# Close Brothers Limited

# Annual Report 2010

# Close Brothers Limited

CONTENTS

# Close Brothers Limited

## PROFILE

Close Brothers Limited is a member of Close Brothers Group plc ("CBG"), a Banking, Securities and Asset Management group with a long and successful track record.

Close Brothers Limited is a bank authorised and regulated by the Financial Services Authority. It comprises a number of specialist businesses focused on secured lending to small and medium sized enterprises ("SMEs"), professionals and consumers across a wide range of asset classes, predominantly in the UK.

Close Brothers Limited's strategy is to provide a range of specialist banking services adding value for our clients as a result of our particular expertise. We are dedicated to developing continuity in our relationships with clients through excellent service, objective advice and uncompromising professionalism.

## HIGHLIGHTS

| | 2010 | 2009 |
|---|---|---|
| Profit before taxation and amortisation of goodwill | **£84.1m** | £55.4m |
| Profit before taxation | **£81.7m** | £53.3m |
| Loans and advances to customers | **£2,913m** | £2,365m |
| Deposits by customers | **£3,114m** | £2,919m |
| Total equity shareholders funds | **£386m** | £321m |
| Total assets | **£5,266m** | £5,005m |

## Directors

| | |
|---|---|
| P. Prebensen * | Chairman |
| S.R. Hodges * | Chief Executive |
| J.A.G. Howell * | Director |
| S.P. Bishop | Director |
| R.C. Golden | Director |
| M.P. Hook | Director |
| M.J. McNamara | Director |
| F.D. Pennal | Director |

* Director of Close Brothers Group plc

## Secretary

E.A. Lee

## Auditors

Deloitte LLP

## Registered Office

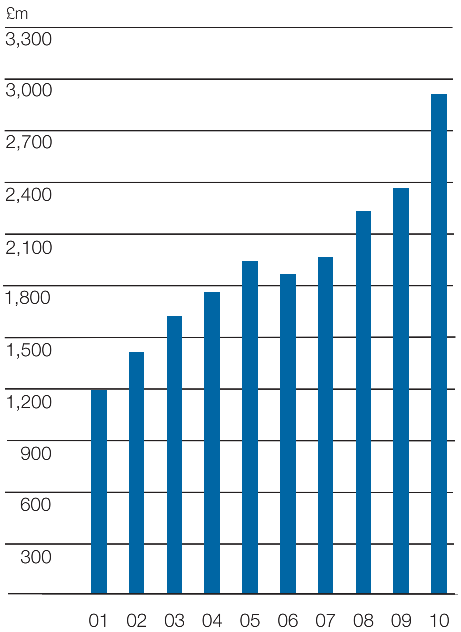
10 Crown Place
London EC2A 4FT
Telephone: 020 7655 3100
Fax: 020 7655 8967
email: cblbank@closebrothers.co.uk
Website: www.closebrothers.co.uk

## Registered Number

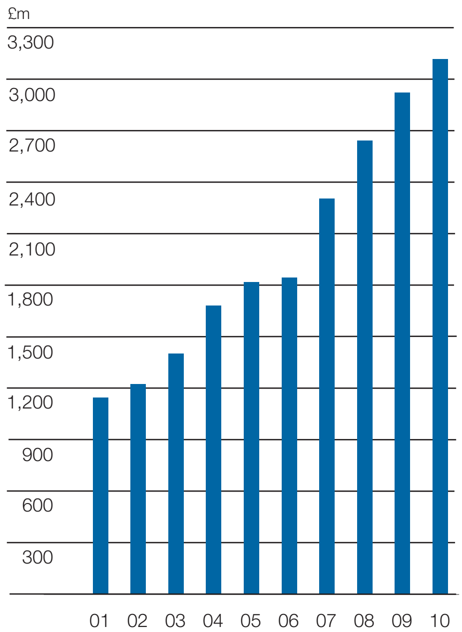
195626

## Close Brothers Limited

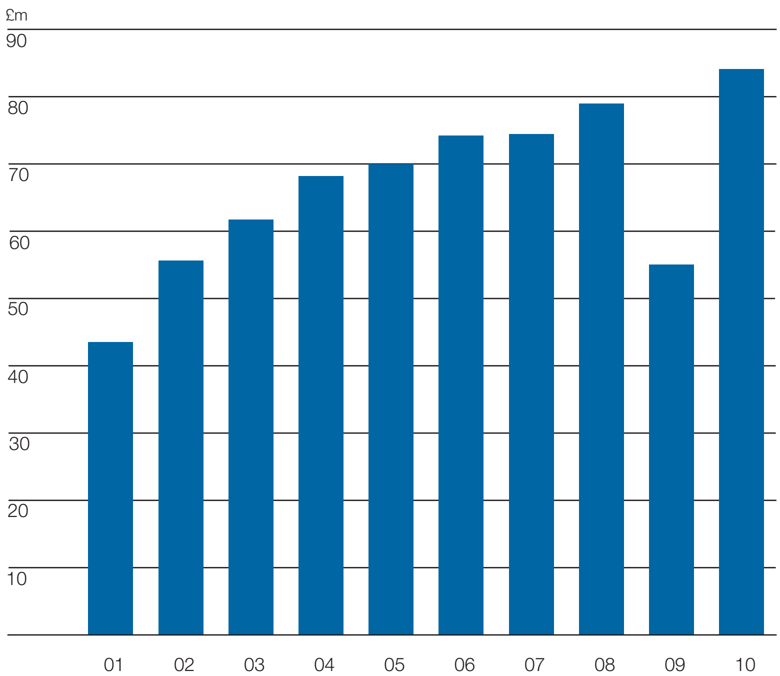
HISTORICAL TRENDS




Loans and advances to customers




Deposits by customers




Profit before taxation and amortisation of goodwill

The directors present their annual report on the affairs of the group, together with the financial statements and auditors' reports for the year ended 31st July, 2010.

## Principal Activities

Close Brothers Limited and its subsidiaries ("the group") provide a range of banking services. We focus on secured, diversified, asset based lending in the UK, Ireland, the Channel Islands, Germany and Spain. We finance a variety of asset classes including insurance premiums, property, domestic and commercial vehicles, specialist plant and machinery and invoice receivables. We also have active treasury and deposit taking operations in London and offshore.

The principal subsidiary undertakings as at 31st July, 2010 and their principal activities are listed in note 11 to these financial statements.

## Results and Dividends

The consolidated results for the year are shown on page 14. The directors approved dividends of £17.1 million (2009: £19.1 million) in respect of the year ended 31st July, 2010.

## Review of Business

The group has delivered a very strong performance benefiting from the strength of its market position across its niche businesses, its solid and diverse funding model and its disciplined approach to lending. The group has actively taken advantage of the more favourable operating environment, with particular focus on areas with significant opportunities.

As a result of loans and advances to customers ("the loan book") growing to a record high, operating profit before taxation and amortisation of goodwill increased 52% to £84.1 million (2009: £55.4 million). This corresponds to an operating margin of 30% (2009: 23%).

Operating income increased 15% to £283.4 million (2009: £246.0 million).

