

Governance

Corporate Governance

As chairman of the Close Brothers Group plc board I am responsible for leading the board and promoting corporate governance best practice and the following report will explain and give you an understanding of how the group is governed. This year has been a period of development for the board. In line with the recommendations of the Walker report the board established a separate Risk Committee in December 2010 chaired by Ray Greenshields, who undertook a detailed and extensive induction programme in conjunction with his appointment as chairman of the committee. The committee has specific responsibility for providing oversight and advice to the board on group risk appetite, risk profile and alignment to risk appetite, the risk management framework, the alignment of reward structures to risk appetite and risk management culture. Further details on the work of the committee can be found on page 37.

We welcomed Geoffrey Howe as a new independent non-executive director and he brings with him extensive financial and legal services experience. Geoffrey participated in a comprehensive induction programme to familiarise himself with the group and we continued to develop our existing directors and their knowledge by introducing a structured training programme which included site visits to a number of our London and regional offices.

The board continued to monitor and assess the group's performance, benchmarking it against the competition and ensuring that the group has the proper allocation of resources and appropriate governance structure for its future expansion. There were a number of additional meetings over and above the normal scheduled meetings and the directors continued to make themselves available, often at short notice.

This report will demonstrate that Close Brothers is committed to high standards of corporate governance throughout the group.

Strone Macpherson
Chairman

27 September 2011

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Compliance

In May 2010 the new UK Corporate Governance Code ("the Code") was issued by the Financial Reporting Council replacing the previous Combined Code on Corporate Governance for financial years beginning on or after 29 June 2010. The Code has been applied by the Company since the start of the current financial year on 1 August 2010.

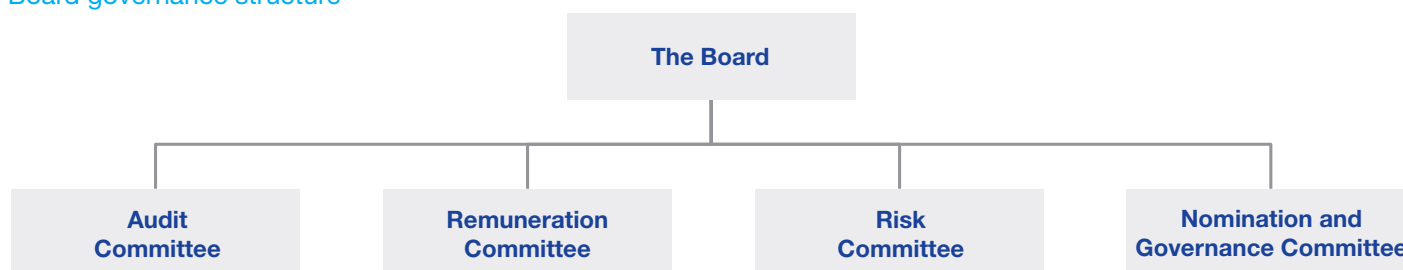
The Code sets out guidance on best practice in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice. The Financial Services Authority ("FSA") requires companies listed in the UK to disclose, in relation to the Code, how they have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

It is the board's view that the Company's governance regime has been fully compliant with the best practice set out in the Code with effect from 4 January 2011, when Geoffrey Howe was appointed as an additional independent non-executive director. Prior to this date less than half the board of directors, excluding the chairman, were independent but the Company's governance regime was otherwise fully compliant.

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

Governance Framework

Board governance structure



Executive Committee

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

Board and committee meeting attendance 2010/2011

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

	Board			Audit Committee			Nomination and Governance Committee			Remuneration Committee			Risk Committee ²		
	Reg	Ad hoc	Total	Reg	Ad hoc	Total	Reg	Ad hoc	Total	Reg	Ad hoc	Total	Reg	Ad hoc	Total
Number of meetings during the year	8	2	10	5	–	5	4	–	4	4	2	6	7	–	7

Executive director

Stephen Hodges	8	2	10												
Jonathan Howell	8	2	10												
Preben Prebensen	8	2	10												

Non-executive director

Bruce Carnegie-Brown	8	2	10	5	–	5	4	–	4	4	2	6	7	–	7
Jamie Cayzer-Colvin	8	2	10												
Ray Greenshields	8	2	10	5	–	5	4	–	4	4	2	6	7	–	7
Geoffrey Howe ¹	4	2	6												
Strone Macpherson	8	2	10				4	–	4						
Douglas Paterson	8	1	9	5	–	5	4	–	4	4	1	5	7	–	7

¹Geoffrey Howe joined the board on 4 January 2011. In the period from 4 January 2011 to 31 July 2011, a total of seven board meetings were held.

