and conducting assurance reviews.

Remuneration

The linkage between culture, risk and compensation is an important one and the Risk Committee and the group chief risk officer have provided input to the Remuneration Committee again this year to ensure that risk behaviours and the management of operational risk incidents over the course of the financial year were appropriately reflected in decisions taken about performance and reward.

Looking ahead to 2018

Key priorities for the coming year include:

- Effective management of emerging risks, specifically key impacts of the UK's exit from the EU, as well as any other material developing concerns.
- Continued review and assessment of the group's modelling capabilities, including the development of a wider models strategy as appropriate.
- Further evolution of quantitative stress testing.
- Refinement and advancement of the group's operational resilience framework.
- Embedding of affordability assessment processes across the lending businesses.
- Extension of the Senior Managers and Certification Regime ("SMCR") to Winterflood and Asset Management.

Lesley Jones
Chairman of the Risk Committee

25 September 2018

Audit Committee Report

This report sets out the principal responsibilities of the Audit Committee, its membership and meetings as well as the key activities under review during the year.

Audit Committee

Chairman's overview

The principal roles and responsibilities of the Committee continue to be to:

- assess the integrity of the group's external financial reporting;
- review the effectiveness of the group's internal controls; and
- monitor and review the activities and performance of both internal and external audit.

During the year under review the Committee has again had a full agenda. The Committee has placed particular focus on the transition to the new external auditor following the tender undertaken in the 2017 financial year as well as oversight of management's project to ensure readiness for the implementation of IFRS 9. Further details of the Committee's work in respect of these and other key issues are set out in the sections below.

Membership and meetings

The Committee met five times during the year with meetings aimed to coincide with the group's financial reporting schedule. Details of members' attendance are set out on page 68. The Committee comprises Geoffrey Howe, the senior independent director, and Lesley Jones and Bridget Macaskill who chair the Risk and Remuneration Committees respectively, and me as Chairman. The biographies of each of the members are outlined on pages 58 and 59. The composition of the Committee satisfies the relevant requirements of the UK Corporate Governance Code. The board considers that I have the appropriate recent and relevant experience.

In addition to the Committee members, standing invitations are extended to the chairman of the board and the executive directors. In addition, the group head of internal audit, the group head of compliance, the group chief risk officer and the group financial controller attend meetings by invitation. I meet with this group as well as the group finance director ahead of each meeting to agree the agenda and to receive a full briefing on all relevant issues. The external auditor attends each meeting and I had regular contact with the lead audit partner during the year. The Committee met with both internal and external audit without management present at each meeting of the Committee held during the year.

Committee effectiveness

As described in more detail on page 70, an external evaluation of the effectiveness of the board and its committees was undertaken during the year in line with the requirements of the UK Corporate Governance Code.

The Committee considers that during the year it continued to have access to sufficient resources to enable it to carry out its duties and has continued to perform effectively.

Activity in the 2018 Financial Year

Key accounting judgements

The Committee has spent considerable time during the year focusing on the key areas of accounting judgement taken by management in preparing the financial statements. The key judgements were unchanged from the prior year reflecting the group's adherence to its business model and consistency of approach to financial reporting.

Credit provisioning

The Committee views credit provisioning as the key accounting judgement area for the group. As in previous years, it received presentations from management explaining key judgement areas, consistency of approach and the group's business mix. After challenging management and the new external auditor, the Committee concluded that the provisioning approach and key judgements were reasonable.

Revenue recognition

The Committee reviewed management's approach to revenue recognition, noting the consistency of approach with prior years. The Committee also assessed the expected impact of IFRS 15 on the group. The Committee concluded that both the revenue recognition approach for each of the group's key businesses and the application of IFRS 15 were appropriate.

IFRS 9

The Committee has spent considerable time this year receiving updates at each of its five meetings from management on the final preparations prior to the adoption of IFRS 9 on 1 August 2018. This included specific training sessions explaining the key areas of judgement as well as consideration of the initial disclosures on adoption of the new standard. The Committee has paid particular attention to the governance process around the credit and macro economic models and the new auditors' view of management's progress. The Committee will continue to monitor this key area of accounting judgement in the coming year.

Other financial reporting

Going concern and viability statement

The Committee reviewed a paper from management in support of the going concern basis and the longer-term viability of the group. The Committee noted the stability of the group's business model, its successful track record, the group's three-year business plan and the results of internal stress testing and concluded this provided sufficient evidence to support the board's viability statement set out on page 64.

Fair, balanced and understandable
On behalf of the board, the Committee reviewed the financial statements as a whole in order to assess whether they were fair, balanced and understandable. The Committee discussed and challenged the balance and fairness of the overall report with the executive directors and also considered the views of the external auditor. The Committee was satisfied that the Annual Report could be regarded as fair, balanced and understandable and proposed that the board approve the Annual Report in that respect.

Policy oversight
Whistle-blowing
The Committee oversees the group's whistle-blowing policy, and I act as the group's whistle-blowing policy champion. The group continues to place a high priority on employees' understanding of the process to enable them to speak out with confidence when appropriate.

Other policies
The Committee has also reviewed and approved the group's Recovery and Resolution Plans, tax policy and statement, approach to hedging for share awards and the policy for the provision of non-audit services by the external auditor.

Internal Audit
The Committee reviewed and approved the internal audit plan during the year as well as pre-approving any changes to that plan. At each of its meetings during the year, the group head of internal audit presented a summary of key audits, highlighting key themes as well as updating the Committee on progress on agreed actions from previous audits. During the year 33 audits were completed, including three reviews requested by the group's regulator.

The Committee reviews the effectiveness of the internal audit function annually. The review for the year under review was conducted internally and was supported by a biennial feedback survey of business stakeholders across the group. The Committee's policy is that an external effectiveness review will be carried out at least every five years. The next such review will take place not later than the year ended 31 July 2020.

The Committee continued to keep both the level and independence of the internal audit resource under review during the year. Following the prior year appointment of Ernst & Young LLP as the new co-source provider from 1 August 2017, the Committee also received feedback on the performance of that firm.

External Audit
As outlined in my report last year, the Committee underwent an audit tender in 2017 and PricewaterhouseCoopers LLP ("PwC") were subsequently appointed at the 2017 AGM with Mark Hannam as the group's lead audit partner. The Committee has spent significant time overseeing the transition to PwC this year.

In particular the Committee reviewed the audit plan and has had the opportunity to discuss the new auditors' initial assessment of the group and its control environment.

The Committee will assess the independence, qualification and effectiveness of PwC after the completion of their first audit.

The evaluation will be focused on:
- the quality of audit expertise, judgement and dialogue with the Committee and senior management;
- the independence and objectivity demonstrated by the audit team; and
- the quality of service including consistency of approach and responsiveness.

The process will be facilitated by a survey of the group's finance teams and a review of audit and non-audit fees. The Committee underwent a similar process for the previous auditor Deloitte LLP, and concluded that that firm was independent and their audit was effective in respect of the prior year.

The company confirms that it complied with the provisions of the Competition and Markets Authority's Order regarding statutory audit services for the financial year under review.

The Committee oversees the group's policy on the provision of non-audit services by the external auditor. The group's policy is that permission to engage the external auditor will always be refused when a threat to independence and/or objectivity is perceived. However, the Committee will give permission where it sees benefits for the group where:
- work is closely related to the audit;
- a detailed understanding of the group is required; and
- the external auditor is able to provide a higher quality and/or better value service.

During the year non-audit fees amounted to £0.5 million and represented 29% of the audit fee. Non-audit fees related to:

	£ million
Assurance work on:	
Systems and controls	0.4
Funding	0.1

The corresponding amounts for the prior year were £0.8 million and 62% when Deloitte LLP was the group's external auditor.

The Committee was satisfied that these fees, individually and in aggregate, were consistent with the non-audit services policy and did not believe they posed a threat to the external auditors' independence.

Oliver Corbett
Chairman of the Audit Committee

25 September 2018

Nomination and Governance Committee Report

Nomination and Governance Committee

Chairman's overview

This report sets out an overview of the Committee's roles and responsibilities, and its key activities during the year.

In the year, the Committee oversaw the process to appoint a new group finance director, culminating in the decision of the board to appoint Mike Morgan. Further information on the process is set out below.

Once again, the Committee has played an active role in overseeing talent management and succession planning for the group, including through making sure that appropriate activities and initiatives are undertaken to develop the group's talent pipeline. This will continue to be a key area for the Committee in the year ahead.

Throughout its discussions, the Committee has had regard to the benefits of promoting diversity at all levels of the group's operations. To that end, the Committee ensures that the recruitment searches it oversees consider candidates from a diversity of backgrounds and experiences.

As in previous years, the Committee has also spent time considering the composition of the board, non-executive director succession and the range of skills and experience represented among its members and, as described further below, has started a search to identify an additional non-executive director to be appointed to the board.

Committee roles and responsibilities

The Committee's key roles and responsibilities are:
- regularly reviewing the structure, size and composition of the board, and making recommendations to the board with regard to any changes;
- considering the leadership needs of the group and considering succession planning for directors and senior executives;
- considering the appointment or retirement of directors;
- reviewing the continued independence of the non-executive directors;
- assessing the board's balance of skills, knowledge and experience;
- evaluating the skills, knowledge and experience required for a particular appointment, normally with the assistance of external advisers used to facilitate the search for suitable candidates; and
- assessing the contribution of the non-executive directors.

The Committee's role and responsibilities are set out in written terms of reference and are available at www.closebrothers.com.

Key activities in the 2018 financial year

During the year the Committee's activities included:
- considering board composition and succession, including oversight of the process to appoint a new group finance director;
- reviewing talent and executive management succession planning;
- planning for the triennial external board evaluation undertaken during the year;
- monitoring proposed changes to the UK's corporate governance regime and the implications for the company and the board; and
- assessing the non-executive directors' skill sets, knowledge and experience to ensure that an appropriate balance of skills, knowledge and experience has been maintained.

Membership and meetings

The Committee's membership was unchanged during the year and comprises Geoffrey Howe, the senior independent director, Oliver Corbett, Lesley Jones and Bridget Macaskill, who chair the Audit, Risk and Remuneration Committees respectively, and me as chairman. The composition of the Committee satisfies the relevant requirements of the UK Corporate Governance Code.

In addition, the chief executive attends meetings by invitation. The group head of human resources attended a number of meetings during the year, including when presenting reviews of talent and executive management succession planning, and updating the Committee on the progress of the external search to appoint a new group finance director.

Five scheduled meetings of the Committee were held during the year and details of members' attendance are set out on page 68. In addition, one ad hoc meeting was held to consider the nomination of Mike Morgan as the new group finance director and an executive member of the board.

Group finance director succession

During 2018, the Committee oversaw the extensive process that culminated in the decision by the board to appoint Mike Morgan as group finance director and an executive member of the board, following Jonathan Howell's decision to leave the group at the conclusion of the forthcoming AGM in order to pursue the next stage of his career.

The Committee approved a detailed specification for the role of group finance director, with input from the group chief executive and the group head of human resources, and engaged external search consultancy firm, Odgers Bernstein, to find appropriate candidates. The firm is not connected to the company in any way.

The search process included consideration of both external and internal candidates and, at all stages, the Committee took steps to ensure that external and internal candidates were treated equally.

Odgers Bernstein produced a long-list of candidates from a diversity of backgrounds and representing a breadth of talent and experience. A shortlist of external and internal candidates was agreed and candidates were interviewed by non-executive and executive directors and senior management. Following these interviews, and assessments undertaken by Odgers Bernstein, the Committee recommended the appointment of Mike Morgan. The board then considered and approved the recommendation. The PRA and FCA have each given their approval to Mike's appointment. Mike's appointment as a director will be proposed for approval by shareholders at the AGM in November.

The decision to appoint Mike Morgan was taken in June, ensuring that there was a period of nearly five months for Jonathan Howell and Mike to work together to ensure a smooth transition in the period until Jonathan steps down at the conclusion of the AGM in November.

Non-executive directors' skill sets

During the year, the Committee considered and reaffirmed the skill sets and experience of the company's four independent non-executive directors, including their extensive experience within financial services. Geoffrey Howe is the senior independent director and has extensive experience within the industry, including as a chairman. Oliver Corbett has strong financial skills and a track record of audit committee experience, including as a finance director. Lesley Jones has familiarity with FCA/PRA and EU risk regulations, and wide experience as a committee chairman and non-executive director within the financial services sector. Bridget Macaskill has significant remuneration committee credentials and familiarity with FCA/PRA and EU remuneration regulations. Further information on the background and experience of each of the non-executive directors can be found in their biographies on pages 58 and 59.

Succession planning – board and management

The Committee spent considerable time during the year reviewing talent and considering the group's succession planning at board and senior management level. This included a formal review by the Committee of senior management succession planning, looking at the capability and potential of incumbents in key roles, and the succession pipeline, emergency cover arrangements and external market for those roles. Succession planning for non-executive roles has also been an important focus of the Committee.

As part of its discussion of the skills and experience of the non-executive directors and associated succession planning, during the year the Committee decided to begin a search to appoint an additional non-executive director. This appointment is intended to further strengthen the range of skills and experience represented on the board. Whilst the Committee is seeking to select a candidate with the capability and experience to contribute to the full range of board activities, it has identified a desire to seek a candidate with particular experience of customer behaviour and technological change. The search is being undertaken in conjunction with external search firm, Heidrick & Struggles, who have been instructed to consider candidates from a diversity of backgrounds and experiences. The firm is not connected to the company in any way. The search is ongoing and the company will make a further announcement on the outcome of the process as required in due course and will include further commentary in next year's Annual Report.

Diversity

Diversity continues to be a key focus of the Committee. The Committee embraces the benefits of diversity and it has been a topic of discussion throughout the year, including in the context of the board-level appointments considered by the Committee and as part of the Committee's review of talent and executive management succession planning.

The Committee considers that the board remains diverse, drawing on the knowledge, skills and experience of directors from a range of backgrounds, but will seek to take opportunities to further improve the diversity of the board, where it is consistent with the skills, experience and expertise required at a particular point in time. Currently, three of the company's eight directors are women, meaning that the representation of women on the board exceeds the minimum percentage set out in the recommendations of the Hampton-Alexander Review published in November 2016. However, the Committee recognises that due to the relatively small size of the board, the appointment or departure of a single director can have a significant impact on its ability to achieve recommendations in relation to the composition and diversity of the board as a whole at a particular point in time.

More detail on the group's approach to diversity can be found in the Sustainability Report on pages 46 and 47 and the Corporate Governance Report on page 67.

Reappointment of directors

Prior to the company's AGM each year, the Committee considers, and makes recommendations to the board concerning, the reappointment of directors, having regard to their performance and ability to continue to contribute to the board. Following this year's review in advance of the 2018 AGM, the Committee has recommended to the board that all serving directors be reappointed at the AGM, with the exception of Jonathan Howell who will not be seeking reappointment at the meeting.

Geoffrey Howe has served as a non-executive director of the company since January 2011. As it is now more than six years since his appointment as a director, and as required by the UK Corporate Governance Code, the Committee has undertaken a particularly rigorous review of Geoffrey's performance and independence. It has concluded that he remains independent and continues to make a significant contribution to all activities of the board and its committees. The Committee and the board have also noted the valuable contribution that Geoffrey makes as the company's senior independent director and in his support for the chairman, who completed his first full year in post during 2018. The Committee and the board value the continuity, knowledge and experience that Geoffrey's continued appointment as a director would bring.

Corporate governance reform

The Committee has monitored the various reforms to corporate governance in the UK that have been announced during the year. These include the publication of the new Corporate Governance Code, which will first apply to the company in the financial year ending 31 July 2020. The Committee has received updates from the company secretary on the new Code and the implications for the company. It will continue to discuss the implications and resulting actions required over the coming months to ensure that the company complies with the new Code.

Committee effectiveness

As described in more detail on page 70, an external evaluation of the effectiveness of the board and its committees was undertaken during the year in line with the requirements of the UK Corporate Governance Code. The Committee was involved in the selection of the evaluator and in determining the scope and timing of the review.

The Committee considers that during the year it continued to have access to sufficient resources to enable it to carry out its duties and has continued to perform effectively.

Michael N. Biggs
Chairman of the Nomination and Governance Committee

25 September 2018

Directors' Remuneration Report

This report sets out our approach to remuneration for the group's employees and directors for the 2018 financial year.

Annual Statement from the Remuneration Committee Chair

On behalf of the board and the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the 2018 financial year.

2018 was the first year under our new remuneration policy which was approved at the 2017 AGM, with over 97% of the shareholders' votes cast in favour. I am grateful for the strong engagement and support we received from our shareholders for the new policy, which further aligns our remuneration structures with our distinctive business model and strategy.

How the group performed

Close Brothers has a well-established model which supports its long track record of consistently good performance. The model is based on maintaining a disciplined underwriting approach which is sustained through the economic cycle, enabling us to support our clients and deliver strong returns for shareholders in a wide range of market conditions. Our business model is focused on sustainable lending, with a strong net interest margin and conservative underwriting, supported by a clearly defined risk appetite and a prudent approach to managing our business and financial resources.

Continuing to apply this disciplined approach, the group achieved another good performance in the 2018 financial year, with an overall increase of 4% in adjusted operating profit to £278.6 million (2017: £268.7 million). Adjusted EPS increased 5% to 140.2p (2017: 133.6p).

Return on opening equity remained strong at 17.0% (2017: 18.1%) and well ahead of the group's cost of capital.

The table below sets out an overview of our one-year and three-year key performance indicators which provide context for the Remuneration Committee decisions taken this year.

All three of our divisions performed well in the 2018 financial year. We importantly maintained our strong net interest margin at 8.0% (2017: 8.1%) and our prudent underwriting, in the Banking division. Notwithstanding our disciplined approach, we also achieved good underlying loan book growth at 6.6% (2017: 7.0%) and adjusted operating profit increased 2% to £251.8 million (2017: £247.4 million). Winterflood achieved another strong result with operating profit in line with the prior year at £28.1 million (2017: £28.1 million). Asset Management delivered a significant increase in profits, up 33% to £23.1 million (2017: £17.4 million) with strong net inflows at 12% of opening managed assets, which increased to £10.4 billion at 31 July 2018 (31 July 2017: £8.9 billion).

We also maintained our prudent and diverse funding position, with total funding covering 132% (31 July 2017: 127%) of the loan book at 31 July 2018. Our capital position remains strong and well ahead of regulatory requirements with a CET1 capital ratio of 12.7% (31 July 2017: 12.6%).

Key performance indicator	**2018**	2017
Return on opening equity	**17.0%**	18.1%
Adjusted operating profit (£ million)	**278.6**	268.7
Adjusted earnings per share growth over three years[1]	**16.3%**	28.3%
Total shareholder return per annum over three years[2]	**3.3%**	10.1%
Distributions to shareholders (£ million)[3]	**94.0**	89.3

1 For the three-year periods ended 31 July 2018 and 31 July 2017.
2 For the three-year periods ended 31 July 2018 and 31 July 2017 based on the average three-month share price prior to that date.
3 Interim dividend paid and final dividend proposed for the financial year.

Executive director remuneration outcomes

As a result of the sustained good performance, the last year saw the financial element of the EDs' bonus, which is linked to RoE, pay out at 80% of maximum. The EDs also achieved strong performance against their group-wide balanced scorecard, introduced this year, with payouts ranging from 90% to 95%. The Remuneration Committee determines the overall outcome of the balanced scorecard and adjusts the final individual ratings to take into account the individual contributions to successful outcomes of the scorecard objectives. A summary of achievements against the financial targets is set out on page 80, and against the balanced scorecard on pages 90 to 92. Overall bonus payouts were 85% to 86% of maximum.

Notwithstanding continued strong returns in the last year, the vesting outcome for the long-term incentive plans awarded in 2015, which are linked to growth in earnings and total shareholder returns, as well as performance against risk management objectives, is lower than prior years, declining to 19%. This reflects lower growth in earnings at the current stage of the business cycle, and more modest share price performance. In a slower growth environment, the Long Term Incentive Plan ("LTIP") targets are particularly stretching and not always achievable without compromising our prudent and consistent underwriting standards. Consequently, the single total remuneration figures for the EDs are down from the previous year. The vesting outcomes are set out on pages 93 to 95.

Group-wide employee remuneration

The responsibility for determining the reward practices on a group-wide basis lies with the Remuneration Committee. Our wider employee remuneration structure aims to:

- attract, motivate and retain high calibre employees across the company;
- reward good performance;
- promote the achievement of the company's annual plans and its longer-term strategic objectives;
- align the interests of employees with those of all key stakeholders, in particular our customers, clients and shareholders, as well as other key stakeholders including regulators; and
- support good risk management procedures and a positive client conduct culture.

There have been no significant changes to the pay or benefits structures of the wider employee population during the course of the year. The group continues to pay all staff at or above the national living wage, which is in excess of the national minimum wage. The average salary increase awarded across the group was 2%, with an emphasis on supporting pay progression for junior employees. Average total compensation for employees across the group increased by 1%.

Gender pay disclosure

This year the Remuneration Committee has overseen the publication of our first gender pay gap report, which is published on our website at https://www.closebrothers.com/sites/default/files/CBG_Gender_Pay_Gap_Report.pdf. We are confident that men and women are paid equally for performing equivalent roles across our business and are committed to taking steps to reduce our gender pay gap.

Our gender pay gap is generally driven by a greater proportion of males in senior and front office roles where market rates are higher. We are strongly committed to increasing the proportion of women in senior roles, and already exceed the government's target for 33% of board members to be women, and are broadly in line with Hampton-Alexander gender targets for executives and their direct reports. However, we know there is far more to be done to improve our female talent pipeline at all levels of our business and have made a number of commitments to drive forward change.

Changes to the board of directors during the year

Senior management succession planning is a key focus of the directors and the group's remuneration policy sets out the approach for EDs' compensation should they leave the business.

As announced earlier in the year, Jonathan Howell has decided to leave the company at the end of the Annual General Meeting in November 2018. Jonathan will be eligible to be considered for a time pro-rated 2019 bonus for the period of the 2019 financial year he had been group finance director. Jonathan will not receive a 2018 LTIP award, recognising that he will not be in the business for the majority of the long-term performance period. Full details of his remuneration arrangements following cessation of employment will be disclosed on our website when finalised and in next year's Directors' Remuneration Report.

In June we confirmed that Mike Morgan, currently chief financial officer of the Banking division, will succeed Jonathan. Mike's annual salary as group finance director will be set at £400,000. He will also receive cash in lieu of pension at 10% of salary in line with the general employee level. Mike's maximum annual bonus and LTIP opportunity will both be set initially at 175% of salary, well within the 300% and 350% maximums respectively permitted within our approved policy.

Key external developments

The Committee is mindful of the forthcoming changes to the Corporate Governance Code, which will become effective for Close Brothers from August 2019.

The responsibilities and roles undertaken by the Committee already encompass much of the revised Code; however, during the course of the following year the Committee will undertake a review of what additional steps need to be taken, with particular focus on how we effectively maintain and, where appropriate, extend engagement with all colleagues and across all other stakeholders.

Finally, I would like to thank my fellow members of the Remuneration Committee for their commitment and engagement in the last year. I hope that you will find this report on the directors' remuneration useful, understandable and clear.

Bridget Macaskill
Chairman of the Remuneration Committee

25 September 2018

Directors' Remuneration Report continued

Executive Directors' Remuneration Policy
The Executive Directors' Remuneration Policy was approved by shareholders at the 2017 AGM. It is intended that the policy will apply for three years up to the 2020 AGM, unless amendments are required, in which case further shareholder approval will be sought.

The policy can be read in full on pages 74 to 81 of the 2017 Annual Report which is available on our website at www.closebrothers.com. A summary of the main elements of the remuneration policy is set out in the table below.

Information on how the remuneration policy will be applied in 2019 is included in the Annual Report on Remuneration section, on pages 95 and 96.

Remuneration policy – executive directors

Element	Operation
Base salary Attracts and retains high calibre employees. Reflects the employee's role and experience.	• Paid monthly in cash. • Increases will generally not exceed those for the broader employee population unless there is a change in role or responsibility.
Benefits Enables the EDs to perform their roles effectively by contributing to their wellbeing and security.	• Include private medical cover, health screening, life assurance cover, income protection cover and allowance in lieu of company car. • Other benefits provided to individuals in certain circumstances, such as relocation.
Pension Provides an appropriate and competitive level of personal and dependant retirement benefits.	• Existing EDs may receive cash in lieu of a pension up to 22.5% of base salary. • New EDs promoted to the board will receive pension contributions in line with the general employee population.
Annual bonus Motivates executives to support the group's goals, strategies and values over both the medium and long term and aligns their interests with those of key stakeholders.	• Maximum opportunity: – Group chief executive and group finance director: 300% of base salary (60% deferred into shares). – Group head of legal and regulatory affairs: 120% of base salary (40% deferred into shares). • Deferred shares vest in equal tranches over three years. • 40% to 60% based on financial performance with remainder based on performance against a balanced scorecard. – Group chief executive and group finance director: 60%. – Group head of legal and regulatory affairs: 40%. • Subject to malus and clawback provisions.
Long Term Incentive Plan Motivates executives to achieve the group's longer-term strategic objectives and aligns their interests with those of key stakeholders. Aids the attraction and retention of key staff.	• Maximum award level at grant: – Group chief executive and group finance director: 350% of base salary. – Group head of legal and regulatory affairs: 275% of base salary. • Awards vest after three years with subsequent two-year holding period. • Awards vest 70% based on financial performance and 30% based on non-financial performance. • Subject to malus and clawback provisions.
Shareholding requirement Aligns the interests of executives with those of shareholders.	• Shareholding requirements are: – Group chief executive and group finance director: minimum 200% of base salary. – Group head of legal and regulatory affairs: minimum 100% of base salary.