Operating expenses excluding impairment losses on loans and advances and amortisation of goodwill increased 4% to £135.9 million (2009: £130.7 million), driven by significant loan book growth and associated investment in front line resources and infrastructure.

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

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

| Loan Book analysis | 2010 £m | 2009 £m |
|---|---|---|
| Premium finance | 553.6 | 455.5 |
| Motor finance | 648.3 | 539.9 |
| Invoice finance | 262.1 | 170.3 |
| Asset finance | 900.8 | 712.0 |
| Property finance | 547.8 | 487.2 |
| Closing Loan Book | 2,912.6 | 2,364.9 |

The expense/income ratio, which excludes bad debt and amortisation of goodwill, decreased to 48% (2009: 53%), while the compensation ratio reduced to 27% (2009: 30%) as a result of strong income growth and overall effective cost management.

The group's core tier 1 ratio is 10.8% as at 31st July, 2010 (31st July, 2009: 11.0%) and the total capital ratio is 13.0% (31st July, 2009: 13.4%). These ratios are a source of strength in the current environment.

The group achieved a return on opening equity of 19% (2009: 12%) and a return on the average loan book of 3.2% (2009: 2.4%).

Key financial ratios ("KFR") for the group are:

| | 2010 % | 2009 % |
|---|---|---|
| Operating margin[1] | 30 | 23 |
| Expense/income ratio[2] | 48 | 53 |
| Compensation ratio[3] | 27 | 30 |
| Return on opening equity[4] | 19 | 12 |
| Return on net loan book[5] | 3.2 | 2.4 |

1 Profit on ordinary activities before taxation excluding amortisation of goodwill, on operating income.

2 Expenses, being administrative expenses and depreciation, on operating income.

3 Total staff costs on operating income.

4 Profit on ordinary activities after taxation and minority interests excluding amortisation of goodwill, on opening total equity shareholders funds.

5 Profit on ordinary activities before taxation excluding amortisation of goodwill, on the average net loan book.

The group continues to apply prudent and consistent criteria to its lending decisions and to focus on managing credit quality through the cycle.

We continue to plan for a challenging economic and financial market environment in the current financial year.

We continue to see good demand for our specialist lending services, but expect bad debts to continue to run at a high level given the current economic environment.

## Funding and Liquidity

The group has a prudent funding and liquidity position and total available funding for the group increased to £5.3 billion as at 31st July, 2010 (31st July, 2009: £5.2 billion) which is significantly above the loan book of £2.9 billion as at 31st July, 2010 (31st July, 2009: £2.4 billion).

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

Total wholesale facilities have decreased by £0.3 billion to £1.5 billion (2009: £1.8 billion) as some facilities reached maturity and were not replaced before the year end. The average maturity of wholesale funding at 31st July, 2010 reduced to 15 months (31st July, 2009: 24 months), still comfortably above the 12 month maturity of the loan book.

The group is supported by a stable and resilient customer deposit base which increased to £3.1 billion as at 31st July, 2010 (31st July, 2009: £2.9 billion) as a result of additional corporate deposits taken in the year. Deposits with a maturity of less than 12 months increased 45% to £2.9 billion (31st July, 2009: £2.0 billion) reflecting the net effect of matured longer term retail deposits and an increase in shorter term corporate deposits.

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

The group's credit ratings of A/F1 by Fitch and A2/P1 by Moody's, both with a negative outlook, have remained unchanged from the prior year.

## Internal Control and Risk Management

### Overview

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

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

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

- Risk management: Primary responsibility for strategy, performance and risk management lies with the board, the chief executive and the heads of each division and operating business.
- Risk oversight: Oversight of risk management is provided by the Close Brothers Limited (Banking) Risk and Compliance Committee ("BRCC") and the Head of Group Risk working with counterparts in the divisions and operating businesses and with group compliance.
- Independent assurance: Independent assurance on the effectiveness of the risk management systems is provided by CBG Group Internal Audit reporting to the CBG Audit Committee.

There are clear reporting lines and defined areas of responsibility at board, divisional and business level.

Amongst other things, this structure is designed to check that key issues and developments are escalated on a timely basis. The group's risk management framework requires that all of the group's divisions and operating businesses establish a process for identifying, evaluating and managing the key risks that they face.

The system of internal control is supported by a well established organisational structure within the group, with clear levels of responsibility and delegation of authority and a strong control culture embedded in the management of each operating company. Each operating company in the group regularly undertakes a review of, and reports to its board on, these controls and procedures, having due regard to its key risks. Where necessary, steps are taken to improve internal control and risk management further, following these reviews. The principal risks and uncertainties shown on pages 7 to 9 describe these key risks and explains how they are controlled.

The CBG Head of Group Internal Audit regularly reviews the effectiveness of controls and procedures established by the company and its operating businesses to manage key risks. The Head of Group Internal Audit reports functionally to the Audit Committee through the Chairman of that committee and to the CBG Finance Director who provides support and guidance to the function including the professional development of the Head of Group Internal Audit. The Head of Group Internal Audit has unfettered access to the board.

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

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 31st July, 2010 and up to the date of the approval of these financial statements.

## Principal Risks and Uncertainties

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

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

### Reputation

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

### Economic Conditions

Demand for the group's products and services are sensitive to global economic conditions and those within the UK in particular. Underlying economic conditions also impact the levels of competition the group's businesses face and their ability to trade profitably.

Due to the diversified nature of the group's activities, variable and/or volatile economic conditions could impact the group in a number of different ways.

Specific examples of how this could impact on performance include, but are not limited to:

- Lower demand for the group's products and services
- Failure of an institution where material levels of group funds are deposited
- High bad debt charges within the group due to the inability of customers to repay loans combined with the reductions in asset values held as security for those loans.

In order to mitigate and manage the risks identified above, the following actions are taken:

- The group's businesses typically trade in niche areas where they have developed significant market knowledge and expertise. Across the group, we aim to "be there when it matters", aiming to build long term relationships with our customers adding resilience to trading performance in difficult economic conditions
- The business model is based on conservative loan to value ratios, relatively short term loan duration and is predominantly secured on accessible and identifiable assets
- Historically the group's conservative model has enabled it to trade profitably through economic downturns.

### Counterparty Risk

The failure or default of one or more financial institutions could materially impact the financial position of the group.

The group places material amounts of its customer deposits and assets with other financial institutions either by purchasing certificates of deposits and floating rate notes or by placing funds on deposit. The group also enters into derivative contracts in order to hedge interest rate and foreign exchange exposures with counterparties creating an exposure throughout the life of those contracts. As such, the group is at risk of financial loss if one of its counterparties defaults or fails.

The BRCC aims to mitigate and manage this form of risk by monitoring the credit quality of the counterparties with whom the group places deposits or whose debt securities are held, within approved limits. Counterparty exposure and settlement failure monitoring controls are in place.

### Credit Risk

The risk of default or delayed payment of amounts due from customers leading to the write off or write down of assets gives rise to credit risk.

The group advances loans to a range of corporates, SMEs and individuals. Failure to recover the amounts lent or the interest and fees associated with that loan could result in a significant bad debt charge.

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

- Aiming to lend to customers with the lowest likelihood of defaulting by giving due consideration to the credit quality and covenant of the underlying borrower; and
- Lending on a secured basis with significant emphasis on the quality of the underlying security to minimise any loss should the customer not be able to repay.