²The Risk Committee was established in December 2010.

The Board

Leadership of the board

The board's primary role is to provide leadership, ensure that the Company is appropriately managed and deliver long-term shareholder value. It sets the group's strategic objectives and provides direction for the group as a whole. A number of key decisions are reserved for and may only be decided by the board, which enables the board and executive management to operate within a clear governance framework.

Below is a summary of matters specifically reserved for the board:

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

The board delegates some matters to its committees as set out in each committee's terms of reference which can be found at www.closebrothers.co.uk/boardcommittees.aspx. The chairman of each committee regularly reports to the board on matters discussed at committee meetings.

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

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

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

- Internal Capital Adequacy Assessment Process ("ICAAP") and reverse stress testing;
- Budget for the 2011/2012 financial year;
- Capital management;
- Acquisitions and disposals;
- Appointment of a new director;
- Results of the employee survey;
- Director training and development;
- Board and committee evaluation; and
- Implications of the Bribery Act and the new regulatory regime.

Board size, composition and independence

The board currently comprises nine members: the chairman, three executive directors and five non-executive directors. Geoffrey Howe was appointed as a non-executive director in January 2011. We believe that this size of board is appropriate for the Company and provides a broad range of views, knowledge and experience whilst also allowing effective participation and challenge by all directors. The structure of the board ensures that no individual or group of individuals is able to dominate the decision making process. The Company is committed to ensuring that any vacancies arising are filled by the most qualified candidates and recognises the value of diversity in the composition of the board. When board positions become available as a result of retirement or resignation the Company will be focused on ensuring that a diverse pool of candidates is considered.

Details of the individual directors and their biographies are set out on pages 8 and 9.

The board has assessed the independence of each non-executive director and is of the opinion that each acts in an independent and objective manner and therefore, under the Code, is regarded as independent, with the exception of Jamie Cayzer-Colvin who is a director of a substantial shareholder. The board's opinion was determined by considering for each non-executive director:

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

Each non-executive director is required to confirm at least annually, whether any circumstances exist which could impair their independence.

Meetings and attendance

The board has regular scheduled meetings. During the year ended 31 July 2011 there were eight scheduled board meetings and two ad hoc board meetings called to deal with specific time critical business matters. There were also additional board meetings convened to deal with operational issues. Details of attendance at board meetings can be found on page 32.

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

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

Chairman and chief executive

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

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

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

Senior independent director

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

Appointment of directors

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

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

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

New directors are also available to meet major shareholders on request.

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 2010 AGM.

Board evaluation

In 2009 Boardroom Review undertook an extensive independent external review of the board and its Committees. In 2010 they were re-appointed to consider the board's progress; the 2010 evaluation demonstrated considerable progress in the board's strategic processes and the overall strengthening of the group's governance structure. In 2011 the Nomination and Governance Committee recommended that the board evaluation should be undertaken internally. The formal and rigorous internal evaluation was led by the company secretary and took the form of confidential questionnaires which assessed the performance of the board with separate specific evaluations completed by board committee members for each of the board committees. The board evaluation focused on the following areas:

- Board competencies and experience;
- Effectiveness of the board and director commitment;
- Succession planning and talent review;
- Strategic direction;
- Board training; and
- Use of time at board meetings.

The feedback from the evaluations was collated by the company secretary, reviewed with the chief executive and chairman and presented to the board in July.

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

Themes arising which will form the basis of an action plan for 2011/2012 are:

- Continued focus on non-executive director succession planning;
- Ensuring there are a wide range of backgrounds and diversity on the board;
- Focus on execution of strategy; and
- Ensuring clarity on the purpose and focus of the Risk Committee.