Element	Operation
Other	• The group will pay legal, training and other reasonable and appropriate fees, including any relevant tax liabilities, incurred by the EDs as a result of performing their duties. • The EDs are also permitted to participate in the group-wide Save As You Earn scheme and Share Incentive Plan.
Legacy arrangements	• Historical LTIP and SMP awards granted under the previous executive remuneration policy (approved at the 2014 AGM) will continue to operate in line with that policy. • The Committee reserves the right to allow awards to vest or make payments subject to arrangements that were granted or agreed before the individual became a director.
Malus The deferred element of the annual bonus is subject to malus prior to vesting. The LTIP is subject to malus for the three-year period to the point of vesting.	• The circumstances where it may apply: – The ED's employment is terminated for misconduct or the ED is issued with a formal disciplinary warning for misconduct under the firm's disciplinary policy. – The firm suffers a material loss where the ED has operated outside the risk parameters or risk profile applicable to their position and, as such, the Committee considers a material failure in risk management has occurred. • The level of the award is not sustainable when assessing the overall financial viability of the firm.
Clawback The cash element of the annual bonus is subject to clawback for three years from award. The deferred element of the annual bonus is subject to clawback for three years from date of grant The LTIP is subject to clawback for four years from date of grant.	• The circumstances where it may apply: – Discovery of a material misstatement resulting in an adjustment in the audited consolidated accounts of the group, or the audited accounts of any material subsidiary. – The assessment of any performance target or condition in respect of an award was based on material error, or materially inaccurate or misleading information. – The discovery that any information used to determine the bonus and number of shares subject to an award was based on material error, or materially inaccurate or misleading information. – Action or conduct of a participant which, in the reasonable opinion of the board, amounts to fraud or gross misconduct.

Directors' Remuneration Report continued

Service contracts and policy for payment on loss of office – executive directors

Standard provision	Policy	Details
Notice period	12 months' notice from the company. 12 months' notice from the ED.	• EDs may be required to work during the notice period, may be placed on garden leave or may be provided with pay in lieu of notice if not required to work the full period. • All EDs are subject to annual re-election by shareholders.
Compensation for loss of office in service contracts	No more than 12 months' salary, pension allowance and benefits.	• Payment will be commensurate with the company's legal obligations and we will seek appropriate mitigation of loss by the ED.
Treatment of annual bonus on termination	The standard approach is no payment unless employed on date of payment.	• The Committee may award a pro-rated bonus to EDs who work for part of the year or are "good leavers" (as determined by the Committee) in certain circumstances, although there is no automatic entitlement. "Good leaver" status may be granted in cases such as death, disability or retirement. • The Committee has discretion to reduce the entitlement of a "good leaver" in line with performance, the circumstances of the termination, and the malus conditions outlined in the policy table. The Committee also has the ability to recover annual bonuses in line with the clawback conditions outlined in the policy table.
Treatment of unvested deferred awards under the annual bonus plan and any previous Invested SMP Shares	The Committee has the discretion under the relevant plan rules to determine whether "good leaver" status should be applied on termination. The current approach provides that discretion may be afforded in cases such as death, disability, retirement, redundancy or mutual separation.	• Where the director is designated a "good leaver", awards vest in full over the original schedule and remain subject to the malus conditions. • The deferred shares are released in full in the event of a change in control. • Awards lapse in the event the employee is declared bankrupt, joins another financial services company within 12 months of termination (unless this condition is waived under "good leaver" status), or leaves and is not designated a "good leaver". • These are subject to the clawback conditions.
Treatment of the LTIP and any previous Matched SMP Shares	All awards lapse except for "good leavers". The Committee has the discretion under the relevant plan rules to determine how "good leaver" status should be applied on termination. The current approach provides that discretion may be afforded in cases such as death, disability, retirement, redundancy or mutual separation.	• For "good leavers", vesting is pro-rated for the period of employment during the performance period. • Vesting is subject to the achievement over the original performance period against the performance targets and on the original schedule. • Awards remain subject to the malus and clawback conditions. • In the event of a change in control, the awards will vest subject to the service factor and the achievement against the performance targets at that point. • However, the Committee retains the discretion to increase the amount vesting depending on the circumstances of the change in control.
Outside appointments	EDs may accept external appointments.	• Board approval must be sought before accepting the appointment. • The fees may be retained by the director.
Chairman and non-executive directors	• Engaged under letters of appointment for terms not exceeding three years. • Renewable by mutual agreement and can be terminated on one month's notice. • All non-executive directors are subject to annual re-election. • No compensation is payable if required to stand down.	
Other	• The company may pay settlement payments, legal, training and outplacement fees incurred on exit, if appropriate.	
Other notable provisions in service contracts	• There are no other notable provisions in the service contracts.	

Copies of the directors' service contracts and letters of appointment are available for inspection at the group's registered office.

Dates of service contracts – executive directors

Name	Date of service contract
Preben Prebensen	9 February 2009
Jonathan Howell	8 October 2007
Elizabeth Lee	1 August 2012

Remuneration policy for the chairman and independent non-executive directors

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable
Fees Attract and retain a chairman and independent non-executive directors who have the requisite skills and experience to determine the strategy of the group and oversee its implementation.	Fees are paid in cash and are reviewed periodically. Fees for the chairman and non-executive directors are set by the board. The chairman and non-executive directors do not participate in decisions to set their own remuneration. The chairman of the board receives a fee as chairman but receives no other fees for chairmanship or membership of any committees. Non-executive directors receive a base fee. The senior independent director receives an additional fee for this role. Additional fees are paid for chairmanship of each of the Audit, Remuneration and Risk Committees. Additional fees are paid for membership of committees, with the exception of the Nomination and Governance Committee, for which no additional fees are payable. The chairman and non-executive directors are entitled to claim reimbursement for reasonable expenses and associated tax liabilities incurred in connection with the performance of their duties for the company, including travel expenses. Overall aggregate fees will remain within the £1 million authorised by our articles of association. There is no performance framework, recovery or withholding.

Appointment letters – non-executive directors

Name	Date of appointment	Current letter of appointment start date
Oliver Corbett	3 June 2014	17 November 2016
Geoffrey Howe	4 January 2011	17 November 2016
Lesley Jones	23 December 2013	17 November 2016
Bridget Macaskill	21 November 2013	17 November 2016
Mike Biggs	14 March 2017	14 March 2017

Directors' Remuneration Report continued

Annual Report on Remuneration

Remuneration Committee

Committee roles and responsibilities

The Committee's key objectives are to:	The Committee's main responsibilities are to:
• determine the overarching principles and parameters of the remuneration policy on a group-wide basis;	• review and determine the total remuneration packages of EDs and other senior executives, including group Material Risk Takers and senior control function staff, in consultation with the chairman and chief executive and within the terms of the agreed policy;
• establish and maintain a competitive remuneration package to attract, motivate and retain high calibre EDs and senior management across the group;	• approve the design and targets of any performance-related pay schemes operated by the group;
• align senior executives' remuneration with the interests of shareholders; and	• review the design of all-employee share incentive plans;
• promote the achievement of the group's annual plans and strategic objectives by providing a remuneration package that contains appropriately motivating targets that are consistent with the group's risk appetite.	• ensure that contractual terms on termination and any payments made are fair to the individual and the group, that failure is not rewarded and that a duty to mitigate risk is fully recognised;
	• review any major changes in employee benefits structures throughout the group;
	• ensure that the remuneration structures in the group are compliant with the rules and requirements of regulators, and all relevant legislation;
	• ensure that provisions regarding disclosure of remuneration are fulfilled; and
	• seek advice from group control functions to ensure remuneration structures and annual bonuses are appropriately aligned to the group's risk appetite.

Membership

The Committee comprises Bridget Macaskill as chair, together with each of the other independent non-executive directors. A record of attendance at the five meetings held during the year is set out on page 68.

The chairman of the board, group chief executive, group head of human resources and the head of reward and HR operations also attend meetings by invitation.

Membership activity in the 2018 financial year

There were five meetings of the Committee held during the year. There is a standing calendar of items which is supplemented by other significant issues that arise during the year. The key matters discussed during the year were as follows:

Meeting	The Committee's main activities
September 2017	• Approval of Directors' Remuneration Report for 2017, including the 2018 Remuneration Policy • Final review and approval of EDs' annual bonus targets and objectives for 2018 • Review and approval of targets and objectives for first LTIP awards under the 2018 Remuneration Policy • Review and approval of the remuneration section of the Pillar 3 disclosure for 2017 • Review and approval of the Remuneration Policy Statement for 2017 • Review of performance testing results for vesting 2014 LTIP and SMP awards • Approval of risk management objectives for 2017 awards • Annual review and approval of the Remuneration Committee terms of reference
January 2018	• Annual Remuneration Governance review • Final approval of 2017 Material Risk Takers • Remuneration Committee adviser selection • Gender Pay Gap review
April 2018	• Forecast year-end all-employee group-wide salary and bonus analysis • Review of Material Risk Takers for the 2018 financial year • Annual review of remuneration principles • Thematic review of effectiveness of sales incentive schemes
June 2018	• Review of initial submission of 2018 all-employee group-wide compensation proposals • Review of proposed 2018 compensation for Material Risk Takers • Review and approve risk-adjustment outcomes (pool and individual) for 2018 • Annual review whether to apply malus and clawback to any remuneration • Initial review of the risk management objectives for the 2015 LTIP vesting
July 2018	• Review and approval of final year-end 2018 all-employee group-wide compensation proposals • Review and approval of EDs' 2018 compensation proposals • Review and approval of proposed 2018 LTIP awards • Assessment of the vesting of the risk management objectives for the 2015 LTIP vesting • Review of sales incentive schemes and approval of schemes for 2019 • Review of LTIP performance targets for 2018 awards • Initial review of EDs' annual bonus targets and objectives for 2019 • Final confirmation of 2018 Material Risk Takers, including quantitative criteria • Overview and proposed approach to Directors' Remuneration Report

Advice

During the year under review and up to the date of this report, the Committee consulted and received input from the chairman of the board, the group chief executive, the group head of HR, the head of reward and HR operations, the group chief risk officer and the company secretary. Where the Committee seeks advice from employees, this never relates to their own remuneration.

Following the confirmation that the Committee's former advisers, PwC, were to be appointed the external auditor of the group, a number of remuneration consultants were approached in November 2017 to tender for the position of external adviser to the Committee. Following the review, Deloitte LLP (a member of the Remuneration Consultants Group) were appointed in February 2018. Fees paid to Deloitte during the year were £40,150. During the year Deloitte also provided advice on the IRB programme. The Committee is satisfied that the provision of these other services does not affect the objectivity and independence of the remuneration advice provided by Deloitte.

At an early stage of the audit tender process, the PwC remuneration advisory role was identified as a potential conflict. A provisional plan was agreed at that stage by the chairs of the Audit and Remuneration Committees to manage the potential conflict should PwC be successful in the tender. Following the recommendation to appoint PwC as auditor in May 2017, the board approved a much reduced transitional remuneration advisory role for PwC to take effect from 1 August 2017, ensuring no conflict would arise. During the period between August and December 2017 PwC provided some interim management advice on a number of minor matters consistent with the board-approved transition role.

Directors' Remuneration Report continued

The Committee received information on comparative pay data from MM&K. Slaughter and May provided legal advice on the company's equity scheme rules. Fees paid to Slaughter and May were £19,200.

Statement of voting on the remuneration policy at the 2017 AGM

	For	Against	Number of abstentions
Directors' Remuneration Policy	97.1%	2.9%	11,022

Statement of voting on the Directors' Remuneration Report at the 2017 AGM

	For	Against	Number of abstentions
Annual Report on Remuneration	99.2%	0.8%	2,647,845

Implementation of the policy in 2018

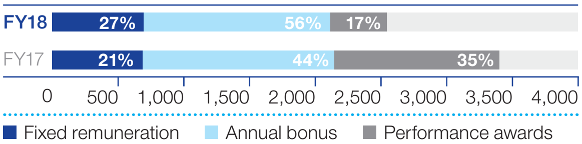
Single total figure of remuneration for EDs 2018 (Audited)

	Salary		Benefits		Annual bonus[1]		Performance awards[2,3]		Pension		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Name	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Preben Prebensen	**550**	540	**20**	24	**1,419**	1,474	**433**	1,177	**123**	122	**2,545**	3,337
Jonathan Howell	**415**	408	**14**	13	**1,058**	1,097	**326**	889	**93**	92	**1,906**	2,499
Elizabeth Lee	**338**	331	**14**	16	**348**	292	**168**	465	**75**	74	**943**	1,178

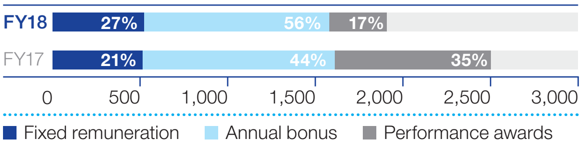
1 60% of Preben Prebensen's and Jonathan Howell's annual bonus is deferred into shares and 40% of Elizabeth Lee's annual bonus is deferred into shares.
2 The figures for the performance awards for 2017 have been re-calculated using the actual share price on the dates of vesting for the LTIP and Matched SMP Shares of £14.65. The three-month average to 31 July 2017 was used for the 2017 report given that the awards were vesting after publication of the report.
3 The figures for the performance award for 2018 have been calculated using the three-month average to 31 July 2018.

The charts below compare the EDs' single total remuneration figures for 2017 and 2018.

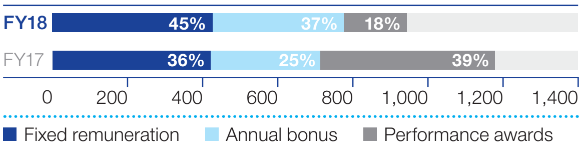
Preben Prebensen



Jonathan Howell



Elizabeth Lee



Link between reward and performance

The group's financial results have been good this year, and over the past three years. Adjusted operating profit has increased 4% in the year to £278.6 million, and it has grown 7% per annum compounded over the last three financial years on a reported basis. RoE remains strong at 17.0% and dividend growth was 5% this year, with dividend cover remaining at 2.2 times.

The strong RoE has been reflected in the EDs' bonuses, with the element of the bonus determined on RoE being 80.0% of the potential maximum. The EDs also achieved strong performance against their group-wide balanced scorecard with payouts ranging from 90% to 95%.

For the 2015 Long Term Incentive Plan vesting this year, 80% of the vesting is based on the financial goals and 20% is based on risk, compliance and control objectives. For the financial goals the adjusted EPS growth of 16.3% over the last three years was below the threshold performance target of 18.8% and consequently has not vested within the EPS element of the LTIP. The compounded TSR of 3.3% per annum has not met the threshold target of 10.0% per annum under the LTIP and has also not vested. These vesting levels reflect lower growth in earnings at the current stage of the cycle as well as modest share price performance in the last three years. The continued prudent approach to capital management combined with a good performance in risk, compliance and controls mean that the risk management objectives element vested at 92.9%. As a result, the LTIP will vest at 18.6% overall this year (see page 93 for further details).

The LTIP vesting levels have significantly reduced the single total remuneration figures, despite the ongoing good performance of the company, reflecting the stretching targets set by the Committee which may not be met at the current stage of the business cycle.

Additional disclosures on the single total remuneration figure for EDs table (Audited)

Salary

The per annum salaries paid during the year are as shown in the single total remuneration figure table on page 88. There were modest increases, 2.0% or lower, between 2017 and 2018. When reviewing salary levels, the Committee takes into account the individual's role and experience, pay for the broader employee population and external factors, where applicable. No salary increases have been awarded to the current EDs for the 2019 financial year, whilst the average increase for the general employee population is 3%.

Benefits

The EDs each received an allowance in lieu of a company car. Preben Prebensen received £18,000 while the others received £12,000. These allowances have not been increased since 2012. They also received private health cover. The discount to the share price on grant of SAYE options is included in the year of grant.

Pension

The EDs all received a monthly cash pension allowance equivalent to 22.5% of base salary. They do not receive any additional pension provision.

Annual bonus

Maximum bonus potential for the 2018 financial year was 300% of salary for Preben Prebensen and Jonathan Howell, and 120% of salary for Elizabeth Lee. The bonuses for EDs were determined with reference to RoE targets and a group-wide balanced scorecard. Details of the achievements and targets are outlined below.

Summary of annual bonus achievements

	Financial target (RoE)				Group-wide balanced scorecard				
Name	Weighting	Potential maximum (100% of potential maximum) (£'000s)	**Actual per cent of maximum**	**Actual amount awarded (£'000s)**	Weighting	Potential maximum (£'000s)	**Actual per cent awarded**	**Actual amount awarded (£'000s)**	**Total bonus awarded (£'000s)**
Preben Prebensen	60%	990	**80.0%**	**792**	40%	660	**95.0%**	**627**	**1,419**
Jonathan Howell	60%	747	**80.0%**	**597**	40%	498	**92.5%**	**461**	**1,058**
Elizabeth Lee	40%	162	**80.0%**	**129**	60%	243	**90.0%**	**219**	**348**

The RoE for the 2018 financial year was 17.0% against a maximum target of 20%, warranting an award of 80.0% of the potential maximum bonus for this element.

RoE targets

Threshold 33.3% of maximum potential	Target 66.7% of maximum potential	Maximum 100% of maximum potential	**Actual RoE achieved**	**Percentage of RoE element paid**
12%	15%	20%	**17.0%**	**80.0%**

For Preben Prebensen and Jonathan Howell, 60% of any annual bonus, and 40% for Elizabeth Lee, is deferred into group shares vesting in equal tranches over three years in line with the 2017 Remuneration Policy.

Directors' Remuneration Report continued

Group-wide ED objectives for the 2018 financial year

Effective from the 2018 financial year, the Committee has replaced the personal objectives element of the annual bonus with a shared balanced scorecard, in line with the revised remuneration policy. This includes measures relating to strategy; people and customers; and risk, compliance and conduct, and is common to all EDs.

Annual performance objectives are determined by the Remuneration Committee at the start of each financial year, and are designed to support the group's wider strategic objective of protecting, improving and extending its successful model.

The table on pages 90 to 92 sets out examples of the key balanced scorecard objectives which were in place in 2018, performance against these objectives and an overview of the factors that the Committee has taken into account when assessing the performance of the executives. The Committee determines the overall outcome of the balanced scorecard and adjusts the final individual rating to take into account the individual contributions to successful outcomes of the scorecard objectives. Resultant awards ranged between 90% and 95% of maximum for this element of the bonus.

For reasons of commercial sensitivity, not all performance criteria and factors taken into consideration by the Committee have been disclosed.

Performance against group-wide ED balanced scorecard

Our overriding strategic business objectives of protect, improve and extend are reflected in, and aligned to, the strategic element of the balanced scorecard.

Element	Objective	Performance and extent to which target has been met		
Strategic – protect	Adherence to the lending model	• Net interest margin 8.0% • Bad debt ratio 0.6% (10-year range 0.6-2.6%) • Return on net loan book 3.5% (10-year range 2.3-3.7%) • Conservative loan to value ("LTV") ratios e.g. typical LTV 50-60% in Property and 80-85% in Motor Finance • Average loan book maturity 14 months (2017: 14 months) • Moderate underlying loan book growth of 6.6% (10-year range 6-23%)	• Firm adherence to the lending model with continued margin and underwriting discipline • Analyst coverage and shareholder feedback continue to recognise the key attributes of the group's business model • All core metrics remain consistent with lending model • All credit risk metrics including security cover, tenor, pricing, credit quality and concentration risk remain within risk appetite • Moderated loan book growth reflecting margin and underwriting discipline consistent with our business model	✔
	Maintain investment while controlling costs	• Banking E/I ratio 49% (2017: 48%) • Group E/I ratio 60% (2017: 60%)	• Cost discipline maintained, with stable E/I ratios in the Banking division and group overall, notwithstanding both slower top line growth and ongoing investment spend	✔
	Maintain prudent levels of capital funding and liquidity	• CET1 ratio 12.7% (fully loaded regulatory minimum requirement 9.0%) • Total capital ratio 15.0% (fully loaded regulatory minimum requirement 13.4%) • Leverage ratio 10.6% (minimum requirement 3.0%) • Total funding 132% of loan book (31 July 2017: 127%) • Average maturity of funding allocated to loan book 23 months (31 July 2017: 21 months) • £1,435 million of liquid assets (31 July 2017: £1,029 million) • Average 12-month liquidity coverage ratio at 1,038% (regulatory minimum 100%)	• Maintained prudent position with strong capital ratios, diverse funding sources and conservative maturity profile • Maintained CET1 ratio comfortably ahead of minimum fully loaded requirement and very strong leverage ratio • Maintained prudent level of funding in relation to the loan book, with average maturity of allocated funding significantly longer than loan book • Further strengthened funding position with issuance of senior bond and additional motor securitisation • Prudent liquidity position and very strong liquidity coverage ratio, substantially in excess of regulatory requirements	✔

Element	Objective	Performance and extent to which target has been met
Strategic – improve	Strategic business reviews of each business for strategic threats and opportunities	• Completed review of medium and long-term threats and opportunities both at executive/board and business level, including thematic review facilitated by an external consultant • Deep dive into business-specific opportunities, including changing customer requirements and use of technology; process automation; and technology optimisation • Increased sharing of best practice examples across the businesses, focused on use of technology, customer-centric solutions and process optimisation
	Progress against key investments	• IRB programme fully resourced and progressing to plan; constructive engagement with PRA; on track to submit application in 2019 • Key business initiatives on track, including multi-year investment programmes in Premium and Motor Finance • New Treasury deposit platform on track for delivery in FY2019 • IFRS 9 transition achieved on time and on budget at 1 August 2018
Strategic – extend	Continue to develop opportunities in existing and adjacent markets	• Good growth momentum in several core lending areas including expansion of our Property business in regional UK markets; growth in Invoice Finance and Brewery Rentals • Strong growth momentum in Asset Management with 12% net inflow rate and successful hire of additional high net worth portfolio managers • Continued growth in Winterflood's institutional business • Successful integration of Novitas acquisition, achieving strong loan book growth and expansion of product offering • Germany and Technology Services remain in early stage
People and customers	Maintain strong employee engagement	• 89% employee engagement (2017: 89%) • Annual engagement pulse survey confirms maintained strong engagement scores • Developed a group purpose statement, linked to strategy and culture, shared with employees with positive feedback
	Sustain strong performance against key customer metrics	• We monitor a wide range of customer metrics including net promoter scores (e.g. +50 in Premium Finance and +61 in bespoke Asset Management) as well as repeat business (e.g. 77% in Property) • Significant progress in assessing how our current proposition meets changing requirements from customers and partners, including through formal research and focus groups, attendance at key industry events and regular customer forums • Completed customer journey mapping and delivered customer journey improvements across a number of Banking businesses • Formally introduced accessibility training across the business to ensure digital channels are built to work for everyone • Initiated Voice of the Customer and Partner programme to enable us to listen, analyse, act upon and monitor feedback
	Succession plans for key senior management team	• Identified successor for group finance director, through a robust external and internal process • Strengthened internal succession for several key roles through external hires • Further developing internal succession options through internal and external coaching, talent reviews and external benchmarking

Directors' Remuneration Report continued

Element	Objective	Performance and extent to which target has been met	
Risk conduct and compliance	Preserve strong compliance across the group with its legal and regulatory obligations and own risk appetite	• Continued enhancement of processes and procedures relating to conduct risk • New cyber security strategy approved, setting out core principles to inform ongoing investment decisions • Successful completion of GDPR programme supported by enhanced risk assurance activities, supplemented by additional reporting and MI to monitor ongoing compliance • Ongoing review of existing procedures to ensure compliance with evolving regulatory requirements • Continued enhancement of operational risk framework with development of a risk and control register to identify, mitigate and quantify operational risks across businesses and functions • 100% completion of mandatory training for eligible staff • Crisis management simulations conducted at group, business and functional level, including divisional management teams • Disaster recovery tests conducted on a regular cycle, with evolution and enhancement of testing approach	✔

✔ **Performance objective has been achieved**

– **Satisfactory outcome, further progress to be made**

✘ **Performance objective has not been met**

Long-term performance awards

The performance awards in the single total figure of remuneration include the 2015 LTIP grant and the 2015 Matched SMP Shares. Both of these will vest on 3 October 2018, and the overall vesting is outlined in the table below.

Details of the overall vesting for the LTIP and SMP

Performance measure	Threshold target	Maximum target	Actual achieved	Overall vesting
Adjusted EPS growth (40% weighting)	RPI +3% p.a.[1]	RPI +10% p.a.	**5.2% p.a.**	**0.0%**
TSR (40% weighting)	+10% p.a.	+20% p.a.	**3.3% p.a.**	**0.0%**
Risk management objectives (20% weighting)	n/a	n/a	**As per the table on page 95**	**18.6%**
Overall vesting				**18.6%**

1 Minimum vesting target equates to 5.9% p.a.

The share price for the LTIP and Matched SMP Shares increased by 2% over the three-year period from the date of grant to the end of the performance period. The average share price used to value the awards due to vest in October 2018 was 1,518.2p (from 1 May 2018 to 31 July 2018, which was the performance measurement period). The 2015 LTIP and SMP awards were originally granted at 1,493.4p. While the increase in share price remains positive over the performance period, the single total figures of remuneration for the EDs are down from the previous year, primarily due to the lower overall vesting of the long-term performance awards.

The performance awards also include the amount (in cash or shares) equal to the dividends which would have been paid during the period from the beginning of the performance period to the time that the awards vest.

Details of the assessment of the risk management objectives for the LTIP and SMP

The Committee considers it to be of critical importance that remuneration arrangements continue to incentivise discipline in the management of the firm's capital and balance sheet and in the delivery of the business model.

The Committee undertakes a robust assessment of performance against the risk management objectives to ensure that payments to EDs are fair and appropriate with consideration for individual and corporate performance. In doing so, the Committee assesses performance against a number of key measures in making its determination.

Performance was assessed after each of the three years of the LTIP performance period, with each year's review carrying a weighting of one-third towards the overall vesting for the award, ensuring a fair assessment of progress over the three-year period.

Directors' Remuneration Report continued

Year one and year two assessments were set out in the 2016 and 2017 Directors' Remuneration Reports respectively. The year three performance assessment is detailed below.

Year three performance assessment

Element	Measure	Extent to which the Committee determined the target has been met	Status
Capital and balance sheet management	Capital requirements	• CET1 capital ratio remained strong at 12.7% and provides a significant buffer above both the current CET1 and Tier 1 regulatory minima of 7.9% and 9.8% respectively.	✔
	Dividend	• Full-year dividend increased 5%, maintaining strong dividend cover at 2.2 times.	✔
	Funding	• Total funding of £9.6 billion of which £5.0 billion is term funding. Average maturity of funding allocated to loan book is 23 months, well in excess of the loan book at 14 months.	✔
	Liquidity	• Continued to comfortably meet the liquidity coverage ratio. • Requirements with an average annual ratio of 1,038% vs minimum requirement of 100%.	✔
Risk, compliance and controls	Regulatory relationship	• Maintained good regulatory relationship with the PRA and continued to work closely with the FCA on their focus areas.	✔
	Strategic Risk Objectives	• Risk appetite framework evolved, with continued development planned. Risk model governance framework in place.	✔
	Regulation initiatives	• Both GDPR and MiFID II were implemented satisfactorily. • Continued focus on customer outcomes, including culture, vulnerable customers and affordability.	✔
	Operational risk/resilience	• Operational resilience approach evolving in line with regulatory standard. Further investment in the IT estate and process enhancements support contingency and disaster recovery plan. Incident simulations employed to good effect. Cyber security strategy continually evolving.	–
	External environment	• Brexit: Satisfactory progress has been made with contingency plans in place.	✔
	Key roles	• Talent and succession plans reviewed and in place.	✔
	Audit	• There have been no audit reports with "significant" issues and no reports have given material cause for concern. There is a culture of strong engagement with group internal audit.	✔

✔ **Performance objective has been achieved**

– **Satisfactory outcome, further progress to be made**

✗ **Performance objective has not been met**

The table below summarises the Committee's assessment of performance against the risk management objectives after each of the three years of the LTIP performance period.