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

### Funding

The group requires access to funding in order to support lending to customers. However, following the banking crisis of 2008 access to credit markets has become more uncertain. Inability to source sufficient funding could constrain growth and in extreme circumstances require the group to reduce lending levels.

The group remains soundly funded with access to total funding of £5.1 billion as at 31st July, 2010, with a further £0.2 billion of undrawn facilities funding the loan book of £2.9 billion. Since the banking crisis, the group has diversified its sources of funding and currently utilises the following:

- Shareholder funds
- Wholesale facilities
- Term retail deposits
- Short dated customer deposits

Although the cost and availability of these sources continues to be volatile, the group is confident it will be able to access sufficient funding to support its operations.

### Liquidity

The group requires sufficient liquid resources to ensure it is able to meet liabilities as they fall due. If there were to be a lack of available liquid resources, the group's ability to pursue its strategic objectives would be constrained.

Historically, longer maturity funding has been maintained, aiming to "borrow long and lend short." While this positive duration mismatch has narrowed in the current year, it remains a significant strength of the funding model when compared to peers in the industry. The group's total funding as at 31st July, 2010 is £5.3 billion, significantly in excess of its customer loans and advances. The excess is invested in assets such as floating rate notes, short term certificates of deposit and gilts, or placed on deposit at the Bank of England.

The group is currently assessing its liquidity practices against the new requirements of the Financial Services Authority ("FSA") under the Internal Liquidity Adequacy Assessment regime, which it does not expect to result in significant change to those practices.

### Regulation, Tax & Legislation

The group operates in a highly regulated environment. Changes in regulation or the basis of taxation, particularly in the UK, could materially impact the group's performance, especially in the aftermath of the banking crisis of 2008.

There has been significant political and national interest in the roles played by banks and their impact on the wider economy. Major changes to the types and levels of liquidity banks are required to hold have already been introduced by the FSA and more changes, including in relation to levels of capital required to be held and in relation to governance, are likely. Although many of the proposed changes are aimed primarily at larger institutions, the impact on the group's business model and earnings is potentially significant. The more intensive approach to supervision of financial institutions adopted by the FSA following the banking crisis, could lead to a greater degree of regulatory intervention in financial services businesses generally. The recently announced changes in UK regulatory structure may result in a period of increased uncertainty, with the potential for disruption of established regulatory relationships.

The group monitors regulatory developments and engages in dialogue with regulatory authorities on a regular basis and continues to maintain a conservative model with a strong, well capitalised balance sheet and believes it is well placed to react to regulatory change.

CBG has a central tax function which liaises regularly with the tax authorities and has developed a tax policy to ensure a consistent approach is taken to tax issues across the entire group.

### Operational Risk

Operational risk is the risk of loss or other material adverse impact resulting from failed internal processes, people or systems, or from external events.

In common with any financial services group, operational risk is inherent to the group. The group considers the key operational risks relate to employees and information technology.

The group's success is closely aligned to the abilities and experience of its employees. The ability of the group to attract and retain key personnel is critical to the group's prospects in the medium and long term.

The group is implementing a performance management framework and reviews its reward and incentive schemes regularly. This ensures that the group is successful in attracting and retaining the calibre of employees necessary to meet its objectives, while aligning such schemes with risk, compliance and treating customers fairly. The group has succession plans for key employees.

Most of the group's businesses are highly reliant on their IT infrastructure in their daily operations. Failure to respond to new technology, develop existing systems and ensure a robust infrastructure could have a material effect either competitively or operationally on the group's earnings and reputation.

Each of the businesses continually invest in their IT platforms to ensure they are up to date and fit for purpose for the markets they operate in. Additionally, disaster recovery plans are in place with alternative business locations maintained to enable the businesses to respond in a timely manner to a disaster event. The group's overall exposure is further mitigated by individual businesses maintaining discrete IT systems rather than group wide IT platforms.

The group has implemented an operational risk management framework designed to ensure that operational risks are assessed, mitigated and reported in a consistent manner across the group. The group is also exposed to fraud risk both internal and external and continues to review and enhance its anti-fraud controls.

### Market Risk

The group's activities are exposed to losses arising from fixed income price movements and changes to foreign exchange and interest rates.

Interest income is a substantial proportion of the group's revenues. Movements in interest rates have the potential to materially affect the group's earnings.

The group's policy is to match fixed and variable interest rate assets and liabilities utilising interest rate swaps where necessary. Interest rate mismatch policies are established by the BRCC with compliance monitored daily. Returns from the group's capital and reserves are subject to interest rate fluctuations and as a matter of policy are not hedged.

Treasury operations do not trade actively in money market instruments although they are held for liquidity purposes.

The majority of the group's activities are located in the British Isles and are transacted in sterling. The group does however have material currency assets and liabilities primarily due to a range of currency services offered by the group. These currency assets and liabilities are principally certificates of deposit, floating rate notes and lending as well as borrowings and customer deposits.

The foreign exchange exposures arising from the group's assets and liabilities are managed by matching assets and liabilities by currency and the limited use of foreign currency swaps. Exposures are monitored daily against centrally authorised limits. The group does not take speculative proprietary positions in foreign currency.

The group does not hedge its currency exposure to its overseas subsidiaries since it is relatively modest.

## Going Concern

The group's business activities, together with the factors likely to affect its future development, performance and its summarised financial position are set out in the

Report of the Directors. The principal risks and uncertainties the group currently faces are described above along with the ways the group seeks to manage those risks.

The group has a proven strong and conservative business model. Its performance has been resilient in the difficult trading conditions currently being experienced, and in previous downturns. The directors also believe the group has a sound funding and liquidity position and adequate capital resources.

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 and financial statements.

## 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 have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. 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 company and of the profit or loss of the company for that period. In preparing those 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; and,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the group and the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and 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.

In accordance with the provisions of section 418 of the Companies Act 2006, each of the directors at the date of approval of this report confirms that so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of the information. Words and phrases used in this confirmation should be interpreted in accordance with section 418 of the Companies Act 2006.

## Director's Indemnity

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

## Environment

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

The group continued to participate in the Carbon Disclosure Project during the 2010 financial year. This disclosure currently measures annual carbon risk information for the group's head office, 10 Crown Place in London.

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

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

## Employees

The group is committed to recruiting, training, developing and retaining high calibre people in order to maximise their potential and derive business benefits. The group is an equal opportunities employer and does not judge applications for employment by race, gender, age, disability, sexual orientation, nationality or political bias.

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

During the year, the group introduced an Employee Assistance Programme ("EAP") called UNUM LifeWorks which is available to all UK based permanent and fixed term employees. It is a free, confidential service providing support and counselling service which has helped to minimise time off for sick or stress related illnesses. At the year end, over 90% of staff were covered by an EAP or similar programme.

The group is committed to training and development of its staff including training for further qualifications. Many of the group's businesses have a performance management system to assist in identifying training needs of its staff. In addition, the annual appraisal process also provides an opportunity for addressing training objectives.

Over two thirds of employees attended internal or external training courses in the year.