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

Induction and professional development

On joining the board all directors receive a formal, personalised induction programme to meet their specific requirements. The Company also provides bespoke inductions for directors when they are appointed as a committee chair. In January 2011, Geoffrey Howe was appointed as a non-executive director and received a broad induction tailored to his experience and needs which included site visits, one to one meetings with the executive directors, the company secretary, senior management for the business areas and support functions and a confidential meeting with the external auditor.

Ray Greenshields was appointed chairman of the newly created Risk Committee in December 2010 and undertook a comprehensive induction for that role which included meetings with the chief risk officer, executive directors, senior management across the business areas, heads of the group operating functions, site visits and a tailored training programme with PricewaterhouseCoopers.

Based on feedback from the 2010 board evaluation a central training programme was introduced for the directors which received positive feedback in the 2011 board evaluation. The training took the form of site visits, including visits to the Banking division's Retail and Commercial businesses at Tolworth and the Winterflood business, informal meetings with senior management, in depth business reviews, attendance at external seminars and FSA forums and briefings from both internal and external advisers covering topics such as:

- The Bribery Act;
- The new regulatory regime;
- Treating customers fairly;
- Corporate governance and internal audit; and
- Regulatory risk management.

All directors attended two dedicated strategy sessions in October 2010 and May 2011. Both sessions lasted a day and half and focused on strategy development and execution.

In addition, the chairman discusses and agrees any specific development requirements as part of each non-executive director's half year and year end reviews.

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

Risk and Control Framework

The board has overall responsibility for the group's risk management framework, regulatory compliance and internal control and for ensuring that they work effectively. The risk management framework and associated governance arrangements are designed to ensure that there is a clear organisational structure with well defined, transparent and consistent lines of responsibility and effective processes to identify, manage, monitor and report the risks to which the group is, or might become, exposed.

Identification, measurement and management of risk are strategic priorities for the group. Over the past 12 months the group's risk management framework has continued to evolve. Governance has been strengthened by the establishment of the Risk Committee, outlined in detail on page 37, to lead the management of risk across the group. This is supported by risk and compliance committees in the divisions with responsibility for risk management, internal control and regulatory compliance.

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

The group reviews and revises its risk appetite as part of the strategy setting process and identifies its material risks through this process. This aligns risk taking with the achievement of strategic objectives.

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

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

The key principles underlying risk management in the group are:

- Business management own all the risks assumed throughout the group and are responsible for ensuring that these are managed on a day-to-day basis to ensure that risk and return are balanced;
- The board and business management promote a culture in which risks are identified, assessed and reported in an open, transparent and objective manner;
- The overriding priority is to protect the group’s long-term viability and produce sustainable medium to long-term revenue streams, not simply to maximise short-term profits;
- Risk functions are independent of the businesses but partner closely with and provide support and challenge to the businesses;
- Risk management across the group is proportionate to the scale and complexity of the group’s individual businesses;
- Risk mitigation and control activities are commensurate with the degree of risk; and
- Risk management and control supports decision making.

Risk Committee

Membership

The committee is chaired by Ray Greenshields. The other members of the committee are Douglas Paterson and Bruce Carnegie-Brown who chair the Audit and Remuneration Committees respectively. All members of the committee are independent non-executive directors. A record of attendance at meetings since the committee was established in December 2010 is set out on page 32.

Responsibilities

The committee's primary responsibilities are to:

- Develop, review and recommend risk appetite in the context of both the group's strategy and the economic, market and regulatory environment;
- Monitor the risk profile in relation to current and future strategy and ensure that it is consistent with the risk appetite;
- Consider, evaluate, monitor and challenge the appropriateness and effectiveness of the risk management framework and the oversight arrangements in relation to the business undertaken and risk profile;
- Review and challenge reports and recommendations regarding current risk exposures and overall risk strategy and discuss mitigation, providing advice as appropriate;
- Consider and assess the implications of proposed regulatory and legal changes that are material to the risk profile, risk appetite and management of risk;
- Oversee and challenge the design and execution of stress and scenario testing;
- Provide the advice, oversight and challenge necessary to embed and maintain a supportive risk culture; and
- Agree recommended actions, as appropriate, and ensure that these are owned and followed through to completion.