Element	Year one assessment	Year two assessment	Year three assessment	Overall vesting
Capital and balance sheet management	100%	100%	100%	100%
Risk, compliance and controls	85%	87.5%	85%	85.8%
Overall vesting				**92.9%**

The Committee plans to strengthen the focus and alignment of the key measures within the risk, compliance and controls section and more detail on how the objectives will be structured going forward is provided in the "Implementation of the policy in 2019" section below.

Implementation of the policy in 2019

Base salary

	Salary effective from 1 August 2018	Percentage increase
Group chief executive – Preben Prebensen	£550,000	0.0%
Group finance director – Jonathan Howell[1]	£415,000	0.0%
Group finance director – Mike Morgan[2]	£400,000	–
Group head of legal and regulatory affairs – Elizabeth Lee	£337,500	0.0%

1 For the period 1 August 2018 to the 2018 Annual General Meeting.
2 Salary effective from the 2018 Annual General Meeting.

Base salaries were determined with reference to the ED's role and experience, increases for the broader population and external factors. The Committee determined that it was appropriate for the EDs' salaries not to be increased, in line with the salary guidance for all senior employees. The average salary increase across the wider employee population was 3%.

The EDs will receive benefits in line with those outlined in the remuneration policy table on page 82. There will be no increases to the allowances for benefits other than any potential increase in the cost of providing them.

The current EDs will continue to receive a cash allowance in lieu of a pension equivalent to 22.5% of base salary. Mike Morgan, whose appointment as the new group finance director will take effect on the date of the 2018 Annual General Meeting, will receive 10% of base salary cash allowance in lieu of a pension less employer's national insurance contributions, in line with the level of benefit offered to the general employee population.

2019 annual bonus (i.e. bonus awarded in respect of the 2019 performance year)

			Weightings		Vesting ranges
Nature of measures	Choice of measures	Targets	Group chief executive and group finance director	Group head of legal and regulatory affairs	All
Financial	RoE	12 to 20%	60%	40%	Threshold – 33%[2] Maximum – 100%
Non-financial	Balanced scorecard: • Strategic objectives • People and customers • Risk, conduct and compliance	Discretionary assessment[1]	40%	60%	Minimum – 0% Maximum – 100%

1 Due to commercial sensitivity, the details of the performance targets and achievement against those will be outlined in the 2019 Annual Report on Remuneration.
2 Performance below threshold on the RoE measure would result in zero vesting of the financial measure.

For the current EDs, annual bonuses will be subject to the same caps as applied in respect of the 2018 performance year.

Mike Morgan will have a maximum bonus potential of 175% of salary following his appointment to the board. His annual bonus relating to the proportion of the year before his appointment as group finance director will be determined in line with other group Executive Committee members, and his annual bonus for the proportion of the year as an ED will be determined as per the above table.

RoE continues to be our long-standing metric for the financial element. The Committee considers it to be the primary measure of business performance, as it provides the strongest evidence of adherence to the business model.

Directors' Remuneration Report continued

2018 LTIP (i.e. LTIP awarded in respect of the 2018 to 2020 cycle)

The 2018 LTIP awards due to be granted in October 2018 are shown in the table below.

	Chief executive **Preben Prebensen**	Group finance director **Jonathan Howell**	Group head of legal and regulatory affairs **Elizabeth Lee**
2018 LTIP award[1]	£1,890,000	–	£700,000
Percentage change in LTIP award from 2017	0%	–	0%
2018 LTIP award as a percentage of 2018 salary	344%	–	207%

1 Mike Morgan will be granted a 2018 LTIP of £608,000.

The 2018 LTIP targets are detailed in the table below.

Nature of measures	Choice of measures	Targets	Weightings	Vesting ranges
Financial	Adjusted EPS growth	10 to 30% over 3 years	35%	Threshold – 25% Maximum – 100%
	RoE	12 to 20%[1]	35%	Minimum – 25% Maximum – 100%
Non-financial	Risk management objectives	Discretionary assessment against specific goals	30%	Threshold – 25% Maximum – 100%

1 Average over three-year performance period.

The Committee believes these targets are appropriately stretching and effectively align the EDs' interests with those of shareholders. Due to commercial sensitivity, the full details of the performance targets will be outlined in the Directors' Remuneration Reports throughout the performance period.

In order to provide greater alignment of EDs' compensation to the key long-term risk measures, the Committee intends to focus the number of risk, conduct and compliance objectives within the risk management objectives. Objectives to be included for the 2018 LTIP are:

Measure

Further progress our plans towards an Internal Ratings Based ("IRB") approach
Embed the culture framework of the organisation
Maintain and improve our relationships with regulators, and monitor their evolving agendas
Continue to enhance our resilience to operational risks

Relative importance of spend on pay

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

	2018 £ million	2017 £ million
Remuneration paid	**300.1**	283.3
Distributions to shareholders[1]	**94.0**	89.3

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

Change in remuneration of the chief executive

The following table shows how the remuneration of the chief executive changed compared to the general employee population for the 2018 financial year. The Committee deemed it appropriate for Preben Prebensen to receive a salary increase lower than the general employee population. The change in bonus for Preben Prebensen primarily reflects the achievement against the RoE outlined on page 89. The average bonus for the general employee population primarily increased in line with AOP as shown on page 1.

	Average change in salary for 2018 (from 1 August 2017)[1]	Average change in benefits for 2018 (from 1 August 2017)[2]	Average change in annual bonus for 2018[3]
Preben Prebensen	1%	1%	(3.7%)
All employee population	2%	2%	3%

1 Calculated as the average percentage increase in salary for those eligible for an increase at 1 August 2017.
2 Calculated as the average percentage increase in benefits for those eligible for a salary increase at 1 August 2017.
3 The percentage increase in the average bonus calculated as the total bonus spend divided by the average headcount for financial years 2017 and 2018.

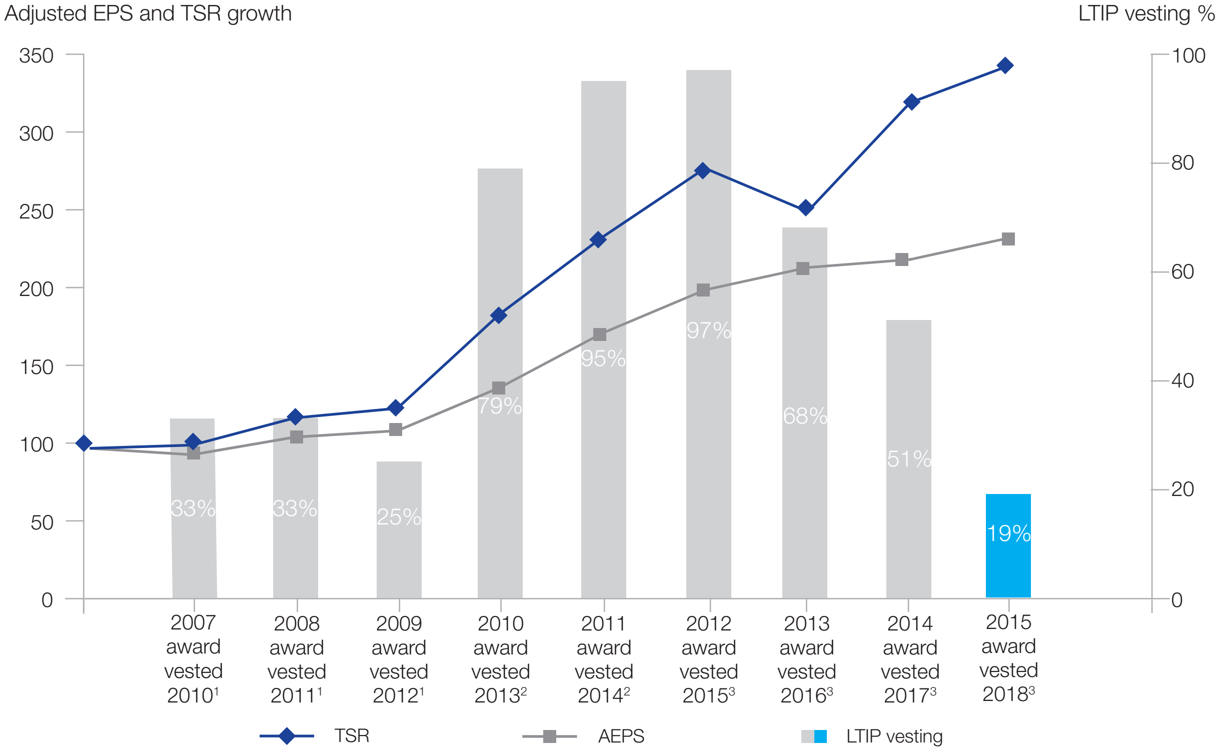
Chief executive: historical information

	2010	2011	2012	2013	2014	2015	2016	2017[1]	**2018**
Preben Prebensen									
Single figure of total remuneration ('000)[2]	£1,890	£2,187	£2,496	£5,748	£7,411	£5,962	£3,995	£3,337	**£2,545**
Annual bonus against maximum opportunity	90%	95%	90%	100%	100%	98%	95%	91%	**86%**
LTIP, SMP and Matching Share Award vesting	33%	33%	25%	79%	95%	97%	68%	51%	**19%**

1 The figures for the performance awards for 2017 have been re-calculated using the actual share price on the dates of vesting for the LTIP and Matched SMP Shares of £14.65. In the 2017 report, the three-month average to 31 July 2017 was used, given that the awards were vesting after publication of the report.
2 The figures for 2011 to 2014 include the Matching Share Awards that were granted in 2009 at the time of Preben Prebensen's appointment as chief executive.

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

The following graph and table show the level of LTIP vesting following performance testing for the last nine years.



1 Vesting was subject to two-thirds adjusted EPS and one-third TSR for awards granted in 2007 and 2008.
2 Vesting was subject to one-third adjusted EPS, one-third absolute TSR and one-third strategic goals for all awards granted between 2009 and 2011, inclusive.
3 Vesting was subject to 40% adjusted EPS, 40% absolute TSR and 20% risk management objectives for the 2012 to 2015 awards.

Note: This graph shows the vesting percentage of the LTIP compared with the adjusted EPS rebased to 100 at 31 July 2009, and the TSR based on £100 invested in Close Brothers Group plc on 31 July 2009.

LTIP vesting for the last five years

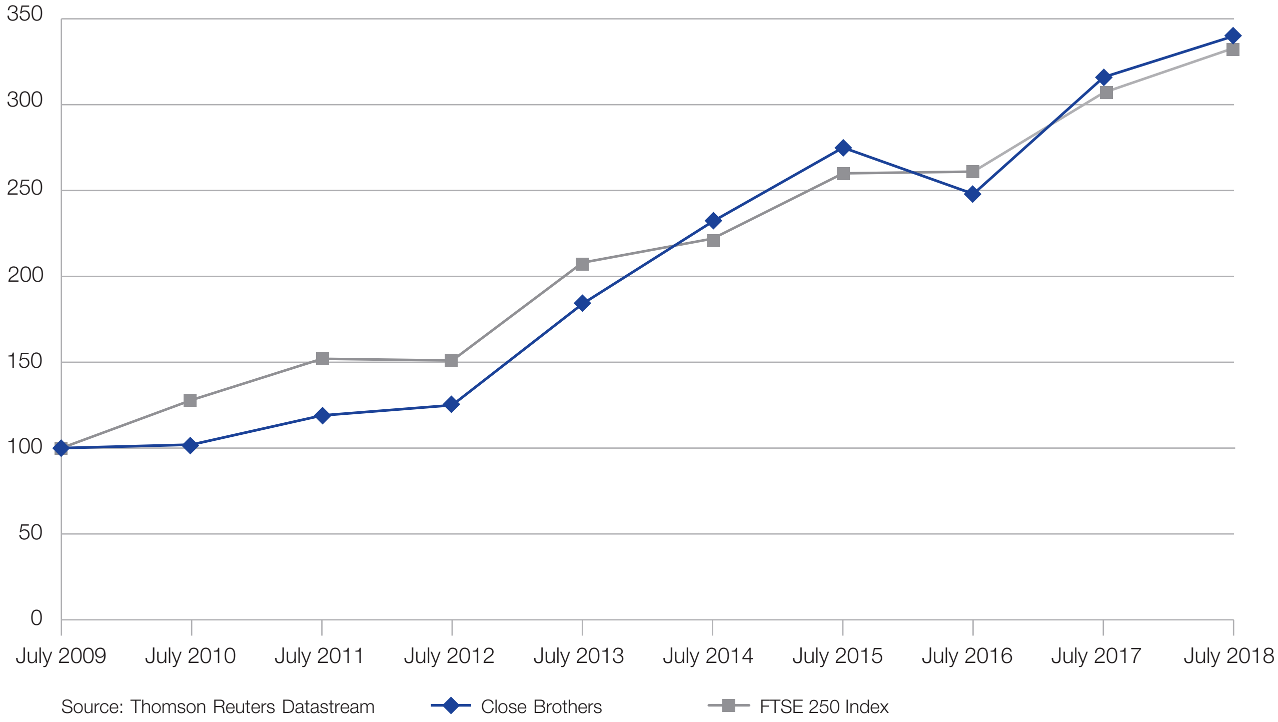
		Vesting percentage			
Year awarded	Year vested	Adjusted EPS	TSR	Goals	Total
2011[1]	2014	100%	100%	85%	**95%**
2012[2]	2015	100%	100%	87%	**97%**
2013[2]	2016	100%	25%	89%	**68%**
2014[2]	2017	56%	26%	92%	**51%**
2015[2]	**2018**	**0%**	**0%**	**93%**	**19%**

1 Vesting was subject to one-third adjusted EPS, one-third absolute TSR and one-third strategic goals for all awards granted for 2011.
2 Vesting was subject to 40% adjusted EPS, 40% absolute TSR and 20% risk management objectives for the 2012 to 2015 awards.

Directors' Remuneration Report continued

Performance graph

The graph below shows a comparison of TSR for the company's shares for the nine years ended 31 July 2018 against the TSR for the companies comprising the FTSE 250 Index.



Note:
This graph shows the value, by 31 July 2018, of £100 invested in Close Brothers Group plc on 31 July 2009 compared with the value of £100 invested in the FTSE 250 Index. The other points plotted are the intervening financial year ends. 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. The closing mid-market price of the company's shares on 31 July 2018 was 1,588p and the range during the year was 1,316p to 1,613p.

Scheme interests awarded during the year (Audited)

The face value and key details of the share awards granted in the 2018 financial year are shown in the table below. These were all delivered as nil cost options. The Deferred Share Award ("DSA") is a mandatory deferral of a portion of the annual bonus. The share price used to calculate the number of shares awarded was £14.59, the average mid-market closing price for the five days prior to grant (3 October 2017).

Name	Award type[1]	Vesting period	Performance conditions	Face value '000	Percentage vesting at threshold	Number of shares	Vesting/ performance period end date
Preben Prebensen	DSA[2]	1-3 years	No	£934	n/a	64,031	03-Oct-20
	LTIP[3,4]	3 years	Yes	£1,890	25%	129,541	03-Oct-20
Jonathan Howell	DSA[2]	1-3 years	No	£689	n/a	47,204	03-Oct-20
	LTIP[3,4]	3 years	Yes	£1,362	25%	93,352	03-Oct-20
Elizabeth Lee	DSA[2]	1-3 years	No	–	n/a	–	03-Oct-20
	LTIP[3,4]	3 years	Yes	£700	25%	47,979	03-Oct-20

1 The awards are all delivered as nil cost options.
2 The DSA vests in equal tranches over three years.
3 Performance conditions are the same as the 2018 LTIP targets, detailed on page 96.
4 LTIP granted in 2017 have an additional two-year holding period.

External appointments
Preben Prebensen received £63,750 in fees (2017: £0) from The British Land Company plc and Jonathan Howell received £77,000 in fees (2017: £77,000) from The Sage Group plc during the Close Brothers Group 2018 financial year.

Payments to past directors (Audited)
Stephen Hodges retired in November 2016 and continued to receive salary and benefits during his notice period (including £182,282 in the period August to November 2017). As disclosed on page 92 of the 2017 Annual Report, his outstanding DSA, LTIP and SMP awards receive good leaver treatment in line with the current remuneration policy.

Payments for loss of office (Audited)
There were no payments made to directors for loss of office during the year.

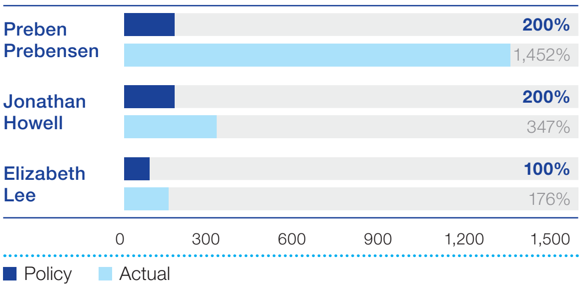
EDs' shareholding and share interests (Audited)
The interests of the directors in the ordinary shares of the group at 31 July 2018 are set out below:

Name	Shareholding requirement at 31 July 2018[1]	**Number of shares owned outright[2] 2018**	Outstanding share awards not subject to performance conditions[3]		Outstanding share awards subject to performance conditions[4]		Outstanding options[5]	
			2018	2017	**2018**	2017	**2018**	2017
Preben Prebensen	69,270	**502,961**	**153,190**	160,522	**423,898**	436,096	**1,458**	2,237
Jonathan Howell[6]	52,267	**90,577**	**111,729**	115,685	**310,739**	324,426	**–**	–
Elizabeth Lee	21,254	**37,442**	**27,901**	41,893	**159,581**	167,570	**1,542**	2,321

1 Based on the closing mid-market share price of 1,588p on 31 July 2018.
2 This includes shares owned outright by closely associated persons.
3 This includes DSA and SMP Invested Shares, which are nil cost options.
4 This includes LTIP awards and Matched SMP Shares, which are nil cost options.
5 These are comprised of SAYE options.
6 At 31 July 2018, Jonathan Howell held 500,000 of the company's subordinated loan notes due 2027.

No EDs held shares that were vested but unexercised at 31 July 2018. There were no changes in notifiable interests between 1 August 2018 and 16 September 2018, other than the purchase of shares by Preben Prebensen within the SIP which increased his shareholding to 502,980 shares.

EDs' shareholding
The chart below compares the EDs' shareholding versus shareholding policy, as a percentage of salary.



Directors' Remuneration Report continued

Details of EDs' share exercises during the year (Audited)

Name	Award type	Held at 1 August 2017	Called[1]	Lapsed	Market price on award p	Market price on calling p	Total value on calling[1] £	Dividends paid on vested shares £
Preben Prebensen	2014 DSA	5,983	5,983	–	1,429.4	1,469.2	87,900	10,324
	2015 DSA	5,178	5,178	–	1,493.4	1,469.2	76,073	6,029
	2016 DSA	24,312	24,312	–	1,378.6	1,467.9	356,866	14,101
	2014 LTIP	69,960	35,659	34,301	1,429.4	1,469.2	523,889	61,532
	2014 SMP – Invested	35,890	35,890	–	1,429.4	1,469.2	527,283	61,930
	2014 SMP – Matched	71,779	36,586	35,193	1,429.4	1,469.2	537,508	63,131
Jonathan Howell	2014 DSA	3,499	3,499	–	1,429.4	1,469.2	51,406	6,038
	2015 DSA	3,013	3,013	–	1,493.4	1,469.2	44,266	3,508
	2016 DSA	17,363	17,363	–	1,378.6	1,467.9	254,864	10,071
	2014 LTIP	52,470	26,744	25,726	1,429.4	1,469.2	392,913	46,148
	2014 SMP – Invested	27,285	27,285	–	1,429.4	1,469.2	400,861	47,082
	2014 SMP – Matched	54,569	27,814	26,755	1,429.4	1,469.2	408,633	47,995
Elizabeth Lee	2014 LTIP	27,984	14,264	13,720	1,429.4	1,467.9	209,375	24,613
	2014 SMP – Invested	13,992	13,992	–	1,429.4	1,467.9	205,383	24,144
	2014 SMP – Matched	27,984	14,264	13,720	1,429.4	1,467.9	209,375	24,613

1 These are the actual number of shares and values realised on calling. Any variances in totals are due to rounding.

Notes to the details of directors' share exercises during the year

The DSA is a mandatory deferral of a portion of the annual bonus.

The DSA, LTIP and SMP give EDs the right to call for shares in the company from the employee benefit trust or treasury shares, at nil cost, together with a cash amount representing accrued notional dividends thereon. They may be called for at any time up to 12 months from the date of vesting. The DSA, LTIP and SMP awards may be forfeited in certain circumstances if the ED leaves employment before the vesting date. The value of the awards is charged to the group's income statement in the year to which the award relates for the DSA and Invested SMP Shares, and spread over the vesting period for the LTIP and Matched SMP Share awards.

The LTIP awards are held under the 2009 LTIP and are subject to the performance criteria described in the remuneration policy on page 82. The Matched SMP Shares are subject to the same performance criteria.

Details of EDs' option exercises during the year (Audited)

Name	Award type	Held at 1 August 2017	Exercised	Lapsed	Exercise price p	Market price on exercise p	Gain on calling £
Preben Prebensen	2014 SAYE	779	779	–	1,155.0	1,400.0	1,909
Jonathan Howell	–	–	–	–	–	–	–
Elizabeth Lee	2014 SAYE	779	779	–	1,155.0	1,484.0	2,563

Single total figure of remuneration for non-executive directors (Audited)

Name	2018 Basic fee[1] £'000	2018 Committee chairman £'000	2018 Committee member £'000	2018 Senior Independent director £'000	2018 Benefits[2] £'000	2018 Total £'000	2017 Basic fee[1] £'000	2017 Committee chairman £'000	2017 Committee member £'000	2017 Senior Independent director £'000	2017 Benefits[2] £'000	2017 Total £'000
Mike Biggs[3,4]	**300**	**–**	**–**	**–**	**6**	**306**	86	–	–	–	3	89
Oliver Corbett	**67**	**30**	**10**	**–**	**–**	**107**	65	25	10	–	–	100
Geoffrey Howe	**67**	**–**	**15**	**20**	**–**	**102**	65	–	15	15	–	95
Lesley Jones	**67**	**30**	**10**	**–**	**1**	**108**	65	25	10	–	2	102
Bridget Macaskill	**67**	**30**	**10**	**–**	**10**	**117**	65	25	10	–	13	113

1 Non-executive director fees were increased with effect from 1 August 2017.
2 Benefits include travel-related expenses in respect of attendance at board meetings which are taxable. Amounts disclosed have been grossed up using the appropriate tax rate as the company pays the NEDs' tax.
3 Mike Biggs was appointed a director on 14 March 2017 and chairman from 1 May 2017. The fee paid to him in 2017 was pro-rated accordingly.
4 Mike's 2017 benefits have been restated due to timing of expense payments.

Notes to the single total figure of remuneration for non-executive directors

The fees payable to non-executive directors for the 2018 and 2019 financial years are as follows:

Role	2019	2018
Chairman[1]	**£300,000**	£300,000
Non-executive director	**£67,000**	£67,000
Supplements		
Senior independent director	**£20,000**	£20,000
Chairman of Audit Committee	**£30,000**	£30,000
Chairman of Remuneration Committee	**£30,000**	£30,000
Chairman of Risk Committee	**£30,000**	£30,000
Committee membership[2]	**£5,000**	£5,000

1 The chairman receives no other fees for chairmanship or membership of board committees.
2 No fees are payable to the chairman, or for membership, of the Nomination and Governance Committee.

Non-executive directors' share interests (Audited)

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

Name	Shares held beneficially at 31 July 2018	Shares held beneficially at 31 July 2017
Oliver Corbett	**–**	–
Geoffrey Howe	**5,000**	5,000
Lesley Jones	**–**	–
Bridget Macaskill	**2,500**	2,500
Mike Biggs	**500**	–

There were no changes in notifiable interests between 1 August 2018 and 16 September 2018.

This report was approved by the board of directors on 25 September 2018 and signed on its behalf by:

Bridget Macaskill
Chairman of the Remuneration Committee

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

Report on the Audit of the Financial Statements

Opinion

In our opinion:

- Close Brothers Group plc's group ("the group") financial statements and parent company financial statements (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 2018 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("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 (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); 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.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated income statement and consolidated statement of comprehensive income for the year ended 31 July 2018; the consolidated and company balance sheets as at 31 July 2018; the consolidated and company statements of changes in equity; the consolidated cash flow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

Other than those disclosed in the Audit Committee Report, we have provided no non-audit services to the group or the parent company in the period from 1 August 2017 to 31 July 2018.

Our audit approach

Overview of our audit

- Overall Group materiality: £13.5 million, based on 5% of profit before tax.
- Overall parent company materiality: £6.5 million based on 1% of total assets.
- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors (including history of misstatement through fraud or error).
- We performed audit procedures over components considered financially significant in the context of the group (full scope audit) or in the context of individual primary statement account balances (audit of specific account balances). We performed other procedures including testing entity level controls, information technology general controls and analytical review procedures to mitigate the risk of material misstatement in the residual components.