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

Plans are well underway for an employee perception study to be carried out in 2011. This will have clear actions and objectives and assigned accountability for the changes that may be recommended as a result. The last employee survey was carried out in 2007.

## Responsible Finance

Our success and strong reputation depends on treating all customers fairly. We have a successful track record of building long-term relationships with our customers.

Throughout recent difficult markets, the group's robust funding model and prudent underwriting criteria have enabled the continuance of lending to SME's.

During the last 12 months, the group has conducted reviews to ensure its businesses have embedded Treating Customers Fairly ("TCF"). The group has implemented TCF both onshore and offshore, fully supporting the FSA's initiative. CBG group compliance functions are responsible for monitoring the application of TCF across our businesses, ensuring all staff are briefed on TCF policies. TCF is an ongoing process and the group will continue to develop its policies and procedures taking into account regulatory views and industry best practice.

The group recognises its responsibility to minimise the opportunity for fraud across its businesses. All group companies have Anti-Money Laundering ("AML") policies and, where appropriate, Fraud Prevention policies.

Each of our regulated businesses has a dedicated Anti-Money Laundering and Compliance Officer who reports to the CBG Head of Group Compliance. Regular training is given to all staff to ensure continuing awareness of AML and Fraud Prevention issues. In addition, there are whistle blowing arrangements to enable staff to report incidents confidentially. The group is also well positioned to ensure that it complies with the implementation of the Bribery Act in April 2011.

## Charitable Contributions

Contributions made during the year for charitable purposes amounted to £86,128 (2009: £28,592).

## Supplier Payments Policy

All banking transactions are settled in accordance with relevant terms and conditions of business agreed with the counterparty. Average creditor days for other approved expenses was 22 (2009: 22).

## Auditors

Resolutions to appoint Deloitte LLP as the company's auditors and give the directors the authority to determine the auditors' remuneration will be proposed at the forthcoming Annual General Meeting.

## Directors

The present members of the board are set out on page 3.

N.A. Mottershead, R.H. Stone, D.P. Thomson and J.C. Wilson resigned as directors on 24th August, 2009. M.H. Orkin, M.J. Barley and J.B. Heath resigned as directors on 8th January, 2010, 1st April, 2010, and 13th July, 2010 respectively.

M. J. McNamara, M.P. Hook and S. P. Bishop were appointed as directors on 28th April, 2010, 16th July, 2010 and 27th July, 2010, respectively.

E.A. Lee was appointed as Secretary on 30th October, 2009.

R.D. Sellers resigned as Secretary on 30th October, 2009

The remaining directors served throughout the year.

By order of the board

E. A. Lee *Secretary*

24th September, 2010

## Independent Auditors' Report to the members of Close Brothers Limited

We have audited the financial statements of Close Brothers Limited for the year ended 31st July, 2010 which comprise the Consolidated Profit and Loss Account, the Consolidated and Parent Company Balance Sheets, the Consolidated Statement of Total Recognised Gains and Losses and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

## Respective responsibilities of directors and auditors

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

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

## Opinion on financial statements

In our opinion the financial statements:

- give a true fair view of the state of the group's and the parent company's affairs as at 31st July, 2010 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of director's remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Fiona Walker (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
24th September 2010

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

## Close Brothers Limited

CONSOLIDATED PROFIT AND LOSS ACCOUNT

| For the year ended 31st July, 2010 | Note | 2010 £m | 2009 £m |
|---|---|---|---|
| Interest receivable | 4 | 311.7 | 346.4 |
| Interest payable | | (113.9) | (171.7) |
| Net interest income | | 197.8 | 174.7 |
| Fees and commissions receivable | | 78.0 | 65.7 |
| Fees and commissions payable | | (5.8) | (5.6) |
| Other operating income | | 13.4 | 11.2 |
| Other income | | 85.6 | 71.3 |
| Operating income | | 283.4 | 246.0 |
| Administrative expenses | 2 | 124.4 | 120.6 |
| Depreciation | 12 | 11.5 | 10.1 |
| Impairment losses on loans and advances | 8 | 63.4 | 59.9 |
| Amortisation of goodwill | 11 | 2.4 | 2.1 |
| Total operating expenses | | 201.7 | 192.7 |
| **Profit on ordinary activities before taxation** | 4 | 81.7 | 53.3 |
| Taxation on profit on ordinary activities | 5 | 24.0 | 16.5 |
| Profit on ordinary activities after taxation | | 57.7 | 36.8 |
| Minority interests – equity | | 0.1 | (0.4) |
| Profit attributable to shareholders | | 57.6 | 37.2 |
| Dividends paid | | 17.1 | 19.1 |
| Retained profit for the year | 23 | 40.5 | 18.1 |

All income and profits are in respect of continuing operations.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| For the year ended 31st July, 2010 | Note | 2010 £m | 2009 £m |
|---|---|---|---|
| Profit attributable to shareholders | | 57.6 | 37.2 |
| Exchange adjustment | | 0.3 | 0.9 |
| Available for sale reserve | 24 | 26.1 | (20.3) |
| Cash flow hedging reserve | 24 | 8.4 | (15.6) |
| Taxation on movement of other reserves | | (9.6) | 10.1 |
| Total recognised gains and losses relating to the year | | 82.8 | 12.3 |

**At 31st July, 2010**

| | Note | 2010 £m | 2009 £m |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances at central banks | | 452.6 | 1.7 |
| Loans and advances to banks | 7 | 116.6 | 156.3 |
| Loans and advances to customers | 8 | 2,912.6 | 2,364.9 |
| Debt securities | 10 | 1,580.1 | 2,256.9 |
| Derivative financial instruments | 9 | 23.0 | 32.5 |
| Intangible fixed assets – goodwill | 11 | 24.7 | 23.2 |
| Tangible fixed assets | 12 | 40.5 | 34.1 |
| Deferred taxation | 19 | 26.3 | 22.5 |
| Prepayments, accrued income and other assets | | 89.8 | 113.2 |
| Total assets | | 5,266.2 | 5,005.3 |
| **Liabilities** | | | |
| Deposits by banks | 13 | 48.1 | 48.0 |
| Deposits by customers | 14 | 3,114.3 | 2,918.5 |
| Bank loans and overdrafts | 15 | 1,072.6 | 1,322.0 |
| Debt securities – loan notes issued | 16 | 20.8 | 21.4 |
| Derivative financial instruments | 9 | 20.5 | 21.9 |
| Amounts due to group undertakings | 17 | 391.9 | 105.3 |
| Subordinated loan capital | 20 | 75.0 | 75.0 |
| Accruals, deferred income and other liabilities | 18 | 135.9 | 170.7 |
| Total liabilities | | 4,879.1 | 4,682.8 |
| **Shareholders funds** | | | |
| Called up share capital | 21 | 82.5 | 82.5 |
| Profit and loss account | 23 | 325.9 | 295.1 |
| Other reserves | 24 | (22.3) | (56.8) |
| Total equity shareholders funds | | 386.1 | 320.8 |
| Minority interests – equity | | 1.0 | 1.7 |
| Total liabilities and shareholders funds | | 5,266.2 | 5,005.3 |
| **Memorandum items** | | | |
| Contingent liabilities — guarantees | 25 | 1.8 | 10.0 |
| Commitments | 26 | 539.9 | 326.9 |