In addition the committee:

- Provides input and advice to the Remuneration Committee on the alignment of reward structures to the group's risk appetite; and
- Considers and approves the appointment and dismissal of the group chief risk officer.

Meetings

Since the committee was established in December 2010, a total of seven meetings of the committee were held during the year ended 31 July 2011.

The company secretary, or her nominee, acts as secretary to the committee. The group chief risk officer and the group head of compliance attend all meetings and all other non-executive and executive directors who are not committee members attend by invitation.

Other executives, subject matter experts and external advisers are also invited to attend the committee and, as required, to present and advise on reports commissioned by the committee.

Work in 2011

At each committee meeting, the group chief risk officer provides the committee with a presentation on the key risk issues faced by the group. An update is also given on the key issues discussed at the group's executive risk forum the Group Risk and Compliance Committee ("GRCC") and minutes of the GRCC are included in the committee packs for review.

During 2011, the work of the committee particularly focused on a number of key areas, including:

- Oversight of the review, design and implementation of an enhanced risk management framework and received regular reports on the enhancement of the group risk policy framework;
- The group risk appetite framework was developed significantly during 2011 and continues to be enhanced. Risk appetite was regularly reviewed by the committee, which makes recommendations to the board on risk appetite and tolerance as part of this ongoing process;
- Considering the group's risk profile relative to current and future group strategy. The committee reported to the board following each meeting on its consideration of the risk profile of the group and any longer-term macroeconomic or perceived strategic threats to the group and made recommendations as appropriate;
- Providing oversight and challenge for the scenario-based operational risk capital methodology in order to assess the risk capital requirements;
- The committee received additional in depth business reviews on risk management in treasury and credit risk management. These provided a key insight to the risks and associated drivers and how they are measured, controlled and mitigated;
- Review of the risk management operating model, strategy and policy;
- Oversight of the ICAAP with detailed review and challenge of the assumptions and conclusions;
- Consideration of the Individual Liquidity Adequacy Assessment ("ILAA"); and
- The output of stress testing and scenario planning.

The chairman of the committee together with the chief risk officer has a formal programme of meetings with senior management across the group in addition to regular ad hoc meetings.

The Company has complied with the Turnbull Committee guidance for directors. Identifying, evaluating and managing the group's significant risks is an ongoing process which is regularly reviewed by the board, and which has been in place for the year ended 31 July 2011 and up to the date of the approval of these financial statements.

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Audit Committee

Membership

The committee is chaired by Douglas Paterson. The other members of the committee are Bruce Carnegie-Brown and Ray Greenshields who chair the Remuneration and Risk Committees respectively. All members of the committee are independent non-executive directors and served throughout the year. A record of attendance at meetings during the year ended 31 July 2011 is set out on page 32.

Responsibilities

The committee's primary responsibilities are:

- Monitoring the integrity of the financial statements of the Company and the form and content of published announcements;
- Reviewing the appropriateness of the group's accounting policies, accounting treatments, judgements and disclosures in relation to the financial affairs of the group;
- Reviewing the adequacy of the group's system of regulatory compliance and internal control;
- Monitoring the group's processes for internal and external audit; and
- Monitoring and reviewing the group's whistleblowing procedures.

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

Audit Committee chairman

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

The committee chairman plays a leading role in the setting of the annual agenda planning for the committee and with the agenda for each committee meeting. Prior to every committee meeting, the committee chairman holds a meeting with the group finance director, the heads of group internal audit, compliance and risk, company secretarial and the group financial controller to ensure he is fully briefed on all relevant issues and that these are brought to the attention of the committee. In addition he has regular contact with the lead external audit partner throughout the year.

Meetings

A total of five meetings of the committee were held during the year ended 31 July 2011. The committee meetings were scheduled to coincide with the financial reporting and audit cycles of the group. The committee has throughout the year monitored the integrity of the financial statements through a review of the interim and annual reports.