The key audit matters were:

- impairment of loans and advances to customers;
- risk of material misstatement in revenue due to error in applying the effective interest rate ("EIR") method; and
- the adoption of IFRS 9.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the group and parent company financial statements, including, but not limited to, the Companies Act 2006, UK tax legislation and Listing Rules of the Financial Conduct Authority ("FCA"). Our tests included, but were not limited to, review of correspondence with and reports to the regulators, review of correspondence with legal advisors, enquiries of management, and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

First year audit considerations

Prior to the commencement of the current financial year and our formal appointment in November 2017, PricewaterhouseCoopers LLP ("PwC") had to become independent of the group. This involved PwC ceasing non-permissible commercial and personal financial and business relationships for the firm, partners and staff. During this time, we met with management across the group to understand the business and to gather information which we needed to plan our first audit effectively. We met with the former auditors and attended the Board Audit Committee meetings throughout the 2017 audit cycle to understand the key audit matters as and when they arose. We also reviewed the audit working papers of the former auditors to gain sufficient comfort over the 2018 opening balance sheet and comparative financial information. Our review also focused on how they had responded to the key management judgements used in preparing the financial statements and work performed over key business processes across the group.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers (group) The loan impairment provisions of £39.1 million represented approximately 0.54% of loans and advances to customers. The income statement charge for the year was £46.7 million. Management exercises significant judgement in order to determine the timing of recognition and quantum of provisions in respect of loss events which have occurred at the balance sheet date. The principal judgements are: • selection of the measurement technique which is most appropriate to each type of loan; • the use of historical experience to inform future outcomes and the modification of such experience to reflect conditions at the balance sheet date through the use of overlays; • the estimation of timing and quantum of realising collateral in respect of impaired loans together with other future cash flows; and • the quantum of provisions in respect of losses incurred but not identified at the balance sheet date. Management applies an individual assessment to individually significant loans which includes estimation of expected future cash flows including the ultimate realisation of available collateral. Loans which are smaller in size and comprise homogeneous portfolios are evaluated on a collective basis using models which incorporate assumptions including probability of default and loss given default. Relevant references: • note 2, critical accounting estimates and judgements on page 119; and • the key accounting judgements section of the Audit Committee Report on page 76.	We performed walkthroughs to understand management's processes and tested key controls around the determination of impairment provision, including: • the identification of impairment events; • the measurement of provisions for individually significant loans; • the assessment to ensure that the collective impairment models are appropriately calibrated; and • the assessment of the outputs of the group's impairment models. We found that these key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on them for the purposes of our audit. In addition we performed the following substantive procedures: **Collective impairments** We understood and critically assessed the appropriateness of model assumptions used. This included challenging whether the portfolios were appropriately segmented and whether historical experience was representative of current circumstances. We also used our credit modelling experts in assessing elements of the modelling methodologies. We performed testing over the completeness and accuracy of data from underlying loan systems. We also assessed whether customer forbearance plans had been appropriately reflected in the impairment models. Based on the evidence obtained, we found that the methodologies, modelled assumptions and data used within the models to modelled outputs to be appropriate. **Specific impairments** We critically assessed the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate an individual impairment provision. We tested a sample of performing loans, including loans with characteristics that might imply an impairment indicator existed, to assess whether these loans had any impairment indicators that management had not identified. For a sample of impaired loans, we understood the latest developments in relation to each case and the key judgements relevant to determining the provision. We re-performed management's impairment calculation, tested key inputs including the expected future cash flows, discount rates and the valuation of collateral held. Based on the evidence obtained, we found the provisions for individually assessed loans to be materially appropriate.

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

Key audit matter	How our audit addressed the key audit matter
Risk of material misstatement in revenue due to error in applying the effective interest rate ("EIR") method (group) The group's net interest income was £486.1 million. Interest income on loans and advances made by the group is recognised using the effective interest rate method and any fees, commissions or transaction costs that form an integral part of the financial instrument, are included in the effective interest rate. Judgement is required to determine whether applicable fees and costs should be included in the effective interest rate, or whether immediate revenue recognition should be applied. The spreading of fees and costs uses both manual and automated processes. The judgement and manual nature applied across different businesses throughout the bank results in a higher risk of material misstatement due to error or fraud. Relevant references: • note 2, critical accounting estimates and judgements on page 119; • the key accounting judgements section of the Audit Committee Report on page 76; and • note 1, significant accounting policies that includes the group's revenue recognition policy on pages 116 and 117.	We have understood management's process and tested key controls around revenue recognition, including: • walkthroughs for the main lending products to understand the processes and key controls for the identification, recognition and calculation of fees, commissions and costs under the effective interest rate method; and • the reconciliations between the models used to calculate the effective interest rate adjustments for the fees and the general ledger. We found that these key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on these key controls for the purposes of our audit. In addition we have performed the following substantive procedures: • we tested the effective interest rate models by assessing their design, critically challenging relevant assumptions, and testing the accuracy of model computations by re-performing a sample of effective interest rate calculations; and • we agreed a sample of loan agreements and cash receipts to the inputs used within the effective interest rate models, and assessed whether the appropriate fees and costs had been reflected in the effective interest rate. Based on the evidence obtained, we found that the assumptions, models and data used were materially appropriate.
Adoption of IFRS 9 (group) On 1 August 2018, the group transitioned to IFRS 9: Financial Instruments ("IFRS 9") which replaced IAS 39. The estimated transition impact is disclosed in note 1 to the Financial Statements in accordance with IAS 8. Disclosures in 2018 are intended to provide users with an understanding of the estimated impact of the new standard, and as a result are more limited than the disclosure to be included in the 2019 financial statements. The new standard measures impairment using an expected credit loss ("ECL") approach and applies a different approach to measurement and classification of financial instruments. The application of the new standard requires management to exercise judgement in a number of key areas: • model design and configuration; • the approach to incorporating future economic conditions; and • the determination of significant changes in credit risk. We have deemed the disclosure of the impact of IFRS 9 an area of focus because of the significant changes introduced by the standard. Relevant references: • note 2, critical accounting estimates and judgements on page 119; and • the key accounting judgements section of the Audit Committee Report on page 76.	We understood management's process and tested key controls supporting management's estimate of the transition adjustment focusing on: • model development, validation and approval to ensure compliance with IFRS 9 requirements; • review and approval of key assumptions, judgements and forward-looking information prior to use in the models; • the integrity of data used as inputs to the models including the transfer of data between source systems and the impairment models; and • review and approval of the output of IFRS 9 models. We noted the key controls were designed and operated effectively and therefore determined that we could place reliance on these key controls for the purposes of our audit. We understood and critically assessed the ECL models developed by the group. This included using our credit modelling specialists in our assessment of judgements and assumptions supporting the ECL requirements of the standard. We re-performed certain model calculations to confirm the risk parameter inputs. We tested the code used for a sample of ECL models. We assessed the reasonableness of forward-looking information incorporated into the impairment calculations considering the multiple economic scenarios chosen and the weighting applied to each. We tested the underlying disclosures related to the transition impact and reconciled the disclosed impact to underlying accounting records. Based on the evidence obtained, we found that the methodologies, modelled assumptions, data used within the models and resulting outputs and disclosures are materially appropriate.

We determined that there were no other key audit matters applicable to the parent company to communicate in our report.

Scope of our audit

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the parent company, the accounting processes and controls, and the industry in which they operate.

The group is structured into three primary divisions being Banking, Winterflood Securities and Asset Management. The Bank is subsequently divided into Retail, Commercial and Property segments. The consolidated financial statements are a consolidation of these components.

In establishing the overall approach to the group audit, we determined the type of work that is required to be performed over the components by us, as the group engagement team, or auditors within PwC UK operating under our instruction ("component auditors"). All work relating to the UK audit opinion is performed by PwC UK.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. This included regular communication with the component auditors throughout the audit, the issuance of instructions, a review of the results of their work on the key audit matters and formal clearance meetings.

Any components which were considered individually financially significant in the context of the group's consolidated financial statements (defined as components which represent more than or equal to 10% of the total profit before tax of the consolidated group) were considered full scope components. We considered the individual financial significance of other components in relation to primary statement account balances.

We considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). Any component which was not already included as a full scope audit component but was identified as being individually financially significant in respect of one of more account balances was subject to specific audit procedures over those account balances. Inconsequential components (defined as components which did not represent a reasonable possibility of a risk of material misstatement either individually or in aggregate) were eliminated from further consideration for specific audit procedures although they were subject to group-level analytical review procedures. All remaining components which were neither inconsequential nor individually financially significant were within our audit scope, with the risk of material misstatement mitigated through audit procedures including testing of entity level controls, information technology general controls and group and component level analytical review procedures.

Certain account balances were audited centrally by the group engagement team.

Components within the scope of our audit contributed 98.0% of group total assets and 91.8% of profit after tax.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Overall materiality	£13.5 million.	£6.5 million.
How we determined it	5% of profit before tax.	1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, profit before tax is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.	We have selected total assets as an appropriate benchmark for parent company materiality. Profit-based benchmarks are not considered appropriate for parent company materiality as the Group is not required to disclose a parent company income statement.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £2.8 million and £12.2 million. Local statutory materiality levels applied were less than group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £500,000 (group audit) and £500,000 (parent company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

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

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern.
We are required to report if the directors' statement relating to going concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, ISAs (UK) and the Listing Rules of the Financial Conduct Authority ("FCA") require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 July 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

We have nothing material to add or draw attention to regarding:

- the directors' confirmation on page 65 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated; or
- the directors' explanation on page 64 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- the statement given by the directors, on page 65, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and parent company obtained in the course of performing our audit;
- the section of the Annual Report on page 76 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; and
- the directors' statement relating to the parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Directors' Responsibilities Statement set out on page 65, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other Required Reporting

Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- 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
- certain disclosures of directors' remuneration specified by law are not made; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee and board of directors on 17 May 2017, we were formally appointed by shareholders on 16 November 2017 to audit the financial statements for the year ended 31 July 2018 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Mark Hannam (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

25 September 2018

Consolidated Income Statement
for the year ended 31 July 2018

	Note	2018 £ million	2017[1] £ million
Interest income	4	**601.0**	574.3
Interest expense	4	**(114.9)**	(116.8)
Net interest income		**486.1**	457.5
Fee and commission income	4	**213.3**	206.4
Fee and commission expense	4	**(13.7)**	(16.7)
Gains less losses arising from dealing in securities		**100.1**	94.2
Other income	4	**65.1**	57.3
Depreciation of operating lease assets and other direct costs	16	**(45.1)**	(37.3)
Non-interest income		**319.7**	303.9
Operating income		**805.8**	761.4
Administrative expenses	4	**(480.5)**	(453.7)
Impairment losses on loans and advances		**(46.7)**	(39.0)
Total operating expenses before amortisation of intangible assets on acquisition		**(527.2)**	(492.7)
Operating profit before amortisation of intangible assets on acquisition		**278.6**	268.7
Amortisation of intangible assets on acquisition	15	**(7.4)**	(6.2)
Operating profit before tax		**271.2**	262.5
Tax	6	**(67.0)**	(68.8)
Profit after tax from continuing operations		**204.2**	193.7
Loss from discontinued operations, net of tax	7	**(2.2)**	(2.8)
Profit after tax		**202.0**	190.9
Loss attributable to non-controlling interests from continuing operations		**(0.3)**	(0.3)
Profit attributable to shareholders		**202.3**	191.2
From continuing operations			
Basic earnings per share	8	**136.2p**	130.2p
Diluted earnings per share	8	**135.3p**	129.3p
From continuing and discontinued operations			
Basic earnings per share	8	**134.7p**	128.3p
Diluted earnings per share	8	**133.8p**	127.5p
Interim dividend per share paid	9	**21.0p**	20.0p
Final dividend per share	9	**42.0p**	40.0p

1 Restated – see notes 4 and 7.

Consolidated Statement of Comprehensive Income
for the year ended 31 July 2018

	2018 £ million	2017 £ million
Profit after tax	**202.0**	190.9
Other comprehensive income/(expense) that may be reclassified to income statement from continuing operations		
Currency translation gains	**0.3**	0.4
Gains on cash flow hedging	**4.4**	4.7
Gains/(losses) on financial instruments classified as available for sale:		
Sovereign and central bank debt	**0.6**	0.7
Contingent consideration	**(0.3)**	0.3
Tax relating to items that may be reclassified	**(1.3)**	(2.3)
	3.7	3.8
Other comprehensive income/(expense) that will not be reclassified to income statement from continuing operations		
Defined benefit pension scheme gains	**1.7**	2.7
Tax relating to items that will not be reclassified	**(0.4)**	(0.5)
	1.3	2.2
Other comprehensive income, net of tax from continuing operations	**5.0**	6.0
Total comprehensive income	**207.0**	196.9
Attributable to		
Non-controlling interests	**(0.3)**	(0.3)
Shareholders	**207.3**	197.2
	207.0	196.9

Consolidated Balance Sheet
at 31 July 2018

	Note	2018 £ million	2017 £ million
Assets			
Cash and balances at central banks		**1,140.4**	805.1
Settlement balances		**512.2**	546.7
Loans and advances to banks	10	**140.2**	99.8
Loans and advances to customers	11	**7,297.5**	6,884.7
Debt securities	12	**320.6**	240.1
Equity shares	13	**32.1**	32.7
Loans to money brokers against stock advanced		**66.4**	48.6
Derivative financial instruments	14	**16.6**	27.0
Intangible assets	15	**201.3**	191.7
Property, plant and equipment	16	**226.1**	202.7
Deferred tax assets	6	**43.0**	47.4
Prepayments, accrued income and other assets	17	**187.1**	158.7
Assets classified as held for sale	7	**67.5**	–
Total assets		**10,251.0**	9,285.2
Liabilities			
Settlement balances and short positions	18	**543.1**	552.6
Deposits by banks	19	**55.2**	72.0
Deposits by customers	19	**5,497.2**	5,113.1
Loans and overdrafts from banks	19	**509.8**	330.9
Debt securities in issue	19	**1,773.4**	1,489.6
Loans from money brokers against stock advanced		**22.4**	4.3
Derivative financial instruments	14	**15.7**	11.5
Current tax liabilities		**17.4**	21.4
Accruals, deferred income and other liabilities	17	**249.6**	233.1
Subordinated loan capital	20	**217.9**	220.7
Liabilities classified as held for sale	7	**0.6**	–
Total liabilities		**8,902.3**	8,049.2
Equity			
Called up share capital	21	**38.0**	38.0
Share premium account	21	**–**	307.8
Retained earnings		**1,327.7**	906.6
Other reserves		**(16.2)**	(15.9)
Total shareholders' equity		**1,349.5**	1,236.5
Non-controlling interests		**(0.8)**	(0.5)
Total equity		**1,348.7**	1,236.0
Total liabilities and equity		**10,251.0**	9,285.2

Approved and authorised for issue by the Board of Directors on 25 September 2018 and signed on its behalf by:

Michael N. Biggs
Chairman

P. Prebensen
Chief Executive

Registered number: 520241

Consolidated Statement of Changes in Equity
for the year ended 31 July 2018

	Called up share capital £ million	Share premium account £ million	Retained earnings £ million	Other reserves: Available for sale movements reserve £ million	Other reserves: Share-based payments reserve £ million	Other reserves: Exchange movements reserve £ million	Other reserves: Cash flow hedging reserve £ million	Total attributable to equity holders £ million	Non-controlling interests £ million	Total equity £ million
At 1 August 2016	37.7	284.0	797.5	–	(14.3)	(1.1)	(6.7)	1,097.1	(0.2)	1,096.9
Profit/(loss) for the year	–	–	191.2	–	–	–	–	191.2	(0.3)	190.9
Other comprehensive income/(expense)	–	–	2.2	0.7	–	(0.4)	3.5	6.0	–	6.0
Total comprehensive income/(expense) for the year	–	–	193.4	0.7	–	(0.4)	3.5	197.2	(0.3)	196.9
Exercise of options	–	0.1	–	–	–	–	–	0.1	–	0.1
Dividends paid	–	–	(85.6)	–	–	–	–	(85.6)	–	(85.6)
Shares purchased	–	–	–	–	(12.7)	–	–	(12.7)	–	(12.7)
Shares issued	0.3	23.7	–	–	–	–	–	24.0	–	24.0
Shares released	–	–	–	–	15.8	–	–	15.8	–	15.8
Other movements	–	–	0.2	–	(0.7)	–	–	(0.5)	–	(0.5)
Share premium cancellation	–	–	–	–	–	–	–	–	–	–
Income tax	–	–	1.1	–	–	–	–	1.1	–	1.1
At 31 July 2017	38.0	307.8	906.6	0.7	(11.9)	(1.5)	(3.2)	1,236.5	(0.5)	1,236.0
Profit/(loss) for the year	–	–	202.3	–	–	–	–	202.3	(0.3)	202.0
Other comprehensive income	–	–	1.3	0.1	–	0.3	3.3	5.0	–	5.0
Total comprehensive income/(expense) for the year	–	–	203.6	0.1	–	0.3	3.3	207.3	(0.3)	207.0
Exercise of options	–	–	–	–	–	–	–	–	–	–
Dividends paid	–	–	(91.0)	–	–	–	–	(91.0)	–	(91.0)
Shares purchased	–	–	–	–	(16.0)	–	–	(16.0)	–	(16.0)
Shares issued	–	–	–	–	–	–	–	–	–	–
Shares released	–	–	–	–	12.5	–	–	12.5	–	12.5
Other movements	–	–	–	–	(0.5)	–	–	(0.5)	–	(0.5)
Share premium cancellation	–	(307.8)	307.8	–	–	–	–	–	–	–
Income tax	–	–	0.7	–	–	–	–	0.7	–	0.7
At 31 July 2018	**38.0**	**–**	**1,327.7**	**0.8**	**(15.9)**	**(1.2)**	**0.1**	**1,349.5**	**(0.8)**	**1,348.7**

Consolidated Cash Flow Statement
for the year ended 31 July 2018

	Note	2018 £ million	2017 £ million
Net cash inflow from operating activities	27(a)	**306.0**	120.0
Net cash (outflow)/inflow from investing activities			
Purchase of:			
Property, plant and equipment		**(11.4)**	(7.1)
Intangible assets – software		**(33.0)**	(33.1)
Subsidiaries and non-controlling interest	27(b)	**(1.2)**	(6.3)
Sale of:			
Property, plant and equipment		**–**	–
Equity shares held for investment		**–**	1.3
Subsidiary	27(c)	**0.9**	(0.3)
		(44.7)	(45.5)
Net cash inflow before financing activities		**261.3**	74.5
Financing activities			
Purchase of own shares for employee share award schemes		**(16.0)**	(12.7)
Equity dividends paid		**(91.0)**	(85.6)
Interest paid on subordinated loan capital and debt financing		**(10.8)**	(13.6)
Issuance/(redemption) of group bonds, net of transaction costs		**248.6**	(200.0)
Issuance of subordinated loan capital, net of transaction costs		**–**	173.7
Net increase/(decrease) in cash		**392.1**	(63.7)
Cash and cash equivalents at beginning of year		**859.6**	923.3
Cash and cash equivalents at end of year	27(d)	**1,251.7**	859.6

Company Balance Sheet
at 31 July 2018

	Note	2018 £ million	2017 £ million
Fixed assets			
Intangible assets	15	**–**	–
Property, plant and equipment	16	**–**	–
Investments in subsidiaries	30	**287.0**	287.0
		287.0	287.0
Current assets			
Amounts owed by subsidiaries due within one year		**415.2**	347.1
Amounts owed by subsidiaries due after more than one year		**312.0**	173.8
Corporation tax receivable		**3.7**	5.4
Deferred tax assets	6	**2.0**	2.6
Other debtors		**7.4**	5.3
Other investments		**0.2**	0.5
Cash at bank		**0.2**	0.2
		740.7	534.9
Creditors: amounts falling due within one year			
Debt securities in issue	19	**1.8**	–
Provisions	17	**2.2**	2.1
Other creditors		**0.8**	0.7
Accruals		**9.2**	8.8
		14.0	11.6
Net current assets		**726.7**	523.3
Total assets less current liabilities		**1,013.7**	810.3
Creditors: amounts falling due after more than one year			
Debt securities in issue	19	**247.9**	–
Subordinated loan capital		**174.1**	173.8
Provisions	17	**3.9**	4.0
Net assets		**587.8**	632.5
Capital and reserves			
Share capital	21	**38.0**	38.0
Share premium account	21	**–**	307.8
Profit and loss account		**565.7**	298.6
Other reserves		**(15.9)**	(11.9)
Shareholders' funds		**587.8**	632.5

The Company reported a profit for the financial year ended 31 July 2018 of £48.7 million (2017: £50.7 million).

Approved and authorised for issue by the Board of Directors on 25 September 2018 and signed on its behalf by:

Michael N. Biggs
Chairman

P. Prebensen
Chief Executive

Company Statement of Changes in Equity
for the year ended 31 July 2018

	Share capital £ million	Share premium account £ million	Profit and loss account £ million	Other reserves: Share-based payments reserve £ million	Other reserves: Exchange movements reserve £ million	Shareholders' funds £ million
At 1 August 2016	37.7	284.0	331.4	(14.3)	0.1	638.9
Profit for the year	–	–	50.7	–	–	50.7
Other comprehensive income/(expense)	–	–	2.2	–	(0.1)	2.1
Total comprehensive income/(expense) for the year	–	–	52.9	–	(0.1)	52.8
Exercise of options	–	0.1	–	–	–	0.1
Dividends paid	–	–	(85.6)	–	–	(85.6)
Shares purchased	–	–	–	(12.7)	–	(12.7)
Shares issued	0.3	23.7	–	–	–	24.0
Shares released	–	–	–	15.8	–	15.8
Share premium cancellation	–	–	–	–	–	–
Other movements	–	–	(0.1)	(0.7)	–	(0.8)
At 31 July 2017	38.0	307.8	298.6	(11.9)	–	632.5
Profit for the year	–	–	48.7	–	–	48.7
Other comprehensive income	–	–	1.3	–	–	1.3
Total comprehensive income for the year	–	–	50.0	–	–	50.0
Exercise of options	–	–	–	–	–	–
Dividends paid	–	–	(91.0)	–	–	(91.0)
Shares purchased	–	–	–	(16.0)	–	(16.0)
Shares issued	–	–	–	–	–	–
Shares released	–	–	–	12.5	–	12.5
Share premium cancellation	–	(307.8)	307.8	–	–	–
Other movements	–	–	0.3	(0.5)	–	(0.2)
At 31 July 2018	**38.0**	**–**	**565.7**	**(15.9)**	**–**	**587.8**

The Notes

1. Significant accounting policies

(a) Reporting entity

Close Brothers Group plc ("the company"), a public limited company incorporated and domiciled in the UK, together with its subsidiaries (collectively, "the group"), operates through five (2017: five) operating segments: Commercial, Retail, Property, Securities and Asset Management, and is primarily located within the UK.

The company financial statements ("the company accounts") have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 ''The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland'' (''FRS 102'') and the Companies Act 2006, under the provision of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

As permitted by FRS 102, the company has chosen to adopt IAS 39 Financial Instruments where applicable and taken advantage of the disclosure exemptions available under that standard in relation to the presentation of a cash flow statement, share-based payments and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements of the group. The company has also taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its company income statement and related notes.

(b) Compliance with International Financial Reporting Standards

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

Standards adopted during the year

There were no new standards adopted during the year ended 31 July 2018. The accounting policies adopted are consistent with those of the previous financial year.

Standards issued with effective dates, subject to EU endorsement, which do not impact on these financial statements

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and is effective for the group from 1 August 2018. IFRS 9 will lead to significant changes in the accounting for financial instruments, particularly with regards to impairment.

Impairment

IFRS 9 replaces the incurred loss impairment approach under IAS 39 with an Expected Credit Loss ("ECL") approach. This will result in impairment provisions being recognised earlier, as it is no longer necessary for a loss event to be incurred before a provision is recognised.

IFRS 9 will be applicable to all financial assets at amortised cost, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantees and lease receivables.

Under IFRS 9, expected credit losses are the unbiased probability weighted average credit losses determined by evaluating a range of possible outcomes and future economic conditions. The ECL model has three stages:

Stage 1: when a significant increase in credit risk since initial recognition has not occurred, 12 month expected credit losses are recognised for all stage 1 financial assets. This requirement does not exist under IAS 39 and will result in higher provisions as an ECL will be recognised for performing loans.

Stage 2: when a significant increase in credit risk since initial recognition has occurred, lifetime expected credit losses are recognised. This concept does not exist under IAS 39 and therefore it will result in an increased ECL provision as a result of recognising a lifetime ECL for loans that are not considered to be credit impaired.

Stage 3: when objective evidence exists that an asset is credit-impaired, lifetime expected credit losses are recognised. This is similar to the incurred loss approach under IAS 39; however, the definition is extended to include a 90 days past due backstop.

IFRS 9 impairment models

The measurement of expected credit losses will involve increased complexity and judgement. The group has developed new models to meet the requirements of IFRS 9 and will use three key input parameters for the calculation of expected credit losses: probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). As required by the standard, discounting will be applied using the original effective interest rate.

In assessing whether a significant increase in credit risk has occurred the group will apply a multifactor approach using quantitative measures (e.g. changes in PD or credit score since origination) and qualitative factors (e.g. watch list processes). As a backstop, all financial assets that are 30 days past due will be considered to have experienced a significant increase in credit risk.

A financial asset will only be considered credit impaired if there is objective evidence of impairment. This will include financial assets that are defaulted or 90 days past due.

IFRS 9 requires the incorporation of forward looking macro-economic information that is reasonable and supportable. The group will consider six forward looking economic scenarios on a probability-weighted basis to ensure the overall ECL represents a range of economic outcomes.

A jointly led Risk and Finance committee has implemented the necessary changes to models and credit and finance processes.

Classification and measurement

Under IFRS 9, financial assets are required to be classified based on the business model within which they are managed and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVPL"). The requirements for the classification of financial liabilities, as they currently apply to the group, remain unchanged.

The adoption of IFRS 9, from 1 August 2018, will not result in any material change to the measurement basis of financial assets. The majority of the group's financial assets are loans and advances to customers currently classified under IAS 39 as loans held at amortised cost. Under IFRS 9 they will continue to be measured at amortised cost.

The Notes continued

1. Significant accounting policies continued

Impact on 1 August 2018

The group will not restate comparatives on initial application of IFRS 9. Instead the classification and measurement and impairment requirements will be applied retrospectively by adjusting the opening balance sheet on 1 August 2018. The group estimates the transition to IFRS 9 will reduce shareholders' equity by £44.9 million reflecting an increase in impairment provisions of £59.0 million offset by a deferred tax asset of £14.1 million.

Hedge accounting

IFRS 9 contains revised requirements which aim to simplify hedge accounting. The standard does not yet address macro hedge accounting strategies, which are being considered in a separate project. IFRS 9 includes an accounting policy choice between applying the hedge accounting requirements of IFRS 9 to continue to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting because it had not yet completed its project on the accounting for macro hedging. During this time the group will continue to apply IAS 39, although it will implement the amended IFRS 7 hedge accounting disclosure requirements from 1 August 2018.