The financial statements of Close Brothers Limited, registration number 195626, were approved and authorised for issue by the Board of Directors on 24th September, 2010 and signed on its behalf by:

S.R. Hodges
*Director*

# Close Brothers Limited

## COMPANY BALANCE SHEET

**At 31st July, 2010**

| | Note | 2010 £m | 2009 £m |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances at central banks | | 452.6 | 1.7 |
| Loans and advances to banks | 7 | 20.6 | 15.2 |
| Loans and advances to customers | 8 | 975.6 | 831.2 |
| Debt securities | 10 | 1,448.1 | 1,999.5 |
| Derivative financial instruments | 9 | 22.7 | 31.6 |
| Investments in subsidiaries | 11 | 125.1 | 122.4 |
| Amounts due from group undertakings | | 1,875.1 | 1,352.6 |
| Tangible fixed assets | 12 | 5.4 | 2.7 |
| Prepayments, accrued income and other assets | | 64.9 | 84.4 |
| Total assets | | 4,990.1 | 4,441.3 |
| **Liabilities** | | | |
| Deposits by banks | 13 | 37.8 | 33.0 |
| Deposits by customers | 14 | 2,469.1 | 2,241.9 |
| Bank loans and overdrafts | 15 | 1,065.8 | 1,315.1 |
| Derivative financial instruments | 9 | 20.0 | 21.1 |
| Amounts due to group undertakings | 17 | 889.7 | 464.0 |
| Subordinated loan capital | 20 | 75.0 | 75.0 |
| Accruals, deferred income and other liabilities | 18 | 79.6 | 113.1 |
| Total liabilities | | 4,637.0 | 4,263.2 |
| **Shareholders funds** | | | |
| Called up share capital | 21 | 82.5 | 82.5 |
| Profit and loss account | 23 | 292.9 | 152.4 |
| Other reserves | 24 | (22.3) | (56.8) |
| Total equity shareholders funds | | 353.1 | 178.1 |
| Total liabilities and shareholders funds | | 4,990.1 | 4,441.3 |
| **Memorandum items** | | | |
| Contingent liabilities — guarantees | 25 | 0.5 | 8.9 |
| Commitments | 26 | 163.9 | 77.4 |

The financial statements of Close Brothers Limited, registration number 195626, were approved and authorised for issue by the Board of Directors on 24th September, 2010 and signed on its behalf by:

S.R. Hodges
*Director*

## 1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

(a) Format of financial statements

The group and company financial statements are prepared in accordance with the special provisions of Schedule 2 of SI 2008 No. 410 of the Companies Act 2006 relating to banking groups and are prepared in accordance with applicable accounting standards and Statements of Recommended Practice issued by the British Bankers' Association and the Finance and Leasing Association.

(b) Accounting convention

The financial statements have been prepared under the historical cost convention, except for the revaluation of available for sale financial assets and all derivative contracts. The preparation of financial statements in accordance with United Kingdom Accepted Accounting Practice ("UK GAAP") requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the group's accounting policies. These notes set out areas involving a higher degree of judgment or complexity or areas where assumptions are significant to the financial statements. These areas include the fair value of financial assets and liabilities and impairment losses on loans and advances.

The financial statements have been prepared as a going concern as set out in the going concern section in the Report of the Directors.

(c) Basis of consolidation

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

Under the acquisition method of accounting, with some limited exceptions, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. The interest of minority shareholders is measured either at fair value or at the minority's proportion of the net assets acquired. Any excess of the cost of acquisition over net assets is capitalised as goodwill. All intra-group balances, transactions, income and expenses are eliminated.

(d) Net interest income

Interest on loans and advances made by the group, and fee income and expense and other direct costs relating to loan origination, restructuring or commitments are recognised in the profit and loss account using the effective interest rate ("EIR") method. The EIR method applies a rate that discounts estimated future cash payments or receipts relating to a financial instrument to its net carrying amount. The cash flows take into account all contractual terms of the financial instrument including transaction costs and all other premiums or discounts but not future credit losses.

(e) Fees and commissions

Where fees that have not been included within the EIR method are earned on the execution of a significant act, such as fees arising from negotiating or arranging a transaction for a third party, they are recognised as revenue when that act has been completed. Fees and corresponding expenses in respect of other services are recognised in the profit and loss account as the right to consideration or payment accrues through performance of services. To the extent that fees and commissions are recognised in advance of billing they are included as accrued income or expense.

(f) Loans and advances to customers

Loans and advances are recognised when cash is advanced to borrowers at cost including any transaction costs and are classified as loans and receivables under FRS 26. They are then amortised using the EIR method and recorded net of provisions for impairment losses. The carrying value of loans and advances approximates to their fair value.

Impairment provisions are made if there is objective evidence of impairment as a result of one or more subsequent events regarding a significant loan or a portfolio of loans ("a loan") and its impact can be reliably estimated.

The amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the original EIR. As the loan amortises over its life, the impairment loss may

## 1. Accounting policies *continued*

amortise. All impairment losses are reviewed at least at each reporting date. If subsequently the amount of the loss decreases as a result of a new event, the relevant element of the outstanding impairment loss is reversed. Interest on impaired financial assets is recognised at the original EIR applied to the carrying amount as reduced by an allowance for impairment.

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

(g) Finance leases, operating leases and hire purchase

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 the profit and loss account in proportion to the net funds invested.

Rental costs under other leases and hire purchase contracts are charged to the profit and loss account in equal annual amounts over the period of the leases.

(h) Debt securities

Fair values of all financial instruments are obtained from independent open market sources, independent professional valuers or discounted cash flow models based on prevailing market rates.

Floating rate notes held to maturity

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

Financial instruments classified as available for sale

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

Certificates of deposit classified as loans and receivables under FRS 26

These are purchased for liquidity purposes and normally held to maturity. They are unlisted and due to mature within one year and are carried at amortised cost.

(i) Tangible fixed assets

Tangible fixed assets held for long term investment are stated at cost less accumulated depreciation and less provisions for impairment, if any. The provision for depreciation on these assets is calculated to write off their cost over their estimated useful lives by equal annual instalments as follows:

| | |
|---|---|
| Fixtures, fittings and equipment | 10%-33% |
| Motor vehicles | 25% |
| Freehold and long leasehold property | 2.5% |
| Short leasehold property | Over the length of the lease |

(j) Foreign currencies

For the company and those subsidiaries whose balance sheets are denominated in sterling, 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 profit and loss account.

The balance sheets of subsidiaries denominated in foreign currencies are translated into sterling at the closing rates. The profit and loss accounts for these subsidiaries are translated at the average rates and exchange differences arising are taken to the exchange movements reserve.

## 1. Accounting policies *continued*

(k) Current tax

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

(l) Deferred tax

Deferred tax is provided in full on material timing differences, at the rates of taxation expected to apply when these differences crystallise, arising from the inclusion of items of income and expenditure in taxation computations in periods different from those for which they are included in the financial statements. A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be sufficient taxable profits from which the future reversal of the underlying timing differences can be deducted.