The company secretary, or her nominee, acts as secretary to the committee. The external auditor and the head of group internal audit attend all meetings and the committee meets privately with them at each meeting. The chairman of the board, Jamie Cayzer-Colvin and Geoffrey Howe who are both non-executive directors, the executive directors, heads of internal audit, risk and compliance and the group financial controller attend by invitation.

Other executives, subject matter experts and external advisers are also invited to attend the committee and, as required, to present and advise on reports commissioned by the committee.

Work in 2010/2011

During the year, the committee focused on a number of key areas, including:

- The group's annual and half year reporting including significant reporting judgements made by management;
- Reviewing the accounting issues and proposed accounting treatments relating to the business acquisitions and disposals in the Asset Management division;
- Monitoring market developments in disclosures including reviewing a summary of the recommendations of the Financial Reporting Council discussion paper on Effective Company Stewardship;
- Reviewing the reports of the internal and external auditor;
- Reviewing and approving a revised policy for the approval of non-audit services for the external auditor and the co-source internal audit provider;
- Considering the impact on the committee of the creation of the new Risk Committee; and
- Oversight of the project to implement a new general ledger within the Banking division.

In its consideration of each of these respective areas, the aims of the committee have been to:

- Understand and challenge the valuation and other accounting judgements made by management;
- Satisfy itself that the disclosures in the financial statements about these estimates and valuations are transparent and appropriate;
- Review the conclusions of the external auditor and, where applicable, other experts to understand how they came to their conclusions;
- Satisfy itself that the group internal controls and policies are adequate and appropriate; and
- Ensure controls are in place over the implementation of relevant major projects.

The external auditor presented for approval to the committee their audit plan, audit fee proposal and engagement letter, as well as confirmation of their independence. In addition the external auditor provided the committee with reports summarising their main observations and conclusions arising from their year end audit, half year review and

recommendations for enhancements to the group's reporting and controls.

Group internal audit

The committee receives a report from the head of group internal audit at each meeting. The head of group internal audit has unfettered access to the committee and meets privately with them at each meeting. The head of group internal audit reports functionally to the committee through the chairman of the committee and to the finance director, who provides support and guidance to the function including with regard to the professional development of the head of group internal audit. Group internal audit's role is to assess continuously how operating risks are being managed and controlled throughout the group, to report regularly to the committee on the results of these assessments and influence the continuous development of the risk management and control process through sharing best practice. An annual internal audit plan is presented to the committee each year which focuses in particular on higher risk areas of the group's business. The committee actively monitors the audit reports and ensures relevant matters raised are dealt with in a timely and appropriate manner. These reports offer the committee oversight of group internal audit's work and the co-source internal audit provider and allow the committee to monitor the level of internal control within the group.

External auditor

Deloitte LLP has been the sole auditor of the group since 2008.

The committee is responsible for making recommendations to the board in relation to the appointment, re-appointment and removal of the external auditor and the board submits the committee's recommendations to shareholders for their approval at the AGM. The committee also approves the terms of engagement of the external auditor and fixes their remuneration as authorised by shareholders at the AGM. The board has endorsed the committee's recommendation that shareholders be requested to approve the re-appointment of Deloitte LLP as external auditor at the AGM on 17 November 2011.

The committee undertakes an annual evaluation to assess the independence and objectivity of the external auditor and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements. The annual evaluation is carried out following completion of the annual report and audit.

In assessing the effectiveness of the group's external auditor the committee has regard to:

- The experience and expertise of the engagement team;
- The proposed scope of the audit work planned and executed;
- The quality of the dialogue between the external auditor, the committee and senior management;

- The clarity, quality and robustness of written reports presented to the committee setting out the external auditor's findings arising from the audit;
- The quality of the observations provided to the Company by the external auditor on the group's systems of internal control; and
- The views of management on the performance of the external auditor.

The outcomes of the evaluation were considered by the committee and the board.

There are no contractual obligations restricting the Company's choice of external auditor.

Audit and non-audit work

The committee has adopted a policy on the engagement of the external auditor to supply audit and non-audit work, which takes into account relevant regulation regarding the provision of such services by an external audit firm.