IFRS 15 Revenue from Contracts with Customers

Effective for the group from 1 August 2018, this standard replaces IAS 18 and IAS 11 and does not apply to financial instruments, lease contracts or insurance contracts which fall under the scope of other IFRSs. The standard introduces a new revenue recognition model which features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognised. The group has assessed the impact of IFRS 15 and the adoption of the standard is not anticipated to have a material impact on the group's financial statements.

IFRS 16 Leases

Effective for the group from 1 August 2019, the standard replaces IAS 17 and introduces a new recognition model that recognises all leases on a lessee's balance sheet (subject to certain exemptions). Lessor accounting is largely unchanged. The standard is not anticipated to have a material impact on the group's financial statements.

(c) Basis of preparation

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

The financial statements are prepared on a going concern basis as disclosed in the Directors' Report.

(d) Consolidation

Subsidiaries

Subsidiaries are all entities over which the group has control. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Such power generally accompanies a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which the group effectively obtains control. They are de-consolidated from the date that control ceases.

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

(e) Discontinued operations

The results of discontinued operations are shown as a single amount on the face of the consolidated income statement comprising the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised either on measurement to fair value less costs to sell or on the disposal of the discontinued operation. A discontinued operation is a CGU or a group of CGUs that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

(f) Foreign currency translation

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

The balance sheets of subsidiaries 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 equity. Such exchange differences are reclassified to the consolidated income statement in the period in which the subsidiary is disposed of.

(g) Revenue recognition

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 consolidated income statement using the effective interest rate method.

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

Fees and commissions

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

Dividends

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

Gains less losses arising from dealing in securities

Net gains arising from both buying and selling securities and from positions held in securities, including related interest income and dividends.

(h) Adjusted items

The consolidated income statement is presented on both a statutory and adjusted basis. The adjusted basis excludes exceptional items and amortisation of intangible assets on acquisition. Exceptional items are income and expense items that are material by size and/or nature and are non-recurring. The separate reporting of these items helps give an indication of the group's underlying performance. Amortisation of intangible assets on acquisition is excluded to present the performance of the group's acquired businesses consistent with its other businesses.

(i) Financial assets and liabilities (excluding derivatives)

Classification

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

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

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

This category has two sub-categories: financial assets and liabilities held for trading, and those designated at fair value through profit or loss at inception.

Financial assets and liabilities are classified as held for trading either if acquired principally for the purpose of selling in the short term, or they are derivatives (not in qualifying hedge relationships).

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

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

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

Loans and receivables

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

Available for sale

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

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

Derecognition

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

(j) Impairment of financial assets

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

Financial assets at amortised cost

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables has been incurred, the group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition. Impairment losses are assessed individually for financial assets that are individually significant and individually or collectively for assets that are not individually significant. Individually assessed financial assets which are not considered impaired may also be included in collective assessment. In making collective assessment of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics.

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

The Notes continued

1. Significant accounting policies continued

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

Financial assets carried at fair value

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

(k) Settlement accounts

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

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

Loans to money brokers against stock advanced is the cash collateral provided to these institutions for stock borrowing by the group's market-making activities and is carried at amortised cost. Interest is paid on the stock borrowed and earned on the cash deposits advanced. 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.

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

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

Rental costs under operating leases and hire purchase contracts are charged to the consolidated income statement in equal instalments over the period of the leases. Rental income from operating leases is recognised in equal instalments over the period of the leases and included in other income in the consolidated income statement.

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

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

(o) Securitisation transactions

The group securitises its own financial assets via the sale of these assets to special purpose entities, which in turn issue securities to investors. All financial assets continue to be held on the group's consolidated balance sheet together with debt securities in issue recognised for the funding – see derecognition policy (i).

(p) Offsetting financial instruments

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

(q) Derivatives and hedge accounting

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

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

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

(r) Intangible assets

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

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

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

(s) Property, plant and equipment

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

Long leasehold property	40 years
Short leasehold property	Over the length of the lease
Fixtures, fittings and equipment	3 to 5 years
Assets held under operating leases	1 to 20 years
Motor vehicles	5 years

(t) Share capital

Share issue costs

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

Dividends on ordinary shares

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

Treasury shares

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

(u) Employee benefits

The group operates defined contribution pension schemes for eligible employees as well as a defined benefit pension scheme which is closed to new members and further accrual.

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

The expected cost of providing pensions within the funded defined benefit scheme, determined on the basis of annual valuations using the projected unit method, is charged to the consolidated income statement. Actuarial gains and losses are recognised in full in the period in which they occur and recognised in other comprehensive income.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets at the balance sheet date. Both the return on investment expected in the period and the expected financing cost of the liability, as estimated at the beginning of the period, are recognised in the results for the period. Any variances against these estimates in the year form part of the actuarial gain or loss.

The assets of the scheme are held separately from those of the group in an independently managed fund.

(v) Share-based payments to employees

At 31 July 2018, the group operates four share-based award schemes: the Deferred Share Awards ("DSA") scheme, the Long Term Incentive Plan ("LTIP"), the Share Matching Plan ("SMP"), and the HMRC approved Save As You Earn ("SAYE") scheme.

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

The costs of LTIP, SMP and SAYE are 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 LTIP and SMP and the Black-Scholes pricing model for other schemes. Both models take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the company's share price over the life of the option award and other relevant factors. For non-market-based performance conditions, vesting conditions are not taken into account when measuring fair value, but are reflected by adjusting the number of shares in each award such that the amount recognised reflects the number that are expected to, and then actually do, vest. The fair value is expensed in the consolidated income statement on a straight-line basis over the vesting period, with a corresponding credit to the share-based payments reserve. At the end of the vesting period, or upon exercise, lapse or forfeit if earlier, this credit is transferred to retained earnings. Further information on the group's schemes is provided in note 26 and in the Directors' Remuneration Report.

(w) Provisions and contingent liabilities

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

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

(x) Taxes, including deferred taxes

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

To enable the tax charge to be based on the profit for the year, deferred tax is provided in full on temporary timing differences, at the rates of tax expected to apply when these differences crystallise. Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which temporary differences can be set. Deferred tax liabilities are offset against deferred tax assets when there is both a legal right to set off and an intention to settle on a net basis.

(y) Cash and cash equivalents

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

(z) Segmental reporting

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

2. Critical accounting estimates and judgements

The reported results of the group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the directors, in preparing the group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable. The group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed on an ongoing basis.

The Notes continued

2. Critical accounting estimates and judgements continued

Critical accounting judgements

In the application of the group's accounting policies, which are described in note 1, judgements that are considered by the board to have the most significant effect on the amounts in the financial statements are as follows.

Revenue recognition

Interest income is recognised using the effective interest rate method, which applies a rate that discounts estimated future cash payments or receipts relating to a financial instrument to their net carrying amount. The estimated future cash flows take into account all contractual terms and expected behavioural life of the financial instrument including transaction fees and costs and all other premiums or discounts but not future credit losses. Other fees and commissions are recognised as services are provided or on completion of the execution of a significant act.

Judgement is required in determining the fees and costs which are integral to the yield and recognised as interest income and in determining the period over which to recognise non-interest income.

Loan impairment provisions

Loan 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. Determining whether such objective evidence has arisen requires judgement.

Key sources of estimation uncertainty

Loan impairment provisions

At the balance sheet date, the directors consider that loan impairment provisions are a key source of estimation uncertainty which, depending on a range of factors such as changes in the economic environment in the UK, could result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

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

Estimating the amount and timing of future recoveries involves significant judgement, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral. At 31 July 2018, gross impaired loans were £131.0 million (31 July 2017: £135.8 million) against which a £39.1 million (31 July 2017: £52.4 million) provision was recorded. A 10% increase or decrease in expected future recoveries in respect of these impaired loans would decrease or increase provisions respectively by £9.2 million (31 July 2017: £8.3 million).

3. Segmental analysis

The directors manage the group by class of business and present the segmental analysis on that basis. The group's activities are presented in five (2017: five) operating segments: Retail, Commercial, Property, Securities and Asset Management.

In the segmental reporting information that follows, Group consists of central functions as well as various non-trading head office companies and consolidation adjustments and is presented in order that the information presented reconciles to the consolidated income statement. The Group balance sheet primarily includes treasury assets and liabilities comprising cash and balances at central banks, debt securities, customer deposits and other borrowings.

Divisions continue to charge market prices for the limited services rendered to other parts of the group. Funding charges between segments take into account commercial demands. More than 90% of the group's activities, revenue and assets are located in the UK.

	Banking Retail £ million	Banking Commercial £ million	Banking Property £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Summary income statement for the year ended 31 July 2018							
Net interest income/(expense)	195.9	160.9	129.8	(0.7)	0.1	0.1	486.1
Non-interest income	29.6	64.6	0.2	109.8	115.4	0.1	319.7
Operating income	225.5	225.5	130.0	109.1	115.5	0.2	805.8
Administrative expenses	(109.5)	(124.2)	(27.2)	(79.2)	(90.6)	(24.6)	(455.3)
Depreciation and amortisation	(9.7)	(8.0)	(3.9)	(1.8)	(1.8)	–	(25.2)
Impairment losses on loans and advances	(25.2)	(17.2)	(4.3)	–	–	–	(46.7)
Total operating expenses	(144.4)	(149.4)	(35.4)	(81.0)	(92.4)	(24.6)	(527.2)
Adjusted operating profit/(loss)[1]	81.1	76.1	94.6	28.1	23.1	(24.4)	278.6
Amortisation of intangible assets on acquisition	(0.3)	(1.6)	–	–	(5.5)	–	(7.4)
Operating profit/(loss) before tax from continuing operations	80.8	74.5	94.6	28.1	17.6	(24.4)	271.2
Operating loss before tax from discontinued operations	(3.0)	–	–	–	–	–	(3.0)
Operating profit/(loss) before tax	77.8	74.5	94.6	28.1	17.6	(24.4)	268.2
External operating income/(expense)	265.3	270.7	154.4	109.1	115.6	(109.3)	805.8
Inter segment operating (expense)/income	(39.8)	(45.2)	(24.4)	–	(0.1)	109.5	–
Segment operating income	225.5	225.5	130.0	109.1	115.5	0.2	805.8

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

	Banking Retail £ million	Banking Commercial £ million	Banking Property £ million	Securities £ million	Asset Management £ million	Group[2] £ million	Total £ million
Balance sheet information at 31 July 2018							
Total assets[1]	2,686.4	2,982.4	1,827.5	711.4	119.4	1,923.9	10,251.0
Total liabilities	–	–	–	640.3	63.9	8,198.1	8,902.3

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Balance sheet includes £1,915.0 million assets and £8,278.6 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

Equity is allocated across the group as set out below. Banking division equity, which is managed as a whole rather than on a segmental basis, reflects loan book and operating lease assets of £7,496.3 million, in addition to assets and liabilities of £1,915.0 million and £8,278.6 million respectively primarily comprising treasury balances which are included within the Group column above.

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Equity	1,132.7	71.1	55.5	89.4	1,348.7

	Banking Retail	Banking Commercial	Banking Property	Securities	Asset Management	Group	Total
Other segmental information for the year ended 31 July 2018							
Employees (average number)[1]	1,079	1,046	146	262	647	61	3,241

1 Banking segments are inclusive of a central function headcount allocation.

The Notes continued

3. Segmental analysis continued

	Banking Retail £ million	Banking Commercial £ million	Banking Property £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Summary income statement for the year ended 31 July 2017[1]							
Net interest income/(expense)	191.8	146.4	119.8	(0.9)	(0.1)	0.5	457.5
Non-interest income	26.4	66.9	(0.2)	107.6	103.0	0.2	303.9
Operating income	218.2	213.3	119.6	106.7	102.9	0.7	761.4
Administrative expenses	(99.8)	(117.4)	(24.9)	(76.7)	(83.7)	(24.9)	(427.4)
Depreciation and amortisation	(11.0)	(7.8)	(3.8)	(1.9)	(1.8)	–	(26.3)
Impairment losses on loans and advances	(24.6)	(15.5)	1.1	–	–	–	(39.0)
Total operating expenses	(135.4)	(140.7)	(27.6)	(78.6)	(85.5)	(24.9)	(492.7)
Adjusted operating profit/(loss)[2]	82.8	72.6	92.0	28.1	17.4	(24.2)	268.7
Amortisation of intangible assets on acquisition	(0.4)	(0.5)	–	–	(5.3)	–	(6.2)
Operating profit/(loss) before tax from continuing operations	82.4	72.1	92.0	28.1	12.1	(24.2)	262.5
Operating loss before tax from discontinued operations	(3.9)	–	–	–	–	–	(3.9)
Operating profit/(loss) before tax	78.5	72.1	92.0	28.1	12.1	(24.2)	258.6
External operating income/(expense)	262.0	260.9	141.8	106.7	103.2	(113.2)	761.4
Inter segment operating (expense)/income	(43.8)	(47.6)	(22.2)	–	(0.3)	113.9	–
Segment operating income	218.2	213.3	119.6	106.7	102.9	0.7	761.4

1 Restated – see note 7.
2 Adjusted operating profit/(loss) is stated before amortisation of intangible assets on acquisition, loss from discontinued operations and tax.

	Banking Retail £ million	Banking Commercial £ million	Banking Property £ million	Securities £ million	Asset Management £ million	Group[2] £ million	Total £ million
Balance sheet information at 31 July 2017							
Total assets[1]	2,702.8	2,730.4	1,629.3	699.5	113.2	1,410.0	9,285.2
Total liabilities	–	–	–	628.8	57.7	7,362.7	8,049.2

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Balance sheet includes £1,402.7 million assets and £7,490.9 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

	Banking £ million	Securities £ million	Asset Management £ million	Group £ million	Total £ million
Equity[1]	974.3	70.7	55.5	135.5	1,236.0

1 Equity of the Banking division reflects loan book and operating lease assets of £7,062.5 million, in addition to assets and liabilities of £1,402.7 million and £7,490.9 million respectively primarily comprising treasury balances which are included within the Group column in the balance sheet information above.

	Banking Retail	Banking Commercial	Banking Property	Securities	Asset Management	Group	Total
Other segmental information for the year ended 31 July 2017							
Employees (average number)[1]	1,055	1,013	139	246	600	61	3,114

1 Banking segments are inclusive of a central function headcount allocation.

4. Operating profit before tax

	2018 £ million	2017[1] £ million
Interest income		
Cash and balances at central banks	**4.0**	2.0
Loans and advances to banks	**0.3**	0.1
Loans and advances to customers	**594.4**	570.0
Other interest income	**2.3**	2.2
	601.0	574.3
Interest expense		
Deposits by banks	**(0.2)**	(0.4)
Deposits by customers	**(67.8)**	(70.2)
Borrowings	**(41.7)**	(39.9)
Other interest expense	**(5.2)**	(6.3)
	(114.9)	(116.8)
Net interest income	**486.1**	457.5

1 Restated – see note 7.

	2018 £ million	2017[1] £ million
Fee and commission income		
Banking	**87.8**	89.8
Asset Management	**116.3**	102.8
Securities	**9.2**	13.8
	213.3	206.4
Fee and commission expense[2]	**(13.7)**	(16.7)
Net fee and commission income	**199.6**	189.7

1 Restated – see note 7.
2 Prior year fee and commission expense restated to exclude other direct costs of £12.3 million, which are now presented alongside depreciation of operating lease assets on the consolidated income statement.

Fee income and expense (other than amounts calculated using the effective interest rate method) on financial instruments that are not at fair value through profit or loss were £87.8 million (2017: £89.8 million) and £11.5 million (2017: £14.0 million) respectively.

Fee income and expense arising from trust and other fiduciary activities amounted to £116.3 million (2017: £102.8 million) and £1.7 million (2017: £2.2 million) respectively.

	2018 £ million	2017 £ million
Other income		
Operating lease assets rental income	**56.3**	50.0
Other	**8.8**	7.3
	65.1	57.3

	2018 £ million	2017[1] £ million
Administrative expenses		
Staff costs:		
Wages and salaries	**247.0**	234.0
Social security costs	**35.9**	33.0
Share-based awards	**6.0**	6.0
Pension costs	**11.2**	10.3
	300.1	283.3
Depreciation and amortisation	**25.2**	26.3
Other administrative expenses	**155.2**	144.1
	480.5	453.7

1 Restated – see note 7.

The Notes continued

5. Information regarding the auditor

	2018 £ million	2017 £ million
Fees payable		
Audit of the company's annual accounts	**0.2**	0.3
Audit of the company's subsidiaries pursuant to legislation	**1.5**	1.0
Other services pursuant to legislation	**0.3**	0.4
Other services	**0.2**	0.4
	2.2	2.1

The auditor of the group was PricewaterhouseCoopers LLP (2017: Deloitte LLP).

6. Taxation

	2018 £ million	2017[1] £ million
Tax charged/(credited) to the income statement		
Current tax:		
UK corporation tax	**64.7**	65.9
Foreign tax	**1.5**	2.1
Adjustments in respect of previous years	**(2.3)**	(0.6)
	63.9	67.4
Deferred tax:		
Deferred tax charge for the current year	**1.1**	0.5
Adjustments in respect of previous years	**2.0**	0.9
	67.0	68.8
Tax on items not charged/(credited) to the income statement		
Current tax relating to:		
Financial instruments classified as available for sale	**–**	0.2
Share-based payments	**(0.3)**	(1.0)
Deferred tax relating to:		
Cash flow hedging	**1.1**	1.2
Defined benefit pension scheme	**0.4**	0.5
Financial instruments classified as available for sale	**0.2**	0.1
Share-based payments	**(0.4)**	(0.1)
Currency translation gains	**–**	0.8
	1.0	1.7
Reconciliation to tax expense		
UK corporation tax for the year at 19.0% (2017: 19.7%) on operating profit	**51.5**	51.7
Gain on sale of subsidiary	**–**	(0.3)
Effect of different tax rates in other jurisdictions	**(0.2)**	(0.4)
Disallowable items and other permanent differences	**1.1**	0.9
Banking surcharge	**15.1**	14.5
Deferred tax impact of (increased)/decreased tax rates	**(0.2)**	2.1
Prior year tax provision	**(0.3)**	0.3
	67.0	68.8

1 Restated – see note 7.

The standard UK corporation tax rate for the financial year is 19.0% (2017: 19.7%). However, an additional 8% surcharge applies to banking company profits as defined in legislation. The effective tax rate of 24.7% (2017: 26.2%) is above the UK corporation tax rate primarily due to the surcharge applying to most of the group's profits.

Movements in deferred tax assets and liabilities were as follows:

	Capital allowances £ million	Pension scheme £ million	Share-based payments and deferred compensation £ million	Available for sale assets £ million	Cash flow hedging £ million	Intangible assets £ million	Other £ million	Total £ million
Group								
At 1 August 2016	44.9	(0.3)	10.2	–	2.3	(2.6)	0.7	55.2
(Charge)/credit to the income statement	(1.5)	–	(0.8)	–	–	1.1	(0.2)	(1.4)
Charge to other comprehensive income	(0.8)	(0.5)	–	(0.1)	(1.2)	–	–	(2.6)
Credit to equity	–	–	0.1	–	–	–	–	0.1
Acquisitions	–	–	–	–	–	(3.9)	–	(3.9)
At 31 July 2017	42.6	(0.8)	9.5	(0.1)	1.1	(5.4)	0.5	47.4
(Charge)/credit to the income statement	(4.2)	0.1	(0.3)	–	–	1.3	–	(3.1)
Charge to other comprehensive income	–	(0.4)	–	(0.2)	(1.1)	–	–	(1.7)
Credit to equity	–	–	0.4	–	–	–	–	0.4
Acquisitions	–	–	–	–	–	–	–	–
At 31 July 2018	**38.4**	**(1.1)**	**9.6**	**(0.3)**	**–**	**(4.1)**	**0.5**	**43.0**

	Capital allowances £ million	Pension scheme £ million	Share-based payments and deferred compensation £ million	Total £ million
Company				
At 1 August 2016	0.3	(0.3)	3.5	3.5
Charge to the income statement	(0.1)	–	(0.5)	(0.6)
(Charge)/credit to statement of recognised gains and losses	–	(0.5)	0.2	(0.3)
At 31 July 2017	0.2	(0.8)	3.2	2.6
Credit/(charge) to the income statement	–	0.1	(0.3)	(0.2)
Charge to statement of recognised gains and losses	–	(0.4)	–	(0.4)
At 31 July 2018	**0.2**	**(1.1)**	**2.9**	**2.0**

As the group has been and is expected to continue to be consistently profitable, the full deferred tax assets have been recognised.

7. Discontinued operations and non-current assets held for sale

On 14 September 2018, the group announced the sale of Close Brothers Retail Finance, which provides unsecured retail point of sale finance to consumers, to Klarna Bank AB.

At the balance sheet date, the business fulfilled the requirements of IFRS 5 to be classified as "discontinued operations" in the consolidated income statement. Additionally, the assets that have not yet been sold are presented as "held for sale" in the 31 July 2018 consolidated balance sheet.

Results of discontinued operations

	2018 £ million	2017 £ million
Operating income	**6.6**	4.2
Operating expenses	**(7.2)**	(6.9)
Impairment losses on loans and advances	**(2.3)**	(1.2)
Operating loss before tax	**(2.9)**	(3.9)
Tax	**0.8**	1.1
Impairment of plant, property and equipment and intangible assets	**(0.1)**	–
Loss after tax	**(2.2)**	(2.8)

The Notes continued

7. Discontinued operations and non-current assets held for sale continued

Assets and liabilities held for sale

The major classes of assets and liabilities classified as held for sale are as follows:

	2018 £ million
Balance sheet	
Intangible assets	0.9
Loans and advances to customers	66.2
Other assets	0.4
Total assets classified as held for sale	**67.5**
Other liabilities	0.6
Total liabilities classified as held for sale	**0.6**

Cash flow from discontinued operations

	2018 £ million	2017 £ million
Net cash flow from operating activities	**(31.9)**	(14.4)
Net cash flow from investing activities	**(0.4)**	(0.3)
Net cash flow from financing activities	**–**	–

8. Earnings per share

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

	2018	2017[1]
Continuing operations		
Basic	**136.2p**	130.2p
Diluted	**135.3p**	129.3p
Adjusted basic[2]	**140.2p**	133.6p
Adjusted diluted[2]	**139.3p**	132.7p
Continuing and discontinued operations		
Basic	**134.7p**	128.3p
Diluted	**133.8p**	127.5p

1 Restated – see note 7.
2 Excludes amortisation of intangible assets on acquisition and their tax effects.

	2018 £ million	2017 £ million
Profit attributable to shareholders	**202.3**	191.2
Less loss from discontinued operations, net of tax	**(2.2)**	(2.8)
Profit attributable to shareholders on continuing operations	**204.5**	194.0
Adjustments:		
Amortisation of intangible assets on acquisition	**7.4**	6.2
Tax effect of adjustments	**(1.3)**	(1.2)
Adjusted profit attributable to shareholders on continuing operations	**210.6**	199.0

	2018 million	2017 million
Average number of shares		
Basic weighted	**150.2**	149.0
Effect of dilutive share options and awards	**1.0**	1.0
Diluted weighted	**151.2**	150.0

9. Dividends

	2018 £ million	2017 £ million
For each ordinary share		
Final dividend for previous financial year paid in November 2017: 40.0p (2016: 38.0p)	**59.7**	56.0
Interim dividend for current financial year paid in April 2018: 21.0p (2017: 20.0p)	**31.3**	29.6
	91.0	85.6

A final dividend relating to the year ended 31 July 2018 of 42.0p, amounting to an estimated £62.7 million, is proposed. This final dividend, which is due to be paid on 20 November 2018 to shareholders on the register at 12 October 2018, is not reflected in these financial statements.

10. Loans and advances to banks

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	Total £ million
At 31 July 2018	**125.5**	**0.5**	**9.2**	**2.5**	**2.5**	**140.2**
At 31 July 2017	71.8	8.8	1.7	8.7	8.8	99.8

11. Loans and advances to customers

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Impairment provisions £ million	Total £ million
At 31 July 2018	**77.3**	**2,135.8**	**2,301.1**	**1,324.3**	**1,402.3**	**95.8**	**(39.1)**	**7,297.5**
At 31 July 2017	59.3	1,914.3	2,115.2	1,340.7	1,431.6	76.0	(52.4)	6,884.7

	2018 £ million	2017 £ million
Impairment provisions on loans and advances to customers		
At 1 August	**52.4**	59.7
Charge for the year	**46.7**	40.2
Amounts written off net of recoveries	**(60.0)**	(47.5)
At 31 July	**39.1**	52.4
Loans and advances to customers comprise		
Hire purchase agreement receivables	**2,852.4**	2,842.9
Finance lease receivables	**447.6**	418.9
Other loans and advances	**3,997.5**	3,622.9
At 31 July	**7,297.5**	6,884.7

At 31 July 2018, gross impaired loans were £131.0 million (31 July 2017: £135.8 million) and equate to 1.8% (31 July 2017: 2.0%) of the gross loan book before impairment provisions. The majority of the group's lending is secured and therefore the gross impaired loans quoted do not reflect the expected loss.

The Notes continued

11. Loans and advances to customers continued

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

	2018 £ million	2017 £ million
Gross investment in finance leases and hire purchase agreement receivables due:		
Within one year	**1,387.5**	1,356.1
Between one and five years	**2,372.1**	2,396.9
After more than five years	**66.0**	26.1
	3,825.6	3,779.1
Unearned finance income	**(513.3)**	(501.6)
Present value of minimum lease and hire purchase agreement payments	**3,312.3**	3,277.5
Of which due:		
Within one year	**1,202.1**	1,174.2
Between one and five years	**2,058.1**	2,080.9
After more than five years	**52.1**	22.4
	3,312.3	3,277.5

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £5,978.8 million (2017: £5,738.6 million). The average effective interest rate on finance leases approximates to 9.6% (2017: 10.0%). 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.