(m) Goodwill

Before 1st August, 1998, goodwill arising on the acquisition of business assets, representing the excess of the purchase consideration over the fair value ascribed to the net tangible assets, was written off to reserves. From 1st August, 1998, as required by FRS 10, such goodwill arising has been capitalised as an intangible asset and is amortised in equal annual instalments, unless there is impairment, over its estimated useful life of up to 20 years.

(n) Pensions

Contributions to defined contribution schemes are charged in the profit and loss account when they become payable. For the group's one defined benefits scheme, which was closed to new entrants in 1996 and involved 84 members as at 31st July, 2010, the cost of providing pensions is charged to the profit and loss account so as to spread the cost for those employees over their expected service lives.

(o) Derivative financial instruments ("derivatives") and hedge accounting

In general, derivatives are used to minimise the impact of interest and currency rate changes to the group's financial instruments and meet the FRS 26 criteria for hedge accounting. They are carried on the balance sheet at fair value which is obtained from quoted market prices in active markets, including recent market transactions, and discounted cash flow models.

On acquisition, a derivative is designated as a hedge and the group formally documents the relationship between the derivative and the hedged item. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivative is highly effective in offsetting changes in fair values or cash flows of hedged items. If a hedge is 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 profit and loss account. 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 profit and loss account, 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 profit and loss account in the period when the hedged item affects income.

(p) Financial liabilities

Financial liabilities are classified as other liabilities. Financial liabilities, other than derivative financial instruments, are recognised initially at fair value plus transaction costs directly attributable to the acquisition or issue of those financial liabilities. After initial recognition they are measured at amortised cost using the EIR method.

(q) Investment in subsidiaries

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

(r) Share-based payments

Close Brothers Group Plc, the ultimate parent company, has for many years operated long term incentive arrangements in which group employees have participated. These include an annual discretionary performance arrangement ("DSA") and three long term equity based incentive

## 1. Accounting policies *continued*

schemes ("Incentive Schemes"); the 2009 Long Term Incentive Plans ("LTIP") which replaced the 2004 Long Term Incentive Plan, the 1995 Executive Share Option Scheme and the HMRC approved Savings Related Share Option Scheme. The group has applied FRS 20 to all grants of equity instruments under these Incentive Schemes after 7th November, 2002.

The costs of the annual DSA 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 profit and loss account in the year to which the award relates.

The cost of the Incentive Schemes is based on the fair value of awards on the date of grant. Fair values for market based performance conditions are determined using a stochastic (Monte Carlo simulation) pricing model for the LTIP and the Black-Scholes pricing model for the others. Both models take into account the exercise price of the option, the current share price, the risk free interest rate, the expected volatility of the company's share price over the life of the option award and other relevant factors. 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 profit and loss account on a straight line basis over the vesting period, with a corresponding credit to the amounts owed to CBG. At the end of the vesting period, or upon exercise, lapse or forfeit if earlier, this credit is transferred to retained reserves. Further information on the group's schemes are provided in note 22.

(s) Cash flow statement
The company has taken advantage of the exemption within FRS 1 (Revised) for 90 per cent or more owned subsidiaries. Accordingly, it has not presented a cash flow statement.

## 2. Administrative expenses

| | 2010 | 2009 |
|---|---|---|
| | £m | £m |
| Staff costs: | | |
| Wages & salaries | 65.4 | 64.2 |
| Social security costs | 8.2 | 7.5 |
| Share-based awards | 0.7 | – |
| Other pension costs | 2.8 | 2.7 |
| Total staff costs | 77.1 | 74.4 |
| Other administrative expenses | 47.3 | 46.2 |
| Total administrative expenses | 124.4 | 120.6 |

The average number of persons employed by the group during the year was 1,503 (2009: 1,422) and by the company was 419 (2009: 342).

## 3. Information regarding directors

Directors' fees were £nil (2009: £nil) and directors' emoluments, excluding pension contributions, were £2,301,000 (2009: £3,121,000).

The highest paid director received emoluments of £709,000 (2009: £676,000) and pension contributions of £24,000 (2009: £24,000).

Contributions paid to money purchase pension schemes, of which seven (2009: six) directors were members, amounted to £76,000 (2009: £107,000). Two (2009: two) directors were members of a defined benefits pension scheme, and the company paid £77,000 (2009: £87,000) to the scheme on their behalf.

## 4. Profit on ordinary activities before taxation

| | 2010 | 2009 |
|---|---|---|
| | £m | £m |
| The profit on ordinary activities before taxation is stated after charging: | | |
| Auditors' remuneration: | | |
| Audit of the company's annual accounts | 0.1 | 0.1 |
| Audit of the company's subsidiaries pursuant to legislation | 0.4 | 0.6 |
| Other services relating to taxation | 0.2 | 0.1 |
| Other fees | 0.5 | 0.1 |
| Operating lease rentals payable | 5.2 | 4.9 |
| Interest receivable and similar income arising from debt securities | 29.6 | 79.2 |
| Other interest receivable and similar income | 282.1 | 267.2 |
| Total interest receivable and similar income | 311.7 | 346.4 |

Total fee income and expense (other than calculated using the effective interest rate method) on financial instruments that are not at fair value through profit and loss:

| | 2010 | 2009 |
|---|---|---|
| Fee income | 72.9 | 52.5 |
| Fee expense | (5.8) | (4.0) |
| Aggregate rentals received in respect of finance leases and hire purchase contracts | 567.0 | 596.7 |
| Aggregate rentals received in respect of operating leases | 11.3 | 10.3 |

Substantially all income, profits and net assets relate to banking activities which are located in the British Isles.

## 5. Taxation on profit on ordinary activities

| | 2010 | 2009 |
|---|---|---|
| | £m | £m |
| UK corporation taxation | 25.8 | 20.3 |
| Foreign taxation | 0.1 | 0.4 |
| Adjustment in respect of previous years | 4.3 | (1.8) |
| Current year taxation charge | 30.2 | 18.9 |
| Deferred taxation (note 19) | (6.2) | (2.4) |
| Taxation on profit on ordinary activities | 24.0 | 16.5 |
| Reconciliation to current year taxation charge: | | |
| Operating profit on ordinary activities before taxation | 81.7 | 53.3 |
| Taxation on above operating profit at 28% (2009: 28%) | 22.9 | 14.9 |
| Goodwill amortisation disallowed | 0.5 | 0.5 |
| Effect of different tax rates in other jurisdictions | (0.1) | (0.3) |
| Disallowable expenses and other permanent differences | 0.2 | 0.7 |
| Origination and reversal of timing differences | 2.4 | 4.9 |
| Prior year under/(over) provision | 4.3 | (1.8) |
| Current year taxation charge | 30.2 | 18.9 |

## 6. Profit of parent undertaking

As permitted by Section 408(3) of the Companies Act 2006, the profit and loss account of the parent undertaking is not presented as part of these financial statements. The parent undertaking's profit for the financial year, before dividends payable, amounted to £167.2 million (2009: £18.0 million).