The committee approved a revised policy for the award of non-audit work to the external auditor during the year. The key elements of the policy are:

- The external auditor may not be used where the provision of such services breaches ethical rules or guidelines or where the committee believes there is a threat to auditor independence;
- The provision of any non-audit work expected to exceed a value of £100,000 must be pre-approved by the committee;
- Fees under £100,000 are not considered to be significant in terms of the overall audit fee and are pre-approved, subject to confirmation from the auditor and the agreement of the group financial controller, that the scope neither breaches rules nor impairs independence;
- The committee chairman is informed of all assignments incurring fees of over £10,000 throughout the year; and
- The committee is consulted where cumulative non-audit fees in any given year may exceed the annual audit fee.

The policy reflects the committee's view that there are benefits to the auditor carrying out non-audit work where it is closely related to the audit, where a detailed understanding of the group is required and/or where they can deliver a better value and higher quality service than available elsewhere in the market. The committee balances these benefits with the potential impact on auditor independence.

A breakdown of the fees paid to the external auditor is included in note 6 on page 76 of the Financial Statements. Examples of non-audit work awarded to the external auditor in the year to 31 July 2011 include:

- Transaction support on a business disposal;
- Tax compliance services; and
- Advice and review of the group's approach to new regulatory requirements.

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In assessing the independence of the external auditor, the committee considers the level of non-audit work carried out. Having given consideration to the additional non-audit work undertaken by the auditor in the year, and after review with the audit partner and the executive directors, the committee is satisfied as to the independence of the external auditor.

Nomination and Governance Committee

The committee is chaired by Strone Macpherson. The other members of the committee are Bruce Carnegie-Brown, Ray Greenshields and Douglas Paterson who chair the Remuneration, Risk and Audit Committees respectively. All the members of the committee are independent non-executive directors and served throughout the year. A record of attendance at meetings during the year ended 31 July 2011 is set out on page 32.

Responsibilities

The committee's primary responsibilities are:

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

Work in 2010/2011

During the year the committee focused on:

- Reviewing and recommending a new non-executive director appointment;
- Talent management and succession planning;
- Board evaluation;
- Diversity; and
- Time commitment of non-executive directors.

Remuneration Committee

Details of the role and work of the committee are set out in the Report of the Board of Directors' Remuneration on pages 44 to 55.

Conflicts of Interest

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

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

be most likely to promote the success of the Company. The board believes this procedure operated effectively throughout the year.

Investor Relations

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

In addition to formal announcements and reporting around the financial calendar, the IR programme includes meetings, telephone discussions and investor presentations. During the year detailed presentations on the group's Banking and Asset Management divisions were held in order to provide shareholders with additional detail on the business and strategy of these divisions.

The chief executive and finance director meet with the group's major institutional shareholders on a regular basis. The chairman and the senior independent director are also available to meet with major shareholders, particularly in relation to corporate governance and remuneration. Shareholders also have the opportunity to ask questions to the board at the AGM, either in person or by submitting written questions in advance. The chairmen of each of the board committees attend the AGM and all other directors are expected to attend the meeting.

The group's financial reports, news releases, presentation materials and web casts of financial presentations are available on the IR section of the Close Brothers Group website: www.closebrothers.co.uk.

Substantial Shareholdings

The Company has been notified at 16 September 2011 under the provisions of the Disclosure and Transparency Rules of the following significant interests in the voting rights of the Company.

	Ordinary shares millions	Voting rights %
Caledonia Investments	19.6	13.45
Lloyds Banking Group	16.9	11.58
Prudential	11.6	7.93
Aberdeen Asset Management	6.6	4.52
Artemis Investment Management	6.0	4.08
Legal & General	5.3	3.62
Schroders	5.0	3.39
Aviva	3.0	2.02

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

Going Concern

The group's business activities, together with the factors likely to affect its future development and performance and its summarised financial position are set out in the Chairman's and Chief Executive's Statement and Business Review on pages 2 to 5 and 11 to 23 respectively. The principal risks and uncertainties the group currently faces are described on pages 24 to 28 of the Business Review along with the ways the group seeks to manage those risks.

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

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

Statement of Directors' Responsibilities

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

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

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

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

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

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

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

By order of the board

Elizabeth Lee
Company Secretary

27 September 2011