12. Debt securities

	Held for trading £ million	Available for sale £ million	Loans and receivables £ million	Total £ million
Long trading positions in debt securities	**25.6**	**–**	**–**	**25.6**
Certificates of deposit	**–**	**–**	**250.5**	**250.5**
Sovereign and central bank debt	**–**	**44.5**	**–**	**44.5**
At 31 July 2018	**25.6**	**44.5**	**250.5**	**320.6**

	Held for trading £ million	Available for sale £ million	Loans and receivables £ million	Total £ million
Long trading positions in debt securities	16.2	–	–	16.2
Certificates of deposit	–	–	180.3	180.3
Sovereign and central bank debt	–	43.6	–	43.6
At 31 July 2017	16.2	43.6	180.3	240.1

Movements on the book value of sovereign and central bank debt comprise:

	2018 £ million	2017 £ million
Sovereign and central bank debt at 1 August	**43.6**	–
Additions	**–**	41.6
Currency translation differences	**–**	1.7
Movement in value	**0.9**	0.3
Sovereign and central bank debt at 31 July	**44.5**	43.6

13. Equity shares

	31 July 2018 £ million	31 July 2017 £ million
Long trading positions	**31.6**	31.9
Other equity shares	**0.5**	0.8
	32.1	32.7

Movements on the book value of other equity shares comprise:

	2018 £ million	2017 £ million
Other equity shares held at 1 August	**0.8**	2.1
Disposals	**(0.3)**	(1.4)
Currency translation differences	**–**	0.1
Movement in value of:		
Equity shares classified as available for sale	**–**	–
Other equity shares held at 31 July	**0.5**	0.8

14. Derivative financial instruments

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

	31 July 2018			31 July 2017		
	Notional value £ million	Assets £ million	Liabilities £ million	Notional value £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	**120.3**	**0.1**	**0.7**	118.9	0.1	0.7
Interest rate contracts	**3,530.9**	**16.5**	**15.0**	3,661.6	26.9	10.8
	3,651.2	**16.6**	**15.7**	3,780.5	27.0	11.5

Notional amounts of interest rate contracts totalling £2,781.4 million (31 July 2017: £2,513.1 million) and exchange rate contracts totalling £nil (31 July 2017: £nil) have a residual maturity of more than one year.

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

	31 July 2018			31 July 2017		
	Notional value £ million	Assets £ million	Liabilities £ million	Notional value £ million	Assets £ million	Liabilities £ million
Cash flow hedges						
Interest rate contracts	**719.9**	**1.4**	**1.3**	781.7	0.5	4.7
Fair value hedges						
Interest rate contracts	**1,202.3**	**14.1**	**12.1**	1,225.1	24.6	4.1

The cash flow hedges relate to exposure to future interest payments or receipts on recognised financial instruments and on forecast transactions for periods of up to eight (2017: seven) years; there was immaterial ineffectiveness. The cash flow hedge amounts that were removed from equity and included in the consolidated income statement for the years ended 31 July 2018 and 2017 were immaterial. The gain recognised in equity for cash flow hedges during the year was £3.3 million (2017: £3.5 million).

The fair value hedges seek to mitigate the interest rate risk in recognised financial instruments; the gain on the hedged items was £18.9 million (2017: £19.1 million gain) which was offset by a loss of £18.9 million (2017: £19.5 million loss) on the hedging instrument.

The Notes continued

15. Intangible assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Group total £ million	Company software £ million
Cost					
At 1 August 2016	140.8	104.6	44.3	289.7	0.4
Additions	16.9	31.1	22.7	70.7	–
Disposals	(7.0)	(4.1)	–	(11.1)	–
At 31 July 2017	150.7	131.6	67.0	349.3	0.4
Additions	–	36.2	–	36.2	–
Disposals	–	(7.0)	–	(7.0)	–
At 31 July 2018	**150.7**	**160.8**	**67.0**	**378.5**	**0.4**
Amortisation and impairment					
At 1 August 2016	54.9	59.1	27.8	141.8	0.4
Amortisation charge for the year	–	17.2	6.2	23.4	–
Disposals	(7.0)	(0.6)	–	(7.6)	–
At 31 July 2017	47.9	75.7	34.0	157.6	0.4
Amortisation charge for the year	–	16.6	7.4	24.0	–
Disposals	–	(4.4)	–	(4.4)	–
At 31 July 2018	**47.9**	**87.9**	**41.4**	**177.2**	**0.4**
Net book value at 31 July 2018	**102.8**	**72.9**	**25.6**	**201.3**	**–**
Net book value at 31 July 2017	102.8	55.9	33.0	191.7	–
Net book value at 1 August 2016	85.9	45.5	16.5	147.9	–

Additions in goodwill in 2017 of £12.1 million, £3.9 million and £0.9 million and intangible assets on acquisition of £15.9 million, £5.1 million and £1.7 million relate to the 100% acquisitions of Novitas Loans Limited ("Novitas"), EOS Wealth Management Limited ("EOS") and Adrian Smith & Partners Limited ("ASPL") respectively. Novitas is a specialist provider of secured finance to law firms and their clients and EOS and ASPL are independent financial advisers. These acquisitions are not regarded as material in the context of the group's financial statements and therefore information required for material acquisitions by IFRS 3 has not been disclosed.

The £7.0 million disposal of goodwill in 2017 relates to the sale of Asset Management's OLIM Limited business.

Intangible assets on acquisition relate to broker and customer relationships and are amortised over a period of eight to 20 years.

In the 2018 financial year, £7.4 million (2017: £6.2 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £16.6 million (2017: £17.2 million) of the amortisation charge is included in administrative expenses shown in the consolidated income statement.

Impairment tests for goodwill

At 31 July 2018, goodwill has been allocated to nine individual CGUs. Seven are within the Banking division, one is the Securities division and the remaining one is the Asset Management division. Goodwill impairment reviews are carried out annually by assessing the recoverable amount of the group's CGUs, which is the higher of fair value less costs to sell and value in use. The recoverable amounts for all CGUs were measured based on value in use.

A value in use calculation uses discounted cash flow projections based on the most recent board approved budgets and three year plans to determine the recoverable amount of each CGU. The key assumptions underlying management's three year plans, which are based on past experience and forecast market conditions, are expected market-making conditions in the Securities CGU, expected total client asset growth rate and revenue margin in the Asset Management CGU and expected loan book growth rates and net return on loan book in the Banking CGUs.

For cash flows beyond the group's three year planning horizon, a terminal value was calculated using a prudent annual growth rate of 0% (2017: 0%). The cash flows are discounted using a pre-tax estimated weighted average cost of capital that reflects current market rates appropriate to the CGU as set out in the following table.

At 31 July 2018, the results of the review indicate there is no goodwill impairment. The inputs used in the value in use calculations are sensitive, primarily to the impact of changes in the assumptions for future cash flows, discount rates and long-term growth rates. Having performed stress tested value in use calculations, the group believes that any reasonably possible change in the key assumptions which have been used would not lead the carrying value of any CGU to exceed its recoverable amount.

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

Cash generating unit	**31 July 2018** Goodwill £ million	**31 July 2018** Pre-tax discount rate %	31 July 2017 Goodwill £ million	31 July 2017 Pre-tax discount rate %
Winterflood Securities	**23.3**	**11.9**	23.3	13.7
Close Brothers Asset Management	**38.5**	**10.0**	38.5	9.5
Novitas	**12.1**	**10.2**	12.1	11.1
Other	**28.9**	**10.2-11.3**	28.9	11.1-12.3
	102.8		102.8	

16. Property, plant and equipment

	Leasehold property £ million	Fixtures, fittings and equipment £ million	Assets held under operating leases £ million	Motor vehicles £ million	Total £ million
Group					
Cost					
At 1 August 2016	21.5	40.2	201.4	0.4	263.5
Additions	1.6	5.4	56.2	–	63.2
Disposals	(0.7)	(0.5)	(26.8)	(0.1)	(28.1)
At 31 July 2017	22.4	45.1	230.8	0.3	298.6
Additions	0.3	11.2	79.6	–	91.1
Disposals	(0.3)	(0.5)	(41.5)	(0.2)	(42.5)
At 31 July 2018	**22.4**	**55.8**	**268.9**	**0.1**	**347.2**
Depreciation					
At 1 August 2016	9.7	26.1	41.6	0.3	77.7
Charge for the year	2.0	7.1	25.0	–	34.1
Disposals	(0.6)	(1.5)	(13.6)	(0.2)	(15.9)
At 31 July 2017	11.1	31.7	53.0	0.1	95.9
Charge for the year	2.1	6.5	31.3	–	39.9
Disposals	(0.3)	(0.2)	(14.2)	–	(14.7)
At 31 July 2018	**12.9**	**38.0**	**70.1**	**0.1**	**121.1**
Net book value at 31 July 2018	**9.5**	**17.8**	**198.8**	**–**	**226.1**
Net book value at 31 July 2017	11.3	13.4	177.8	0.2	202.7
Net book value at 1 August 2016	11.8	14.1	159.8	0.1	185.8

The gain from the sale of assets held under operating leases for the year ended 31 July 2018 was £0.1 million (2017: £0.1 million loss).

The Notes continued

16. Property, plant and equipment continued

	31 July 2018 £ million	31 July 2017 £ million
Future minimum lease rentals receivable under non-cancellable operating leases		
Within one year	**39.4**	39.1
Between one and five years	**61.0**	84.9
After more than five years	**0.8**	0.9
	101.2	124.9

	Leasehold property £ million	Fixtures, fittings and equipment £ million	Total £ million
Company			
Cost			
At 1 August 2016	2.7	1.3	4.0
Disposals	–	(0.2)	(0.2)
At 31 July 2017	2.7	1.1	3.8
Disposals	–	–	–
At 31 July 2018	**2.7**	**1.1**	**3.8**
Depreciation			
At 1 August 2016	2.7	1.3	4.0
Charge for the year	–	–	–
Disposals	–	(0.2)	(0.2)
At 31 July 2017	2.7	1.1	3.8
Charge for the year	–	–	–
Disposals	–	–	–
At 31 July 2018	**2.7**	**1.1**	**3.8**
Net book value at 31 July 2018	**–**	**–**	**–**
Net book value at 31 July 2017	–	–	–
Net book value at 1 August 2016	–	–	–

The net book value of leasehold property comprises:

	Group		Company	
	31 July 2018 £ million	31 July 2017 £ million	31 July 2018 £ million	31 July 2017 £ million
Long leasehold property	**1.5**	1.6	**–**	–
Short leasehold property	**8.0**	9.7	**–**	–
	9.5	11.3	**–**	–

17. Other assets and other liabilities

	31 July 2018 £ million	31 July 2017 £ million
Prepayments, accrued income and other assets		
Prepayments and accrued income	**135.6**	117.6
Trade and other receivables	**51.5**	41.1
	187.1	158.7
Accruals, deferred income and other liabilities		
Accruals and deferred income	**148.0**	138.6
Trade and other payables	**80.1**	71.8
Provisions	**21.5**	22.7
	249.6	233.1

Provisions movement in the year:

	Claims £ million	Property £ million	Other £ million	Total £ million
Group				
At 1 August 2016	0.1	8.3	7.3	15.7
Additions	0.3	0.6	11.3	12.2
Utilised	–	(0.5)	(2.3)	(2.8)
Released	(0.2)	(0.5)	(1.7)	(2.4)
At 31 July 2017	0.2	7.9	14.6	22.7
Additions	0.4	0.4	2.9	3.7
Utilised	(0.4)	(0.2)	(2.8)	(3.4)
Released	(0.2)	–	(1.3)	(1.5)
At 31 July 2018	**–**	**8.1**	**13.4**	**21.5**

	Property £ million	Other £ million	Total £ million
Company			
At 1 August 2016	1.9	5.1	7.0
Additions	–	1.9	1.9
Utilised	–	(1.4)	(1.4)
Released	0.1	(1.5)	(1.4)
At 31 July 2017	2.0	4.1	6.1
Additions	–	1.8	1.8
Utilised	–	(1.3)	(1.3)
Released	0.1	(0.6)	(0.5)
At 31 July 2018	**2.1**	**4.0**	**6.1**

Claims and other items for which provisions are made arise in the normal course of business and include those related to employee benefits. The timing and outcome of these claims and other items are uncertain. Property provisions are in respect of leaseholds where rents payable exceed the value to the group, potential dilapidations and onerous leases. These property provisions will be utilised and released over the remaining lives of the leases which range from one to nine years.

The Notes continued

18. Settlement balances and short positions

	31 July 2018 £ million	31 July 2017 £ million
Settlement balances	**512.5**	524.9
Short positions held for trading:		
Debt securities	**16.4**	11.5
Equity shares	**14.2**	16.2
	30.6	27.7
	543.1	552.6

19. Financial liabilities

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
Deposits by banks	**7.9**	**16.1**	**31.2**	**–**	**–**	**–**	**55.2**
Deposits by customers	**86.5**	**1,275.0**	**2,570.6**	**1,142.6**	**422.5**	**–**	**5,497.2**
Loans and overdrafts from banks	**9.6**	**5.2**	**–**	**–**	**495.0**	**–**	**509.8**
Debt securities in issue	**0.6**	**23.1**	**561.3**	**190.3**	**709.9**	**288.2**	**1,773.4**
At 31 July 2018	**104.6**	**1,319.4**	**3,163.1**	**1,332.9**	**1,627.4**	**288.2**	**7,835.6**

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
Deposits by banks	18.4	15.4	37.5	0.7	–	–	72.0
Deposits by customers	123.4	956.6	2,528.2	991.3	513.6	–	5,113.1
Loans and overdrafts from banks	12.3	74.9	–	20.5	223.2	–	330.9
Debt securities in issue	13.6	22.8	108.4	516.0	540.9	287.9	1,489.6
At 31 July 2017	167.7	1,069.7	2,674.1	1,528.5	1,277.7	287.9	7,005.6

At 31 July 2018, the company held £249.7 million (31 July 2017: £nil) debt securities in issue.

As discussed in note 28(c) the group has accessed £495.0 million (31 July 2017: £224.4 million) cash under the Bank of England's Term Funding Scheme and £nil (31 July 2017: £197.5 million) UK Treasury Bills under the Bank of England's Funding for Lending Scheme. At 31 July 2017, £100.0 million of the £197.5 million UK Treasury Bills drawn under the Funding for Lending Scheme were lent in exchange for cash. The UK Treasury Bills were not recorded on the group's consolidated balance sheet as ownership remained with the Bank of England. Cash from the Term Funding Scheme and repurchase agreements is included within bank loans and overdrafts. Residual maturities of the Term Funding Scheme and repurchase agreements are as follows:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
At 31 July 2018	**–**	**0.2**	**–**	**–**	**495.0**	**–**	**495.2**
At 31 July 2017	1.2	69.9	–	20.5	223.2	–	314.8

20. Subordinated loan capital

	Prepayment date	Initial interest rate	31 July 2018 £ million	31 July 2017 £ million
Final maturity date				
2026	2021	7.42%	**15.5**	15.5
2026	2021	7.62%	**30.9**	30.9
2027	2022	4.25%	**171.5**	174.3
			217.9	220.7

21. Share capital and reserves

	31 July 2018		31 July 2017	
	million	**£ million**	million	£ million
Group and company				
Allotted, issued and fully paid				
Ordinary shares of 25p each	**152.1**	**38.0**	152.1	38.0

Further analysis of the group's and company's share capital and reserves is shown on pages 111 and 114. As noted in the Directors' Report, the company's share premium account of £307.8 million was cancelled and the amount credited to distributable profits, resulting in an increase in the company's distributable reserves.

22. Capital

The group's policy is to be well capitalised and its approach to capital management is driven by strategic and organisational requirements, while also taking into account the regulatory and commercial environments in which it operates.

The Prudential Regulation Authority ("PRA") supervises the group on a consolidated basis and receives information on the capital adequacy of, and sets capital requirements for, the group as a whole. In addition, a number of subsidiaries are regulated for prudential purposes by either the PRA or the Financial Conduct Authority ("FCA"). The aim of the capital adequacy regime is to promote safety and soundness in the financial system. It is structured around three "pillars": Pillar 1 on minimum capital requirements; Pillar 2 on the supervisory review process; and Pillar 3 on market discipline. The group's Pillar 1 information is presented below. Under Pillar 2, the group completes an annual self assessment of risks known as the "Internal Capital Adequacy Assessment Process" ("ICAAP"). The ICAAP is reviewed by the PRA which culminates in the PRA setting a "Total Capital Requirement" ("TCR") that the group and its regulated subsidiaries are required to hold at all times. The TCR is currently set at 9.9%, of which 5.6% needs to be met with common equity tier 1 ("CET1") capital. This includes the Pillar 1 requirements (4.5% and 8% respectively for CET1 and total capital) and a Pillar 2A component of 1.9%, of which 1.1% needs to be met with CET1 capital. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on that group's capital, risk exposures and risk assessment process. The group's Pillar 3 disclosures can be found on the group's website www.closebrothers.com/investor-relations/investor-information/results-reports-and-presentations.

The group maintains a strong capital base to support the development of the business and to ensure the group meets the TCR and additional Capital Requirements Directive buffers at all times. As a result, the group maintains capital adequacy ratios above minimum regulatory requirements, which are currently set at a minimum CET1 capital ratio of 7.9% and a minimum total capital ratio of 12.2%. The minimum capital requirements are inclusive of the capital conservation buffer (currently 1.875% for both CET1 capital and total capital) and the countercyclical buffer (currently 0.45% effective rate for the group, for both CET1 capital and total capital). The group's individual regulated entities complied with all of the externally imposed capital requirements to which they are subject for the years ended 31 July 2018 and 2017.

A full analysis of the composition of regulatory capital and Pillar 1 risk weighted assets ("RWAs"), a reconciliation between equity and CET1 capital after deductions and a table showing the movement in CET1 capital during the year are shown on the following pages. All RWAs and capital ratios shown are unaudited.

At 31 July 2018, the group's CET1 capital ratio was 12.7% (31 July 2017: 12.6%). CET1 capital increased to £1,084.4 million (31 July 2017: £990.6 million) primarily due to retained profit.

RWAs, calculated using the standardised approaches, increased to £8,547.5 million (31 July 2017: £7,859.0 million) as a result of growth in credit and counterparty risk associated with the loan book. Notional RWAs for operational risk also increased reflecting increased revenues and loan book growth over recent years.

The Notes continued

22. Capital continued

	31 July 2018 £ million	31 July 2017 £ million
CET1 capital		
Called up share capital	**38.0**	38.0
Share premium account	**–**	307.8
Retained earnings	**1,327.7**	906.6
Other reserves recognised for CET1 capital	**21.3**	21.4
Deductions from CET1 capital		
Intangible assets, net of associated deferred tax liabilities	**(198.1)**	(186.3)
Foreseeable dividend[1]	**(62.7)**	(59.8)
Investment in own shares	**(37.6)**	(34.1)
Pension asset, net of associated deferred tax liabilities	**(4.0)**	(2.8)
Prudent valuation adjustment	**(0.2)**	(0.2)
CET1 capital	**1,084.4**	990.6
Tier 2 capital – subordinated debt[2]	**197.9**	205.6
Total regulatory capital	**1,282.3**	1,196.2
RWAs (notional) – unaudited		
Credit and counterparty credit risk	**7,605.4**	6,967.6
Operational risk[3]	**845.8**	806.8
Market risk[3]	**96.3**	84.6
	8,547.5	7,859.0
CET1 capital ratio – unaudited	**12.7%**	12.6%
Total capital ratio – unaudited	**15.0%**	15.2%

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2018 and 31 July 2017 for a foreseeable dividend being the proposed final dividend as set out in note 9.
2 Shown after applying the Capital Requirements Regulations transitional and qualifying own funds arrangements.
3 Operational and market risk include a notional adjustment at 8% in order to determine notional RWAs.

The following table shows a reconciliation between equity and CET1 capital after deductions:

	31 July 2018 £ million	31 July 2017 £ million
Equity	**1,348.7**	1,236.0
Regulatory deductions from equity:		
Intangible assets, net of associated deferred tax liabilities	**(198.1)**	(186.3)
Foreseeable dividend[1]	**(62.7)**	(59.8)
Pension asset, net of associated deferred tax liabilities	**(4.0)**	(2.8)
Prudent valuation adjustment	**(0.2)**	(0.2)
Other reserves not recognised for CET1 capital:		
Cash flow hedging reserve	**(0.1)**	3.2
Non-controlling interests	**0.8**	0.5
CET1 capital	**1,084.4**	990.6

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2018 and 31 July 2017 for a foreseeable dividend being the proposed final dividend as set out in note 9.

The following table shows the movement in CET1 capital during the year:

	£ million
CET1 capital at 31 July 2017	990.6
Profit in the period attributable to shareholders	202.3
Dividends paid and foreseen	(93.9)
Increase in intangible assets, net of associated deferred tax liabilities	(11.8)
Share premium cancellation	(307.8)
Other movements in reserves recognised for CET1 capital	309.7
Other movements in deductions from CET1 capital	(4.7)
CET1 capital at 31 July 2018	**1,084.4**

23. Contingent liabilities, guarantees and commitments

Contingent liabilities

Financial Services Compensation Scheme ("FSCS")

A principal subsidiary of the group, Close Brothers Limited ("CBL"), by virtue of being a regulated deposit-taker, contributes to the FSCS which provides compensation to customers of financial institutions in the event that an institution is unable, or is likely to be unable, to pay claims against it.

Compensation has previously been paid out by the FSCS funded by loan facilities provided by HM Treasury to FSCS in support of the FSCS's obligations to the depositors of banks declared in default. The facilities are expected to be repaid wholly from recoveries from the failed deposit-takers. In the event of a shortfall, the FSCS will recover the shortfall by raising levies on the industry. The amount of future levies payable by the group depends on a number of factors including the potential recoveries of assets by the FSCS, the group's participation in the deposit-taking market at 31 December, the level of protected deposits and the population of FSCS members.

Guarantees

	Group		Company	
	31 July 2018 £ million	31 July 2017 £ million	**31 July 2018 £ million**	31 July 2017 £ million
Guarantees and irrevocable letters of credit	**162.4**	175.8	**159.3**	161.7

Where the group undertakes to make a payment on behalf of its subsidiaries for guarantees issued, such as bank facilities or property leases or as irrevocable letters of credit for which an obligation to make a payment to a third party has not arisen at the reporting date, they are included in these consolidated financial statements as contingent liabilities.

Commitments

Undrawn facilities, credit lines and other commitments to lend

	31 July 2018 £ million	31 July 2017 £ million
Within one year	**1,091.7**	1,088.9
After more than one year[1]	**35.7**	2.7
	1,127.4	1,091.6

1 Prior year figure restated to exclude an inter-group commitment.

The Notes continued

23. Contingent liabilities, guarantees and commitments continued

Operating lease commitments

Minimum operating lease payments recognised in the consolidated income statement amounted to £9.1 million (2017: £8.9 million).

The group had outstanding commitments for future minimum lease rentals payable under non-cancellable operating leases, which fall due as follows:

	31 July 2018		31 July 2017	
	Premises £ million	**Other £ million**	Premises £ million	Other £ million
Within one year	**12.8**	**4.2**	11.5	3.1
Between one and five years	**29.5**	**5.2**	34.2	4.9
After more than five years	**6.6**	**–**	9.7	–
	48.9	**9.4**	55.4	8.0

Other commitments

Subsidiaries had contracted capital commitments relating to capital expenditure of £12.1 million (2017: £17.7 million).

24. Related party transactions

Transactions with key management

Details of directors' remuneration and interests in shares are disclosed in the Directors' Remuneration Report on pages 80 to 101.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of an entity; the group's key management are the members of the group's Executive Committee, which includes all executive directors, together with its non-executive directors.

The table below details, on an aggregated basis, key management personnel emoluments:

	2018 £ million	2017 £ million
Emoluments		
Salaries and fees	**4.2**	4.6
Benefits and allowances	**0.6**	0.7
Performance related awards in respect of the current year:		
Cash	**4.0**	4.6
Deferred	**2.5**	2.5
	11.3	12.4
Share-based awards	**3.5**	4.2
	14.8	16.6

Gains upon exercise of options by key management personnel, expensed to the income statement in previous years, totalled £6.3 million (2017: £10.3 million).

Key management have banking and asset management relationships with group entities which are entered into in the normal course of business. Amounts included in deposits by customers at 31 July 2018 attributable, in aggregate, to key management were £0.2 million (31 July 2017: £0.1 million). A member of key management has a holding of 500,000 of the company's 4.25% subordinated loan notes.

25. Pensions

The group operates defined contribution pension schemes for eligible employees as well as a defined benefit pension scheme which is closed to new members and further accrual. Assets of all schemes are held separately from those of the group.

Defined contribution schemes

During the year the charge to the consolidated income statement for the group's defined contribution pension schemes was £11.0 million (2017: £10.2 million), representing contributions payable by the group and is included in administrative expenses.

Defined benefit pension scheme

The group's only defined benefit pension scheme ("the scheme") is a final salary scheme which operates under trust law. The scheme is managed and administered in accordance with the scheme's Trust Deed and Rules and all relevant legislation by a trustee board made up of trustees nominated by both the company and the members.

The scheme was closed to new entrants in August 1996 and closed to further accrual during 2012. At 31 July 2018 this scheme had 41 (31 July 2017: 47) deferred members and 46 (31 July 2017: 45) pensioners and dependants.

Funding position

The scheme's most recent triennial actuarial valuation at 31 July 2015 showed that the scheme was fully funded. As such, no further contributions are scheduled.

IAS 19 valuation

The following disclosures are reported in accordance with IAS 19. Significant actuarial assumptions are as follows:

	2018 %	2017 %
Inflation rate (Retail Price Index)	**3.3**	3.4
Inflation rate (Consumer Price Index)	**2.3**	2.4
Discount rate for scheme liabilities[1]	**2.5**	2.5
Expected interest/expected long-term return on plan assets	**2.5**	2.5
Mortality assumptions[2]:		
Existing pensioners from age 65, life expectancy (years):		
Men	**24.3**	24.2
Women	**25.9**	25.8
Non-retired members currently aged 50, life expectancy from age 65 (years):		
Men	**25.1**	25.0
Women	**28.0**	27.9

1 Based on market yields at 31 July 2018 and 2017 on high quality sterling-denominated corporate bonds, adjusted to be consistent with the estimated term of the post-employment benefit obligation, using the Willis Towers Watson model "Global RATE:Link".
2 Based on standard tables SAPS S1 Light produced by the CMI Bureau of the Institute and Faculty of Actuaries with adjusted mortality multipliers for pensioners and non-pensioners, together with projected future improvements in line with the CMI 2014 core projection model with a long-term trend of 1.5% per annum.

The surplus of the scheme disclosed below has been accounted for as an asset of the group within note 17 "Other assets and other liabilities".

The group has the unconditional right to any surpluses that arise within the scheme once all benefits have been secured in full. As such no asset ceiling has been applied, and accordingly the scheme surplus is recognised on the consolidated balance sheet.