## 7. Loans and advances to banks

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | £m | £m | £m | £m |
| Repayable: | | | | |
| On demand | 94.5 | 143.0 | 14.4 | 9.9 |
| Within three months | 19.7 | 11.2 | 6.0 | 5.2 |
| Between three months and one year | 2.4 | 2.1 | 0.2 | 0.1 |
| Total loans and advances to banks | 116.6 | 156.3 | 20.6 | 15.2 |

Loans and advances to banks are classified as loans and receivables under FRS 26.

## 8. Loans and advances to customers

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | £m | £m | £m | £m |
| Loans and advances comprise: | | | | |
| Hire purchase agreement receivables | 1,033.5 | 834.1 | – | – |
| Finance lease receivables | 232.9 | 242.9 | – | – |
| Other loans and advances | 1,646.2 | 1,287.9 | 975.6 | 831.2 |
| Total loans and advances to customers | 2,912.6 | 2,364.9 | 975.6 | 831.2 |

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £2,169.1 million (2009: £1,698.4 million).

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | £m | £m | £m | £m |
| Loans and advances are repayable: | | | | |
| Within three months | 1,118.9 | 745.6 | 609.6 | 351.4 |
| Between three months and one year | 822.9 | 827.6 | 335.7 | 415.3 |
| Between one and two years | 490.6 | 425.1 | 50.0 | 72.0 |
| Between two and five years | 554.5 | 426.3 | 29.3 | 23.3 |
| More than five years | 12.8 | 11.5 | – | – |
| Impairment losses | (87.1) | (71.2) | (49.0) | (30.8) |
| Total loans and advances to customers | 2,912.6 | 2,364.9 | 975.6 | 831.2 |

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | £m | £m | £m | £m |
| Impairment losses on loans and advances: | | | | |
| Opening balance | 71.2 | 50.3 | 30.8 | 15.6 |
| Charge for the year | 63.4 | 59.9 | 29.6 | 23.9 |
| Amounts written off net of recoveries | (47.5) | (39.0) | (11.4) | (8.7) |
| Closing balance | 87.1 | 71.2 | 49.0 | 30.8 |

## 9. Derivative financial instruments

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | | 2009 | | |
| | Notional | Assets | Liabilities | Notional | Assets | Liabilities |
| | £m | £m | £m | £m | £m | £m |
| Exchange rate contracts | 423.6 | 14.5 | 8.8 | 707.7 | 21.5 | 8.0 |
| Interest rate contracts | 2,282.0 | 8.5 | 11.7 | 2,029.7 | 11.0 | 13.9 |
| Total derivative financial instruments | 2,705.6 | 23.0 | 20.5 | 2,737.4 | 32.5 | 21.9 |

| | Company | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | | 2009 | | |
| | Notional | Assets | Liabilities | Notional | Assets | Liabilities |
| | £m | £m | £m | £m | £m | £m |
| Exchange rate contracts | 405.7 | 14.2 | 8.3 | 630.7 | 20.6 | 7.2 |
| Interest rate contracts | 2,282.0 | 8.5 | 11.7 | 2,029.7 | 11.0 | 13.9 |
| Total derivative financial instruments | 2,687.7 | 22.7 | 20.0 | 2,660.4 | 31.6 | 21.1 |

Nominal amounts of interest rate contracts for the group and the company totalling £1,000.8 million (2009: £1,312.0 million) and exchange rate contracts totalling £20.8 million (2009: £372.3 million) have a residual maturity of more than one year. The group enters into derivative contracts with a number of financial institutions as a principal only to minimise the impact of interest and currency rate changes to its financial assets and liabilities. The notional value of exchange rate contracts has decreased by £284.1 million due to a reduction in the requirement to hedge euro and US dollar denominated funding in the year.

Included in the above group and company figures are the following FRS 26 cash flow hedges and FRS 26 fair value hedges:

Cash flow hedges:

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Notional | Assets | Liabilities | Notional | Assets | Liabilities |
| | £m | £m | £m | £m | £m | £m |
| Exchange rate contracts | 124.8 | 4.6 | 3.2 | 128.3 | 6.6 | 2.1 |
| Interest rate contracts | 874.4 | 0.3 | 5.7 | 1,027.7 | 2.1 | 13.9 |
| Total cash flow hedges | 999.2 | 4.9 | 8.9 | 1,156.0 | 8.7 | 16.0 |

Fair value hedges:

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Notional | Assets | Liabilities | Notional | Assets | Liabilities |
| | £m | £m | £m | £m | £m | £m |
| Exchange rate contracts | 242.1 | 8.9 | 4.3 | 464.1 | 11.6 | 2.7 |
| Interest rate contracts | 918.1 | 7.3 | 5.6 | 1,002.0 | 8.9 | – |
| Total fair value hedges | 1,160.2 | 16.2 | 9.9 | 1,466.1 | 20.5 | 2.7 |

The fair value hedges hedge the interest rate and foreign exchange risks in recognised financial assets and liabilities; the gain on the hedged item was £11.5 million (2009: £17.8 million) which was offset by the hedging instrument. 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 7 years (2009: 5); there was immaterial ineffectiveness.

## 9. Derivative financial instruments *continued*

The cash flow hedge amounts that were removed from equity and included in profit and loss for the years ended 31st July, 2010 and 2009 were immaterial.

The amount recognised in equity for cash flow hedges was a credit of £8.4 million (2009: £15.6 million debit).

## 10. Debt securities

| | Group | | | |
|---|---|---|---|---|
| | Held to maturity assets | Available for sale assets | Loans and receivables | Total |
| | £m | £m | £m | £m |
| **2010** | | | | |
| Certificates of deposit | – | – | 672.1 | 672.1 |
| Floating rate notes | 7.0 | 615.4 | – | 622.4 |
| Gilts and government guaranteed debt | – | 285.6 | – | 285.6 |
| | 7.0 | 901.0 | 672.1 | 1,580.1 |
| | Held to maturity assets | Available for sale assets | Loans and receivables | Total |
| | £m | £m | £m | £m |
| 2009 | | | | |
| Certificates of deposit | – | – | 1,202.2 | 1,202.2 |
| Floating rate notes | 15.0 | 754.7 | – | 769.7 |
| Gilts and government guaranteed debt | – | 285.0 | – | 285.0 |
| | 15.0 | 1,039.7 | 1,202.2 | 2,256.9 |

| | Company | | | |
|---|---|---|---|---|
| | Held to maturity assets | Available for sale assets | Loans and receivables | Total |
| | £m | £m | £m | £m |
| **2010** | | | | |
| Certificates of deposit | – | – | 547.1 | 547.1 |
| Floating rate notes | – | 615.4 | – | 615.4 |
| Gilts and government guaranteed debt | – | 285.6 | – | 285.6 |
| | – | 901.0 | 547.1 | 1,448.1 |
| | Held to maturity assets | Available for sale assets | Loans and receivables | Total |
| | £m | £m | £m | £m |
| 2009 | | | | |
| Certificates of deposit | – | – | 959.8 | 959.8 |
| Floating rate notes | – | 754.7 | – | 754.7 |
| Gilts and government guaranteed debt | – | 285.0 | – | 285.0 |
| | – | 1,039.7 | 959.8 | 1,999.5 |