	2018 £ million	2017 £ million	2016 £ million	2015 £ million	2014 £ million
Fair value of scheme assets[1]:					
Equities	**12.7**	20.9	35.9	33.0	31.8
Bonds	**28.7**	20.6	8.7	8.5	7.9
Cash	**0.1**	0.3	0.2	0.2	0.2
Total fair value of scheme assets	**41.5**	41.8	44.8	41.7	39.9
Present value of scheme liabilities	**(36.4)**	(38.2)	(43.6)	(38.6)	(35.0)
Surplus	**5.1**	3.6	1.2	3.1	4.9

1 There are no amounts included within the fair value of scheme assets relating to the financial instruments of Close Brothers Group plc.

The Notes continued

25. Pensions continued

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

	2018 £ million	2017 £ million
Carrying amount at 1 August	**(38.2)**	(43.6)
Interest expense	**(0.9)**	(0.9)
Benefits paid	**2.3**	7.3
Actuarial gains/(losses)	**0.4**	(1.0)
Carrying amount at 31 July	**(36.4)**	(38.2)

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

	2018 £ million	2017 £ million
Carrying amount at 1 August	**41.8**	44.7
Interest income	**1.0**	0.9
Benefits paid	**(2.3)**	(7.3)
Administrative costs paid	**(0.3)**	(0.2)
Return on scheme assets, excluding interest income	**1.3**	3.7
Carrying amount at 31 July	**41.5**	41.8

Historical experience of actuarial gains/(losses) are shown below:

	2018 £ million	2017 £ million	2016 £ million	2015 £ million	2014 £ million
Experience gains on scheme assets	**1.3**	3.7	3.6	2.9	1.7
Experience gains/(losses) on scheme liabilities	**–**	–	1.3	–	(0.1)
Impact of changes in assumptions on scheme liabilities	**0.4**	(1.0)	(6.8)	(4.9)	(3.2)
Total actuarial gains/(losses) on scheme liabilities	**0.4**	(1.0)	(5.5)	(4.9)	(3.3)
Total actuarial gains/(losses)	**1.7**	2.7	(1.9)	(2.0)	(1.6)

Total actuarial gains have been recognised in other comprehensive income. Income of £0.1 million (2017: £nil) from the interest on the scheme surplus has been recognised within administrative expenses in the consolidated income statement. The group's policy is not to allocate the net defined benefit cost between group entities participating in the scheme.

The valuation of the scheme's liabilities is sensitive to the key assumptions used in the valuation. The effect of a change in those assumptions in 2018 and 2017 is set out below. The analysis reflects the variation of the individual assumptions. The variation in price inflation includes all inflation-linked pension increases in deferment and in payment.

		Impact on defined benefit obligation increase/(decrease)			
		2018		2017	
Key assumption	Sensitivity	%	£ million	%	£ million
Discount rate	0.25% increase	**(5.0)**	**(1.8)**	(5.0)	(1.9)
Price inflation (RPI and CPI)	0.25% increase	**2.0**	**0.7**	2.0	0.8
Mortality	Increase in life expectancy at age 65 by one year	**3.0**	**1.1**	3.0	1.1

Changes in the assumptions used in the valuation due to external factors would affect the carrying value of the scheme. The most significant risks are:

- Market factors (movements in equity and bond markets): The scheme's assets are invested 31% in global equities and 69% in bonds and the scheme's liabilities are measured with reference to corporate bond yields. The performance of these asset classes can be volatile. Underperformance of either of these markets would have an adverse impact on the carrying value of the scheme.
- Inflation: Deferred pensions and pensions in payment increase at specified periods in line with inflation, subject to certain caps and floors in place. Changes in inflation may impact scheme liabilities.
- Life expectancy: Change in the life expectancy of the scheme's members may impact scheme liabilities.

The weighted average duration of the benefit payments reflected in the scheme liabilities is 20 years.

26. Share-based awards

The Save As You Earn ("SAYE"), Long Term Incentive Plan ("LTIP"), Deferred Share Awards ("DSA") and Share Matching Plan ("SMP") share-based awards have been granted under the group's share schemes. The general terms and conditions for these share-based awards are described in the Directors' Remuneration Report on pages 80 to 101.

In order to satisfy a number of the awards below the company has purchased company shares into Treasury and the Close Brothers Group Employee Share Trust has purchased company shares. At 31 July 2018, 0.6 million (31 July 2017: 0.3 million) and 2.2 million (31 July 2017: 2.4 million) of these shares were held respectively and in total £37.6 million (2017: £34.1 million) was recognised within the share-based payments reserve. During the year £12.5 million (2017: £15.8 million) of these shares were released to satisfy share-based awards to employees. The share-based payments reserve as shown in the consolidated statement of changes in equity also includes the cumulative position in relation to unvested share-based awards charged to the consolidated income statement of £21.7 million (2017: £22.2 million). The share-based awards charge of £6.0 million (2017: £6.0 million) is included in administrative expenses shown in the consolidated income statement.

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

	SAYE		LTIP		DSA		SMP	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
At 1 August 2016	1,033,470	–	1,463,455	–	538,635	–	1,135,823	–
Granted	505,229	1,160.6p	422,325	–	313,375	–	395,813	–
Exercised	(372,823)	997.5p	(322,097)	–	(291,664)	–	(310,106)	–
Forfeited	(91,100)	1,135.6p	(11,413)	–	–	–	–	–
Lapsed	(5,207)	1,049.4p	(174,787)	–	–	–	(82,812)	–
At 31 July 2017	1,069,569	–	1,377,483	–	560,346	–	1,138,718	–
Granted	455,385	1,155.2p	594,194	–	426,184	–	–	–
Exercised	(210,104)	1,095.5p	(221,266)	–	(280,978)	–	(255,429)	–
Forfeited	(139,666)	1,174.1p	(105,559)	–	(6,309)	–	(20,136)	–
Lapsed	(6,299)	1,170.2p	(212,823)	–	(4,838)	–	(118,509)	–
At 31 July 2018	**1,168,885**	**–**	**1,432,029**	**–**	**694,405**	**–**	**744,644**	**–**
Exercisable at:								
31 July 2018	**–**	**–**	**–**	**–**	**15,585**	**–**	**–**	**–**
31 July 2017	20,711	1,154.2p	–	–	13,169	–	–	–

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

	2018	2017
SAYE	**1,432.0p**	1,484.6p
LTIP	**1,453.4p**	1,387.5p
DSA	**1,473.2p**	1,403.4p
SMP	**1,463.7p**	1,382.3p

The Notes continued

26. Share-based awards continued

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

	2018 Options outstanding		2017 Options outstanding	
	Number outstanding	**Weighted average remaining contractual life Years**	Number outstanding	Weighted average remaining contractual life Years
SAYE				
Between £6 and £7	**–**	**–**	18,741	0.8
Between £9 and £10	**71,486**	**0.8**	79,618	1.8
Between £11 and £12	**931,585**	**2.4**	758,178	2.2
Between £12 and £13	**165,814**	**2.5**	213,032	3.5
LTIP				
Nil	**1,432,029**	**2.3**	1,377,483	2.2
DSA				
Nil	**694,405**	**1.9**	560,346	1.7
SMP				
Nil	**744,644**	**1.7**	1,138,718	2.2
Total	**4,039,963**	**2.1**	4,146,116	2.2

For the share-based awards granted during the year, the weighted average fair value of those options at 31 July 2018 was 1,022.6p (31 July 2017: 788.1p). 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 Dec 2020 to 31 May 2021	1,452.0p	1,162.0p	24.0%	3	4.3%	0.6%
1 Dec 2022 to 31 May 2023	1,452.0p	1,162.0p	22.0%	5	4.3%	0.9%
1 Jun 2021 to 30 Nov 2021	1,426.0p	1,141.0p	25.0%	3	4.4%	0.9%
1 Jun 2023 to 30 Nov 2023	1,426.0p	1,141.0p	23.0%	5	4.4%	1.1%
LTIP						
3 Oct 2020 to 2 Oct 2021	1,459.0p	–	24.0%	3	4.1%	0.6%
DSA						
3 Oct 2018 to 2 Oct 2019	1,459.0p	–	–	–	–	–
3 Oct 2019 to 2 Oct 2020	1,459.0p	–	–	–	–	–
3 Oct 2020 to 2 Oct 2021	1,459.0p	–	–	–	–	–
30 Oct 2020 to 29 Oct 2021	1,396.8p	–	–	–	–	–
9 Mar 2019 to 8 Mar 2020	1,424.0p	–	–	–	–	–
9 Mar 2020 to 8 Mar 2021	1,424.0p	–	–	–	–	–
9 Mar 2021 to 8 Mar 2022	1,424.0p	–	–	–	–	–

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

27. Consolidated cash flow statement reconciliation

	31 July 2018 £ million	31 July 2017 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit before tax from continuing operations	**271.2**	262.5
Loss before tax from discontinued operations[1]	**(3.0)**	(3.9)
Tax paid	**(66.8)**	(63.6)
Depreciation and amortisation	**63.9**	57.5
(Increase)/decrease in:		
Interest receivable and prepaid expenses	**(18.4)**	(18.1)
Net settlement balances and trading positions	**15.9**	6.7
Net loans to/from money brokers against stock advanced	**0.3**	(21.9)
Increase in interest payable and accrued expenses	**9.4**	19.1
Net cash inflow from trading activities	**272.5**	238.3
Decrease/(increase) in:		
Loans and advances to banks not repayable on demand	**16.4**	0.3
Loans and advances to customers	**(449.8)**	(453.1)
Assets let under operating leases	**(68.0)**	(43.2)
Certificates of deposit	**(70.2)**	20.7
Sovereign and central bank debt	**(0.9)**	(44.5)
Other assets less other liabilities	**14.1**	22.5
Increase/(decrease) in:		
Deposits by banks	**(16.8)**	0.9
Deposits by customers	**384.1**	218.5
Loans and overdrafts from banks	**178.9**	(138.2)
Issuance/redemption of debt securities, net of transaction costs	**45.7**	297.8
Net cash inflow from operating activities	**306.0**	120.0
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and non-controlling interests		
Cash consideration paid	**(1.2)**	(6.3)
(c) Analysis of net cash inflow/(outflow) in respect of the sale of a subsidiary		
Cash consideration received	**0.9**	0.3
Cash and cash equivalents disposed of	**–**	(0.6)
	0.9	(0.3)
(d) Analysis of cash and cash equivalents[2]		
Cash and balances at central banks	**1,126.2**	798.2
Loans and advances to banks repayable on demand	**125.5**	61.4
	1,251.7	859.6

1 Restated – see note 7.
2 Excludes Bank of England cash reserve account and amounts held as collateral.

During the year ended 31 July 2018, the non-cash changes on debt financing amounted to £9.4 million (31 July 2017: £8.3 million) arising largely from interest accretion.

The Notes continued

28. Financial risk management

As a financial services group, financial instruments are central to the group's activities. The risk associated with financial instruments represents a significant component of those faced by the group and is analysed in more detail below.

The group's financial risk management objectives are summarised within the Risk and Control Framework in Corporate Governance on pages 71 and 72. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1.

(a) Classification

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

	Held for trading £ million	Designated at fair value through profit or loss £ million	Available for sale £ million	Loans and receivables £ million	Held at amortised cost £ million	Derivatives held for hedging £ million	Total £ million
At 31 July 2018							
Assets							
Cash and balances at central banks	–	–	–	1,140.4	–	–	1,140.4
Settlement balances	–	–	–	512.2	–	–	512.2
Loans and advances to banks	–	–	–	140.2	–	–	140.2
Loans and advances to customers	–	–	–	7,297.5	–	–	7,297.5
Debt securities	25.6	–	44.5	250.5	–	–	320.6
Equity shares	31.6	–	0.5	–	–	–	32.1
Loans to money brokers against stock advanced	–	–	–	66.4	–	–	66.4
Derivative financial instruments	1.1	–	–	–	–	15.5	16.6
Other financial assets	–	–	2.1	73.6	–	–	75.7
	58.3	–	47.1	9,480.8	–	15.5	9,601.7
Liabilities							
Settlement balances and short positions	30.6	–	–	–	512.5	–	543.1
Deposits by banks	–	–	–	–	55.2	–	55.2
Deposits by customers	–	–	–	–	5,497.2	–	5,497.2
Loans and overdrafts from banks	–	–	–	–	509.8	–	509.8
Debt securities in issue	–	–	–	–	1,773.4	–	1,773.4
Loans from money brokers against stock advanced	–	–	–	–	22.4	–	22.4
Subordinated loan capital	–	–	–	–	217.9	–	217.9
Derivative financial instruments	2.3	–	–	–	–	13.4	15.7
Other financial liabilities	–	4.2	–	–	115.8	–	120.0
	32.9	4.2	–	–	8,704.2	13.4	8,754.7

	Held for trading £ million	Designated at fair value through profit or loss £ million	Available for sale £ million	Loans and receivables £ million	Held at amortised cost £ million	Derivatives held for hedging £ million	Total £ million
At 31 July 2017							
Assets							
Cash and balances at central banks	–	–	–	805.1	–	–	805.1
Settlement balances	–	–	–	546.7	–	–	546.7
Loans and advances to banks	–	–	–	99.8	–	–	99.8
Loans and advances to customers	–	–	–	6,884.7	–	–	6,884.7
Debt securities	16.2	–	43.6	180.3	–	–	240.1
Equity shares	31.9	–	0.8	–	–	–	32.7
Loans to money brokers against stock advanced	–	–	–	48.6	–	–	48.6
Derivative financial instruments	1.8	0.1	–	–	–	25.1	27.0
Other financial assets	–	–	2.7	66.3	–	–	69.0
	49.9	0.1	47.1	8,631.5	–	25.1	8,753.7
Liabilities							
Settlement balances and short positions	27.7	–	–	–	524.9	–	552.6
Deposits by banks	–	–	–	–	72.0	–	72.0
Deposits by customers	–	–	–	–	5,113.1	–	5,113.1
Loans and overdrafts from banks	–	–	–	–	330.9	–	330.9
Debt securities in issue	–	–	–	–	1,489.6	–	1,489.6
Loans from money brokers against stock advanced	–	–	–	–	4.3	–	4.3
Subordinated loan capital	–	–	–	–	220.7	–	220.7
Derivative financial instruments	2.6	0.1	–	–	–	8.8	11.5
Other financial liabilities	–	4.8	–	–	114.8	–	119.6
	30.3	4.9	–	–	7,870.3	8.8	7,914.3

(b) Valuation

The fair values of the group's financial assets and liabilities are not materially different from their carrying values. The main differences are as follows:

	31 July 2018		31 July 2017	
	Fair value £ million	**Carrying value £ million**	Fair value £ million	Carrying value £ million
Subordinated loan capital	**233.7**	**217.9**	242.0	220.7
Debt securities in issue	**1,797.4**	**1,773.4**	1,522.8	1,489.6

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 arm's length basis. An active market is one in which transactions occur with sufficient frequency to provide ongoing pricing information;
- Level 2 fair value measurements are those derived from quoted prices in less active markets for identical assets or liabilities or those derived from inputs other than quoted prices that are observable for the asset or liability, either directly as prices or indirectly derived from prices; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data ("unobservable inputs").

Investments classified as Level 1 predominantly comprise sovereign and central bank debt and liquid listed equity shares.

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

The Notes continued

28. Financial risk management continued

Investments classified as Level 3 predominantly comprise contingent consideration payable and receivable in relation to the acquisitions and the disposal of subsidiaries.

The valuation of contingent consideration is determined on a discounted expected cash flow basis. The group believes that there is no reasonably possible change to the inputs used in the valuation of these positions which would have a material effect on the group's consolidated income statement.

There were no significant transfers between Level 1, 2 and 3 in 2018 and 2017.

The tables below show the classification of financial instruments held at fair value into the valuation hierarchy.

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2018				
Assets				
Debt securities:				
Long positions in debt securities held for trading	**22.9**	**2.7**	**–**	**25.6**
Sovereign and central bank debt classified as available for sale	**44.5**	**–**	**–**	**44.5**
Equity shares:				
Held for trading	**5.5**	**26.1**	**–**	**31.6**
Fair value through profit or loss	**–**	**–**	**–**	**–**
Available for sale	**–**	**–**	**0.5**	**0.5**
Derivative financial instruments	**–**	**16.6**	**–**	**16.6**
Contingent consideration	**–**	**–**	**2.1**	**2.1**
	72.9	**45.4**	**2.6**	**120.9**
Liabilities				
Short positions held for trading:				
Debt securities	**14.2**	**2.2**	**–**	**16.4**
Equity shares	**4.2**	**10.0**	**–**	**14.2**
Derivative financial instruments	**–**	**15.7**	**–**	**15.7**
Contingent consideration	**–**	**–**	**5.4**	**5.4**
	18.4	**27.9**	**5.4**	**51.7**

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2017				
Assets				
Debt securities:				
Long positions in debt securities held for trading	13.7	2.5	–	16.2
Sovereign and central bank debt classified as available for sale	43.6	–	–	43.6
Equity shares:				
Held for trading	5.4	26.5	–	31.9
Fair value through profit or loss	–	–	–	–
Available for sale	–	–	0.8	0.8
Derivative financial instruments	–	27.0	–	27.0
Contingent consideration	–	–	2.7	2.7
	62.7	56.0	3.5	122.2
Liabilities				
Short positions held for trading:				
Debt securities	8.0	3.5	–	11.5
Equity shares	4.7	11.5	–	16.2
Derivative financial instruments	–	11.5	–	11.5
Contingent consideration	–	–	6.6	6.6
	12.7	26.5	6.6	45.8

Movements in financial assets categorised as Level 3 were:

	Equity shares available for sale £ million	Contingent consideration £ million
At 1 August 2016	2.0	–
Total gains recognised in the consolidated income statement	0.1	–
Total gains recognised in other comprehensive income	–	–
Purchases and issues	–	(6.6)
Sales and settlements	(1.3)	2.7
At 31 July 2017	0.8	(3.9)
Total gains recognised in the consolidated income statement	–	0.6
Total gains recognised in other comprehensive income	–	0.3
Purchases and issues	–	(1.2)
Sales and settlements	(0.3)	0.9
At 31 July 2018	**0.5**	**(3.3)**

The losses recognised in the consolidated income statement relating to instruments held at the year end amounted to £nil (2017: £nil).

The Notes continued

28. Financial risk management continued

(c) Credit risk

Credit risk is the risk of a reduction in earnings and/or value, as a result of the failure of a counterparty or associated party with whom the group has contracted to meet its obligations as they fall due. Credit risk across the group mainly arises through the lending and treasury activities of the Banking division.

The Banking division applies consistent and prudent lending criteria to mitigate credit risk. Its lending activities are predominantly secured across a diverse range of asset classes and are generally short term in nature with low average loan size. This ensures concentration risk is controlled in both the loan book and associated collateral.

The group has established limits for all counterparties with whom it places deposits, enters into derivative contracts or whose debt securities are held and the credit quality of the counterparties is monitored. While 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 regulatory requirements.

Credit risk in the Securities division is limited as Winterflood trade in the cash markets with regulated counterparties on a delivery versus payment basis such that any counterparty risk 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 table below presents the group's maximum exposure to credit risk, before taking account of any collateral and credit risk mitigation, arising from its on balance sheet and off balance sheet financial instruments. For off balance sheet instruments, the maximum exposure to credit risk represents the contractual nominal amounts.

	31 July 2018 £ million	31 July 2017 £ million
On balance sheet		
Cash and balances at central banks	**1,140.4**	805.1
Settlement balances	**512.2**	546.7
Loans and advances to banks	**140.2**	99.8
Loans and advances to customers	**7,297.5**	6,884.7
Debt securities	**320.6**	240.1
Loans to money brokers against stock advanced	**66.4**	48.6
Derivative financial instruments	**16.6**	27.0
Other financial assets	**75.7**	69.0
	9,569.6	8,721.0
Off balance sheet		
Undrawn commitments[1]	**191.0**	97.8
Total maximum exposure to credit risk	**9,760.6**	8,818.8

1 Prior year figure restated to reflect irrevocable commitments only.

Assets pledged and received as collateral

The group pledges assets for repurchase agreements and securities borrowing agreements which are generally conducted under terms that are customary to standard borrowing contracts.

At 31 July 2018, the group was a participant of the Bank of England's Term Funding Scheme. Under this scheme, asset finance loan receivables of £773.8 million (31 July 2017: £525.1 million) were positioned as collateral with the Bank of England, against which £495.0 million of cash (31 July 2017: £224.4 million) was drawn. The term of these transactions is four years from the date of each drawdown but the group may choose to repay earlier at its discretion. The risks and rewards of the loan receivables remain with the group and continue to be recognised in loans and advances to customers on the consolidated balance sheet.

The Bank of England's Funding for Lending Scheme was closed for new drawings on 31 January 2018 and the group no longer had any drawings from the scheme at 31 July 2018. UK Treasury Bills drawn under the scheme of £197.5 million at 31 July 2017 were fully repaid during the year.

The group has securitised without recourse and restrictions £1,499.3 million (31 July 2017: £1,486.3 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £983.3 million (31 July 2017: £1,046.9 million). This includes £118.1 million (31 July 2017: £157.3 million) asset-backed securities in issue retained for liquidity purposes. As the group has retained exposure to substantially all the credit risk and rewards of the residual benefit of the underlying assets it continues to recognise these assets in loans and advances to customers in its consolidated balance sheet.

Loans to money brokers against stock advanced of £66.4 million (31 July 2017: £48.6 million) is the cash collateral provided to these institutions for stock borrowing by Winterflood. The stock borrowing to which the cash deposits relate is short term in nature and is recorded at the amount payable.

The 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 35 of the Strategic Report. 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

The overall credit risk appetite is set by the group board. The monitoring of credit policy is the responsibility of the Banking division's risk and compliance committees. All large loans are subject to approval by those credit committees. Retail, Commercial and Property Finance each use credit underwriting and monitoring measures appropriate to the diverse and specialised nature of their lending.

The Banking division has a dual approach to mitigating credit risk by:
- lending on a secured basis with emphasis on both the customer's ability to repay and the quality of the underlying security to minimise any loss should the customer not be able to repay; and
- applying greater scrutiny both analytically and in terms of escalation of sanctioning authority where the security collateralising a loan is less tangible, or in cases of higher loan to valuation ("LTV").

Collections and recoveries processes are designed to provide a fair, consistent and effective operation for arrears management. We seek to engage in early communication with borrowers experiencing difficulty in meeting their repayments, to obtain their commitment to maintaining or re-establishing a regular payment plan.

Forbearance

Forbearance occurs when a customer is experiencing difficulty in meeting their financial commitments and a concession is granted, by changing the terms of the financial arrangement, which would not otherwise be considered. This arrangement can be temporary or permanent depending on the customer's circumstances.

The Banking division maintains a forbearance policy to ensure the necessary processes are in place to enable consistently fair treatment of each customer and that they are managed based on their individual circumstances. The arrangements agreed with customers will aim to create a sustainable and affordable financial position, thereby reducing the likelihood of suffering a credit loss. The forbearance policy is periodically reviewed to ensure it is still effective.

The Banking division offers a range of assistance to support customers which vary depending on the product and the customer's status. Such concessions could involve changing the terms and conditions of a loan. The primary forbearance types granted are agreement to terms outside of policy (for example a higher loan to value) and rescheduling of arrears, which may incorporate an extension of the loan tenor. Other forms of forbearance (for example, grace periods; covenant waivers; rate concessions) would also be considered. The extent and type of forbearance granted reflects the predominantly secured nature of the portfolio.

Loans are classified as forborne at the time a customer in financial difficulty is granted a concession. Where forbearance has been granted, the customer will remain treated and recorded as forborne until the following exit conditions are met:

1. When all due payments, as per the amended contractual terms, have been made in a timely manner over a continuous repayment period (loan is considered as performing);

2. A minimum two-year probation period has passed from the date the forborne exposure was considered as performing; and

3. None of the customer's exposures with the Banking division are more than 30 days past due at the end of the probation period.

At 31 July 2018 the gross carrying amount of exposures with forbearance measures was £148.6 million (31 July 2017: £120.4 million).

Analysis of forborne accounts is shown in the table below:

	Gross loans and advances to customers £ million	Forborne loans £ million	Forborne loans as a percentage of gross loans and advances to customers £ million	Provision on forborne loans £ million
31 July 2018	**7,336.6**	**148.6**	**2.0%**	**8.5**
31 July 2017	6,937.1	120.4	1.7%	23.6

The Notes continued

28. Financial risk management continued

Divisional credit risk

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

Commercial is a combination of several specialist secured niche lending businesses with a diverse mix of loans in terms of assets financed, average loan size and LTV percentage. Credit quality is predominately assessed on an individual loan by loan basis. Collection and recovery activity is executed promptly by experts with experience in the specialised assets. This approach allows remedial action to be implemented at the appropriate time to minimise potential loss.

Property is a portfolio of higher value, low volume lending with credit quality assessed on an individual loan by loan basis. Loans are continually monitored to determine whether they are performing satisfactorily.

In Property and Commercial performing loans with elevated levels of credit risk may be placed on watch lists depending on the perceived severity of the credit risk.

Much of the Banking division's lending is short term and the average loan size is small with the result that individual loans have little capacity to materially impact the group's earnings.

Credit risk reporting

Loans and advances to customers, as disclosed in note 11, are analysed between the following categories for credit risk reporting:

(i) Neither past due nor impaired

These loans and advances to customers reflect the application of consistent and conservative lending criteria on inception and the quality and level of security held. The contractual repayments are monitored to ensure that classification as neither past due nor impaired remains appropriate and also demonstrates the short-term nature of the lending, with £4.2 billion (2017: £3.8 billion) having a contractual maturity of less than 12 months.

The following table shows the ageing based on contractual maturity of loans and advances to customers split by credit assessment method which are neither past due nor impaired.

	31 July 2018 Loans and advances to customers			31 July 2017 Loans and advances to customers		
	Individually assessed £ million	**Collectively assessed £ million**	**Total £ million**	Individually assessed £ million	Collectively assessed £ million	Total £ million
Within one month	**725.2**	**393.4**	**1,118.6**	601.4	362.0	963.4
Between one and three months	**426.5**	**452.8**	**879.3**	363.5	440.2	803.7
Between three months and one year	**1,177.5**	**1,056.2**	**2,233.7**	968.9	1,091.6	2,060.5
Over one year	**1,003.6**	**1,710.7**	**2,714.3**	943.3	1,786.3	2,729.6
	3,332.8	**3,613.1**	**6,945.9**	2,877.1	3,680.1	6,557.2

(ii) Past due but not impaired

Loans and advances to customers are classified as past due but not impaired when the customer has failed to make a payment when contractually due but there is no evidence of impairment. This includes loans which are individually assessed for impairment but where the value of security is sufficient to meet the required repayments. This also includes loans to customers which are past due for technical reasons such as delays in payment processing or rescheduling of payment terms.

The following table shows the ageing based on the period loans and advances to customers have been past due, split by credit assessment method, but for which no impairment provision has been raised.

	31 July 2018 Loans and advances to customers			31 July 2017[1] Loans and advances to customers		
	Individually assessed £ million	**Collectively assessed £ million**	**Total £ million**	Individually assessed £ million	Collectively assessed £ million	Total £ million
Within one month	**98.3**	**83.5**	**181.8**	93.5	72.7	166.2
Between one and three months	**46.1**	**3.4**	**49.5**	39.0	1.6	40.6
Between three months and one year	**18.3**	**0.7**	**19.0**	22.8	0.7	23.5
Over one year	**9.4**	**–**	**9.4**	13.7	0.1	13.8
	172.1	**87.6**	**259.7**	169.0	75.1	244.1

1 Prior year figures restated.

(iii) Impaired
The factors considered in determining whether assets are impaired are outlined in the accounting policies in note 1(j). Impaired loans and advances to customers are analysed according to whether the impairment provisions are individually or collectively assessed.

Individually assessed provisions are determined on a case by case basis, taking into account the financial condition of the customer and an estimate of potential recovery from the realisation of security. Typically this methodology is applied by the Property business and by the Invoice Finance business within Commercial.

Collectively assessed provisions are considered on a portfolio basis, to reflect the homogeneous nature of the assets. A percentage of the portfolio is impaired by evaluating the ageing of missed payments combined with the historical recovery rates for that particular portfolio. Typically this methodology is applied by the Retail businesses and the Asset Finance business within Commercial.

The gross impaired loans are quoted without taking account of any collateral or security held, which could reduce the potential loss. The application of conservative LTV ratios on inception and the emphasis on the quality of the security provided are reflected in the low provision to gross impaired balance ratio ("coverage ratio") of 30% (2017: 39%).

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

	31 July 2018 Loans and advances to customers			31 July 2017 Loans and advances to customers		
	Individually assessed £ million	**Collectively assessed £ million**	**Total £ million**	Individually assessed £ million	Collectively assessed £ million	Total £ million
Gross impaired loans	**59.4**	**71.6**	**131.0**	62.9	72.9	135.8
Provisions	**(17.1)**	**(22.0)**	**(39.1)**	(30.5)	(21.9)	(52.4)
Net impaired loans	**42.3**	**49.6**	**91.9**	32.4	51.0	83.4

The amount of interest income accrued on impaired loans and advances to customers was £8.2 million (31 July 2017: £12.9 million).

The group holds collateral against loans and advances to customers in the form of residential and commercial property and charges over business assets such as equipment, inventory and accounts receivable. Analysis by LTV ratio is provided below based on the group's lending facilities to customers where the exposure at origination exceeded £1.0 million, excluding Property facilities written pre 2009. Lending below this threshold has greater homogeneity predominately in the Motor and Premium Finance businesses with typical LTV ratios between 80% and 90%. The value of collateral used in determining the LTV ratio is based upon data captured at loan origination, or where available, a more recent updated valuation.

Gross loans and advances to customers where exposure at origination exceeded £1.0 million:

	Retail £ million	**Commercial £ million**	**Property £ million**	**Total £ million**
LTV				
Less than 70%	**–**	**237.3**	**1,529.1**	**1,766.4**
70% to 90%	**7.5**	**514.5**	**13.1**	**535.1**
Greater than 90%	**17.2**	**201.2**	**–**	**218.4**
At 31 July 2018	**24.7**	**953.0**	**1,542.2**	**2,519.9**

	Retail £ million	Commercial £ million	Property £ million	Total £ million
LTV				
Less than 70%	–	212.1	1,331.3	1,543.4
70% to 90%	4.6	352.0	9.1	365.7
Greater than 90%	16.3	138.6	–	154.9
At 31 July 2017	20.9	702.7	1,340.4	2,064.0

The Notes continued

28. Financial risk management continued

Financial assets: Settlement balances

Credit risk management and monitoring

The credit risk presented by settlement balances in the Securities division is limited, as such balances represent delivery versus payment transactions where delivery of securities occurs simultaneously with payment. The credit risk is therefore limited to the change in market price of a security between trade date and settlement date and not the absolute value of the trade. Winterflood is a market-maker and trades on a principal-only basis with regulated counterparties including stockbrokers, wealth managers, institutions and hedge funds who are either authorised and regulated by the PRA and/or FCA or equivalent regulator in the respective country.

Credit risk reporting

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

The following table shows the ageing of settlement balances:

	31 July 2018			31 July 2017		
	Neither past due nor impaired £ million	**Past due but not impaired £ million**	**Total £ million**	Neither past due nor impaired £ million	Past due but not impaired £ million	Total £ million
Within one month	**489.7**	**19.4**	**509.1**	523.7	20.0	543.7
Between one and three months	**–**	**1.5**	**1.5**	–	1.8	1.8
Between three months and one year	**–**	**1.2**	**1.2**	–	0.6	0.6
Over one year	**–**	**0.4**	**0.4**	–	0.6	0.6
	489.7	**22.5**	**512.2**	523.7	23.0	546.7

(d) Market risk

Market risk is the risk that a change in the value of an underlying market variable, such as interest or foreign exchange rates, will give rise to an adverse movement in the value of the group's assets and arises primarily in the Securities division.

Interest rate risk

The group's exposure to interest rate risk arises in the Banking division and the remainder of this section relates to the Banking division accordingly. Interest rate risk in the group's other divisions is considered to be immaterial.

The group has a simple and transparent balance sheet and a low appetite for interest rate risk which is limited to that required to operate efficiently.

The group's policy is to match repricing characteristics of assets and liabilities naturally where possible or by using interest rate swaps to secure the margin on its loans and advances to customers. These interest rate swaps are disclosed in note 14.

The Asset and Liability Committee monitors the interest rate risk exposure across the balance sheet. There are three main sources of interest rate risk recognised, which could adversely impact future income or the value of the balance sheet:
- repricing risk – occurs when assets and liabilities reprice at different times;
- embedded optionality risk – occurs as a result of special conditions attached to contract terms embedded in some loans; and
- basis risk – occurs where there is a mismatch in the interest rate reference rate for assets and liabilities.

The table below sets out the assessed impact on our base case earnings at risk ("EaR") due to a parallel shift in interest rates at 31 July 2018:

	2018 £ million	2017 £ million
0.5% increase	**(4.9)**	(8.7)
0.5% decrease	**5.8**	6.2

The table below sets out the assessed impact on our base case economic value of equity ("EVE") due to a shift in interest rates at 31 July 2018:

	2018 £ million	2017 £ million
0.5% increase	**0.8**	0.2
0.5% decrease	**(0.8)**	(0.1)

Foreign currency risk

The group has limited exposure to foreign currency risk which derives from the equity balances of its overseas operations, which are not hedged. These balances are predominantly in euros. Foreign exchange differences which arise from the translation of these operations are recognised directly in equity.

A change in the euro exchange rate would decrease the group's equity by the following amounts:

	2018 £ million	2017 £ million
20% strengthening of sterling against the euro	**(3.9)**	(3.4)

The group has additional material currency assets and liabilities primarily as a result of treasury operations in the Banking division. These assets and liabilities are matched by currency, using exchange rate derivative contracts where necessary. Details of these contracts are disclosed in note 14. Other potential group exposures arise from share trading settled in foreign currency in the Securities division, and foreign currency equity investments. The group has policies and processes in place to manage foreign currency risk, and as such the impact of any reasonably expected exchange rate fluctuations would not be material.

Market price risks

Trading financial instruments: Equity shares and debt securities

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

	Highest exposure £ million	**Lowest exposure £ million**	**Average exposure £ million**	**Exposure at 31 July £ million**
For the year ended 31 July 2018				
Equity shares				
Long	**41.1**	**24.8**	**32.0**	**31.6**
Short	**29.1**	**9.4**	**16.0**	**14.2**
			16.0	**17.4**
Debt securities				
Long	**30.4**	**12.0**	**22.2**	**25.6**
Short	**19.7**	**8.5**	**11.8**	**16.4**
			10.4	**9.2**

	Highest exposure £ million	Lowest exposure £ million	Average exposure £ million	Exposure at 31 July £ million
For the year ended 31 July 2017				
Equity shares				
Long	42.4	22.3	31.6	31.9
Short	24.6	9.7	15.7	16.2
			15.9	15.7
Debt securities				
Long	20.6	10.4	14.8	16.2
Short	13.4	5.3	9.0	11.5
			5.8	4.7

With respect to the long and short positions on debt securities £10.8 million and £0.8 million (2017: £3.5 million and £1.4 million) were due to mature within one year respectively.

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

Based upon the trading book exposure given above, a hypothetical fall of 10% in market prices would result in a £1.7 million decrease (2017: £1.6 million decrease) in the group's income and net assets on the equity trading book and a £0.9 million decrease (2017: £0.5 million decrease) on the debt securities trading book. However, the group's trading activity is mainly market-making where positions are managed throughout the day on a continuous basis. Accordingly, the sensitivity referred to above is purely hypothetical.

Non-trading financial instruments

Net gains and losses on non-trading financial instruments are disclosed in notes 12 and 13.

The Notes continued

28. Financial risk management continued

(e) Liquidity risk

Liquidity risk is the risk that liabilities cannot be met when they fall due or can only be met at an uneconomic price and arises mainly in the Banking division.

The group has a prudent liquidity position with total available funding at 31 July 2018 of £9.6 billion (31 July 2017: £8.8 billion). This funding is significantly in excess of its loans and advances to customers at 31 July 2018 of £7.3 billion (31 July 2017: £6.9 billion). The group has a large portfolio of high quality liquid assets principally including cash placed on deposit with the Bank of England. The group measures liquidity risk with a variety of measures including regular stress testing and cash flow monitoring, and reporting to both the group and divisional boards.

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

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	Total £ million
At 31 July 2018							
Settlement balances	**–**	**512.5**	**–**	**–**	**–**	**–**	**512.5**
Deposits by banks	**8.0**	**16.1**	**28.9**	**2.2**	**–**	**–**	**55.2**
Deposits by customers	**81.3**	**1,279.7**	**914.6**	**1,686.5**	**1,610.4**	**–**	**5,572.5**
Loans and overdrafts from banks	**9.6**	**5.6**	**0.6**	**1.2**	**500.1**	**–**	**517.1**
Debt securities in issue	**–**	**29.5**	**86.1**	**499.6**	**990.1**	**317.0**	**1,922.3**
Loans from money brokers against stock advanced	**22.4**	**–**	**–**	**–**	**–**	**–**	**22.4**
Subordinated loan capital	**–**	**1.7**	**3.7**	**5.4**	**44.5**	**255.1**	**310.4**
Derivative financial instruments	**0.3**	**4.7**	**3.4**	**7.8**	**50.2**	**14.9**	**81.3**
Other financial liabilities	**11.0**	**97.5**	**2.3**	**1.6**	**7.5**	**0.1**	**120.0**
Total	**132.6**	**1,947.3**	**1,039.6**	**2,204.3**	**3,202.8**	**587.1**	**9,113.7**

	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 2017							
Settlement balances	–	524.9	–	–	–	–	524.9
Deposits by banks	18.5	15.4	30.0	7.6	0.7	–	72.2
Deposits by customers	117.5	961.4	923.3	1,634.6	1,550.1	–	5,186.9
Loans and overdrafts from banks	12.3	75.1	0.1	21.0	224.6	–	333.1
Debt securities in issue	–	26.7	28.0	102.3	1,133.9	324.8	1,615.7
Loans from money brokers against stock advanced	4.3	–	–	–	–	–	4.3
Subordinated loan capital	–	1.7	3.7	5.4	36.2	274.2	321.2
Derivative financial instruments	0.1	5.2	2.7	6.4	44.7	19.8	78.9
Other financial liabilities	12.5	97.0	1.1	1.2	7.8	–	119.6
Total	165.2	1,707.4	988.9	1,778.5	2,998.0	618.8	8,256.8

Derivative financial instruments in the table above includes net currency swaps. The following table shows the currency swaps on a gross 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 2018	**42.1**	**63.5**	**3.4**	**7.8**	**50.2**	**14.9**	**181.9**
At 31 July 2017	19.8	74.6	2.7	6.4	44.7	19.8	168.0

(f) Offsetting

The following table shows the impact on derivative financial assets and liabilities which have not been offset but for which the group has enforceable master netting arrangements in place with counterparties. The net amounts show the exposure to counterparty credit risk after offsetting benefits and collateral, and are not intended to represent the group's actual exposure to credit risk.

Master netting arrangements allow outstanding transactions with the same counterparty to be offset and settled net, either unconditionally or following a default or other predetermined event. Financial collateral on derivative financial instruments consists of cash settled, typically daily, to mitigate the mark to market exposures.

	Gross amounts recognised £ million	Master netting arrangements £ million	Financial collateral £ million	Net amounts after offsetting £ million
At 31 July 2018				
Derivative financial assets	**16.6**	**(8.3)**	**(7.7)**	**0.6**
Derivative financial liabilities	**15.7**	**(8.3)**	**(7.2)**	**0.2**
At 31 July 2017				
Derivative financial assets	27.0	(7.8)	(18.4)	0.8
Derivative financial liabilities	11.5	(7.8)	(1.9)	1.8

29. Interest in unconsolidated structured entities

Structured entities are those entities that have been designed so that voting or similar rights are not the dominant factor in deciding who has control, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements.

The group has interests in structured entities as a result of contractual arrangements arising from the management of assets on behalf of its clients as part of its Asset Management division. These structured entities consist of unitised vehicles such as Authorised Unit Trusts ("AUTs") and Open Ended Investment Companies ("OEICs") which entitle investors to a percentage of the vehicle's net asset value. The structured entities are financed by the purchase of units or shares by investors. The group does not hold direct investments in its structured entities.

As fund manager, the group does not guarantee returns on its funds or commit to financially support its funds. The business activity of all structured entities is the management of assets in order to maximise investment returns for investors from capital appreciation and/or investment income. The group earns a management fee from its structured entities, based on a percentage of the entity's net asset value.

The main risk the group faces from its interest in assets under management on behalf of external investors is the loss of fee income as a result of the withdrawal of funds by clients. Outflows from funds are dependent on market sentiment, asset performance and investor considerations. The assets under management of unconsolidated structured entities managed by the group were £4,348 million at 31 July 2018 (31 July 2017: £3,830 million). Included in revenue on the consolidated income statement is management fee income of £27.6 million (2017: £22.8 million) from unconsolidated structured entities managed by the group.

The Notes continued

30. Investments in subsidiaries

In accordance with section 409 of the Companies Act 2006, the following is a list of the group's subsidiaries at 31 July 2018 which are all wholly owned and incorporated in the UK unless otherwise stated.

Group

Close Brothers Holdings Limited[1]

Banking

Air and General Finance Limited[2]
Armed Services Finance Limited[5]
Arrow Audit Services Limited[11, 20]
Brook Funding (No.1) Limited[14, 20]
CBM Holdings Limited[1]
CLL I Limited[15]
Close Asset Finance Limited[2]
Close Brewery Rentals Limited[6]
Close Brothers Asset Finance GmbH (Germany)[17]
Close Brothers Factoring GmbH (Germany)[17]
Close Brothers Finance plc[1]
Close Brothers Limited[1]
Close Brothers Military Services Limited[5]
Close Brothers Technology Services Limited (85% shareholding)[1]
Close Brothers Vehicle Hire Limited[16]
Close Business Finance Limited[2]
Close Credit Management (Holdings) Limited[1]
Close Finance (CI) Limited (Jersey)[18]
Close International Bank Holdings Limited (Guernsey)[4]
Close Invoice Finance Limited[1]
Close Leasing Limited[15]
Close Motor Finance Limited[5]
Close PF Funding I Limited[13, 20]
Close Trust Nominees Limited[1]
Commercial Acceptances Limited[7]
Commercial Finance Credit Limited[2]
Ecasks Limited[6]
Finance for Industry Limited[1]

Banking continued

Finance for Industry Services Limited[1]
Kingston Asset Finance Limited[2]
Kingston Asset Leasing Limited[2]
Metropolitan Factors Limited[1]
Micgate Holdings (UK) Limited[1]
Novitas Loans Limited[2]
Novitas (Salisbury) Limited[2]
Orbita Funding 2016-1 plc[14, 20]
Orbita Funding 2017-1 plc[14, 20]
Orbita Holdings Limited[14, 20]
Surrey Asset Finance Limited[2]

Securities

W.S. (Nominees) Limited[3]
Winterflood Client Nominees Limited[3]
Winterflood Gilts Limited[3]
Winterflood Securities Holdings Limited[3]
Winterflood Securities Limited[3]
Winterflood Securities US Corporation[19]

Asset Management

Adrian Smith & Partners Limited[1]
Cavanagh Financial Management Limited[8]
CBF Wealth Management Limited (80% shareholding)[1]
CFSL Management Limited[1]
Chartwell Private Client Limited[1]
Close Asset Management Holdings Limited[1]
Close Asset Management Limited[1]
Close Asset Management (UK) Limited[1]
Close Investments Limited[1]
Close Portfolio Management Limited[1]
Close Properties Jersey Limited (Jersey)[9]
EOS Wealth Management Limited[1]
Lion Nominees Limited[1]
Mackay Stewart and Brown Limited[10]
Place Campbell Close Brothers Limited (50% shareholding)[12]

Registered offices:
1 10 Crown Place, London EC2A 4FT, United Kingdom.
2 Wimbledon Bridge House, Hartfield Road, Wimbledon, London SW19 3RU, United Kingdom.
3 The Atrium Building Cannon Bridge, 25 Dowgate Hill, London EC4R 2GA, United Kingdom.
4 1st and 2nd Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port GY1 1EW, Guernsey.
5 Roman House, Roman Road, Doncaster, South Yorkshire DN4 5EZ, United Kingdom.
6 Unit 1, Kingfisher Park, Headlands Business Park, Ringwood, Hampshire BH24 3NX, United Kingdom.
7 100 George Street, London W1U 8NU, United Kingdom.
8 4th Floor, The Athenaeum Building, 8 Nelson Mandela Place, Glasgow G2 1BT, United Kingdom.
9 47 Esplanade, St Helier JE1 0BD, Jersey.
10 Saltire Court, 3rd Floor, West Wing, 20 Castle Terrace, Edinburgh, Scotland EH1 2EN, United Kingdom.
11 6 Coldbath Square, London EC1R 5HL, United Kingdom.
12 Wilmington House, High Street, East Grinstead, West Sussex RH19 3AU, United Kingdom.
13 3rd Floor, 1 King's Arms Yard, London EC2R 7AF, United Kingdom.
14 35 Great St. Helen's, London EC3A 6AP, United Kingdom.
15 Olympic Court Third Avenue, Trafford Park Village, Manchester M17 1AP, United Kingdom.
16 Lows Lane, Stanton-By-Dale, Ilkeston, Derbyshire DE7 4QU, United Kingdom.
17 Grosse Bleiche 35-39, 55116, Mainz, Germany.
18 Conway House, Conway Street, St Helier JE4 5SR, Jersey.
19 1209 Orange Street, Wilmington 19801, New Castle, Delaware, U.S.A.

Subsidiaries by virtue of control:
20 The related undertakings are included in the consolidated financial statements as they are controlled by the group.

Glossary

Adjusted	Adjusted measures are used to increase comparability between periods and exclude amortisation of intangible assets on acquisition, any exceptional items and discontinued operations
Adjusted operating profit ("AOP")	Calculated as adjusted operating income less adjusted operating expenses and impairment losses on loans and advances
Asset Risk Consultants ("ARC")	Independent investment management consultant providing manager research and benchmarking for private client investment managers, charities, trustees and family offices
Bad debt ratio[1]	Impairment losses as a percentage of average net loans and advances to customers and operating lease assets
Bargains per day	Average number of Winterflood's trades with third parties
Buy-as-you-earn ("BAYE")	The HM Revenue & Customs approved Share Incentive Plan that gives all employees the opportunity to become shareholders in the group
Capital Requirements Directive IV ("CRD IV")	European Union regulation implementing the Basel III requirements in Europe, alongside CRR
Capital Requirements Regulation ("CRR")	European Union regulation implementing the Basel III requirements in Europe, alongside CRD IV
CET1 capital ratio	Measure of the group's CET1 capital as a percentage of risk weighted assets, as required by CRR
Common equity tier 1 ("CET1") capital	Consists of the highest quality capital including ordinary shares, share premium account, retained earnings and other reserves
Compensation ratio	Total staff costs as a percentage of operating income
Dividend per share ("DPS")	Comprises the final dividend proposed for the respective year together with the interim dividend declared and paid in the year
Earnings per share ("EPS")	Profit attributable to shareholders divided by number of basic shares
Effective tax rate	Tax on operating profit/(loss) as a percentage of profit/(loss) on ordinary activities before tax
Employee engagement score	A measure, in percentage terms, of the extent to which staff are enthusiastic about their jobs, their level of commitment to the company, and how motivated they are to put effort into their work
Expense/income ratio	Total adjusted operating expenses divided by adjusted operating income
Financial Conduct Authority ("FCA")	A financial regulatory body in the UK, regulating financial firms and maintaining integrity of the UK's financial market
Financial Reporting Council ("FRC")	An independent regulatory body responsible for promoting high quality corporate governance and reporting amongst UK companies
Funding allocated to loan book	Total funding excluding equity and funding held for liquidity purposes
Funding % loan book	Total funding divided by net loans and advances to customers
General Data Protection Regulation ("GDPR")	Regulation intended to strengthen and unify data protection for all individuals within the European Union
High quality liquid assets ("HQLAs")	Assets which qualify for regulatory liquidity purposes, including Bank of England deposits, and sovereign and central bank debt, including funds drawn under the Funding for Lending Scheme
Independent Financial Adviser ("IFA")	Professional offering independent, whole of market advice to clients including investments, pensions, protection and mortgages
Internal Capital Adequacy Assessment Process ("ICAAP")	An annual self-assessment of a bank's material risks and the associated level of capital needed to be held, and undertaking appropriate stress testing of capital adequacy
Internal Ratings Based ("IRB") approach	A supervisor approved method using internal models, rather than standardised risk weightings, to calculate regulatory capital requirements for credit risk
International Accounting Standards ("IAS")	Older set of standards issued by the International Accounting Standards Council, setting up accounting principles and rules for preparation of financial statements. IAS are being superseded by IFRS
International Financial Reporting Standards ("IFRS")	Globally accepted accounting standards issued by the IFRS Foundation and the International Accounting Standards Board
Leverage ratio	Tier 1 capital as a percentage of total balance sheet assets, adjusted for certain capital deductions, including intangible assets, and off balance sheet exposures

Glossary continued

Liquidity coverage ratio	Measure of the group's HQLAs as a percentage of expected net cash outflows over the next 30 days in a stressed scenario
Loan to value ratio ("LTV")	For a secured loan, the loan balance as a percentage of the total value of the asset
Managed assets	Total market value of assets which are managed by Close Brothers in one of our investment solutions
Market abuse regulation ("MAR")	European regulation aimed at increasing market integrity and investor protection
MiFID II	The Markets in Financial Instruments Directive is the EU legislation that regulates firms who provide services to clients linked to financial instruments, and the venues where those instruments are traded
Net interest margin ("NIM")[1]	Income generated by lending activities, including interest income net of interest expense, fees and commissions income net of fees and commissions expense, and operating lease income net of operating lease expense, less depreciation on operating lease assets, divided by average loans and advances to customers (net of impaired loans) and operating lease assets
Net Promoter Score ("NPS")	A measure of a customer's likelihood to recommend us, and reflects their overall satisfaction with us as a business. Unfavourable ratings are deducted from favourable ratings; hence a score above 0 is good, and above 50 is excellent
Operating margin	Adjusted operating profit divided by adjusted operating income
Personal Contract Plan ("PCP")	PCP is an alternative form of car finance, where the customer pays smaller monthly instalments. At the end of the loan period, a customer can decide whether to: a) pay a balloon payment and take the ownership of the vehicle; b) return the car with no additional payment; or c) use the value of the car paid to negotiate a deal on another car
Prudential Regulation Authority ("PRA")	A financial regulatory body, responsible for regulating and supervising banks and other financial institutions in the UK
Return on assets	Profit attributable to shareholders divided by total assets at balance sheet date
Return on net loan book ("RoNLB")[1]	Adjusted operating profit from lending activities divided by average net loans and advances to customers, and operating lease assets
Return on opening equity ("RoE")	Adjusted operating profit after tax and non-controlling interests divided by opening equity, excluding non-controlling interests
Revenue margin	Income from advice, investment management and related services divided by average total client assets
Risk weighted assets ("RWA")	A measure of the amount of a bank's assets, adjusted for risk. It is used in determining the capital requirement for a financial institution
Save-as-you-earn ("SAYE")	Scheme intended to encourage saving and build long-term share ownership in the group
Secured debt	Debt backed or secured by collateral
Senior debt	Represents the type of debt that takes priority over other unsecured or more junior debt owed by the issuer. Senior debt is first to be repaid ahead of other lenders or creditors
Standardised approach	Generic term for regulator defined approaches for calculating credit, operational and market risk capital requirements as set out in the CRR
Subordinated debt	Represents debt that ranks below, and is repaid after claims of, other secured or senior debt owed by the issuer
Term funding	Funding with a remaining maturity greater than 12 months
Tier 2 capital	Additional regulatory capital that along with tier 1 capital makes up a bank's total regulatory capital. Includes qualifying subordinated debt
Total client assets	Total market value of all client assets including both managed assets and assets under advice and/or administration
Total shareholder return ("TSR")	Measure of shareholder return including share price appreciation and dividends, which are assumed to be re-invested in the company's shares

1 The calculation for the 2018 and 2017 financial years excludes the unsecured retail point of sale finance loan book from both the opening and closing loan book.

Investor Relations

Financial calendar (provisional)

Event	Date
First quarter trading update	November 2018
Annual General Meeting	15 November 2018
Final dividend payment	20 November 2018
Pre-close trading update	January 2019
Half year end	31 January 2019
Interim results	March 2019
Third quarter trading update	May 2019
Pre-close trading update	July 2019
Financial year end	31 July 2019
Preliminary results	September 2019

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

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