## 10. Debt securities *continued*

Movements on financial assets during the year comprise:

| | Group | | | |
|---|---|---|---|---|
| | Gilts and government guaranteed debt | Floating rate notes | | |
| | Available for sale | Available for sale | Held to maturity | Total |
| | £m | £m | £m | £m |
| At 1st August, 2009 | 285.0 | 754.7 | 15.0 | 1,054.7 |
| Additions | – | – | – | – |
| Disposals | – | (32.5) | – | (32.5) |
| Maturities | – | (137.1) | (8.0) | (145.1) |
| Exchange movements | – | 4.1 | – | 4.1 |
| Movement in fair value | 0.6 | 26.2 | – | 26.8 |
| **At 31st July, 2010** | **285.6** | **615.4** | **7.0** | **908.0** |

In respect of floating rate notes classified as available for sale, £23.0 million (2009: £21.5 million) have been issued by bank holding companies with the remainder by banks and building societies.

| | Group | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | **Book value** | **Fair value** | Book value | Fair value |
| | **£m** | **£m** | £m | £m |
| Certificates of deposit classified as loans and receivables | **672.1** | **672.4** | 1,202.2 | 1,207.9 |
| Floating rate notes held to maturity | **7.0** | **6.8** | 15.0 | 14.4 |

The company has certificates of deposits classified as loans and receivables with a book value and fair value of £547.1 million and £547.4 million respectively (2009: £959.8 million and £964.7 million respectively). The company had £nil (2009: £nil) floating rate notes held to maturity.

£nil million (2009: £8.0 million) of the floating rate notes held to maturity were due to mature within one year.

The directors believe that the fair value of the group's other non-trading financial instruments materially equate to their book value.

With respect to disposals during the year of available for sale assets, an immaterial amount (2009: £nil) was removed from equity and recognised in the profit and loss account. The amount recognised in equity during the period was a credit of £26.1 million (2009: £20.3 million debit).

## 11. Investments in subsidiaries

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

| Name of company | Principal activity | Percentage of equity held by group | Country of registration and operation |
|---|---|---|---|
| Close Asset Finance Limited | Commercial asset financing | 100 | England |
| Close International Bank Holdings Limited | Private banking holding company | 100 | Guernsey |
| Close Invoice Finance Limited | Debt factoring and invoice discounting | 100 | England |
| Close Motor Finance Limited | Motor financing | 100 | England |

The movements in the company's investments in subsidiaries were as follows:

| | £m |
|---|---|
| At 1st August, 2009 | 122.4 |
| Movement in investments in subsidiaries during the year | 2.7 |
| **At 31st July, 2010** | **125.1** |

## 11. Investments in subsidiaries *continued*

### Other business combinations

The company purchased the loan book of GMAC Commercial Finance Limited (UK) on 4th January, 2010.

The fair value of the net assets of this acquisition, which has been consolidated using acquisition accounting, is shown below:

| | Total |
|---|---|
| | £m |
| Net assets acquired | 93.8 |
| Cash and deferred consideration relating to the acquisition | 97.7 |
| Goodwill arising | 3.9 |

The movement in goodwill was as follows:

| | £m |
|---|---|
| Original cost capitalised at 1st August, 2009 | 53.0 |
| Amortisation in prior years | (29.8) |
| Net book value at 1st August, 2009 | 23.2 |
| Amortisation for the year | (2.4) |
| Goodwill arising from the acquisition of the above net assets | 3.9 |
| Net book value at 31st July, 2010 | 24.7 |

The book value of assets immediately before the acquisition approximated to the fair value.

## 12. Tangible fixed assets

| | Land and buildings | Operating leases | Fixtures, fittings and equipment | Motor vehicles | Total |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| **Group** | | | | | |
| Cost: | | | | | |
| At 1st August, 2009 | 2.4 | 37.4 | 30.3 | 1.8 | 71.9 |
| Additions | – | 12.6 | 7.7 | 0.3 | 20.6 |
| Disposals | – | (6.4) | (1.3) | (0.4) | (8.1) |
| **At 31st July, 2010** | **2.4** | **43.6** | **36.7** | **1.7** | **84.4** |
| Depreciation: | | | | | |
| At 1st August, 2009 | 1.6 | 13.0 | 22.2 | 1.0 | 37.8 |
| Charge for the year | 0.3 | 6.2 | 4.6 | 0.4 | 11.5 |
| Disposals | – | (3.8) | (1.3) | (0.3) | (5.4) |
| **At 31st July, 2010** | **1.9** | **15.4** | **25.5** | **1.1** | **43.9** |
| **Net book value at 31st July, 2010** | **0.5** | **28.2** | **11.2** | **0.6** | **40.5** |
| Net book value at 31st July, 2009 | 0.8 | 24.4 | 8.1 | 0.8 | 34.1 |
| **Company** | | | | | |
| Cost: | | | | | |
| At 1st August, 2009 | | | 9.5 | 0.7 | 10.2 |
| Additions | | | 4.1 | 0.1 | 4.2 |
| Disposals | | | – | (0.1) | (0.1) |
| **At 31st July, 2010** | | | **13.6** | **0.7** | **14.3** |
| Depreciation: | | | | | |
| At 1st August, 2009 | | | 7.3 | 0.2 | 7.5 |
| Charge for the year | | | 1.3 | 0.1 | 1.4 |
| **At 31st July, 2010** | | | **8.6** | **0.3** | **8.9** |
| **Net book value at 31st July, 2010** | | | **5.0** | **0.4** | **5.4** |
| Net book value at 31st July, 2009 | | | 2.2 | 0.5 | 2.7 |

| The net book value of land and buildings comprises: | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **£m** | £m |
| Long leasehold | **0.1** | 0.1 |
| Short leasehold | **0.4** | 0.7 |
| Net book value of land and buildings | **0.5** | 0.8 |

## 13. Deposits by banks

| | Group 2010 £m | Group 2009 £m | Company 2010 £m | Company 2009 £m |
|---|---|---|---|---|
| Repayable: | | | | |
| On demand | 23.0 | 17.2 | 18.1 | 11.0 |
| Within three months | 25.1 | 19.6 | 19.7 | 13.5 |
| Between three months and one year | – | 10.6 | – | 8.5 |
| Between one and two years | – | 0.6 | – | – |
| Total deposits by banks | 48.1 | 48.0 | 37.8 | 33.0 |

## 14. Deposits by customers

| | Group 2010 £m | Group 2009 £m | Company 2010 £m | Company 2009 £m |
|---|---|---|---|---|
| Repayable: | | | | |
| On demand | 780.8 | 767.6 | 379.8 | 304.8 |
| Within three months | 787.6 | 916.6 | 699.6 | 761.9 |
| Between three months and one year | 1,301.3 | 345.5 | 1,151.1 | 305.8 |
| Between one and two years | 186.4 | 814.9 | 182.7 | 796.1 |
| Between two and five years | 56.0 | 73.9 | 53.7 | 73.3 |
| More than five years | 2.2 | – | 2.2 | – |
| Total deposits by customers | 3,114.3 | 2,918.5 | 2,469.1 | 2,241.9 |

## 15. Bank loans and overdrafts

| | Group 2010 £m | Group 2009 £m | Company 2010 £m | Company 2009 £m |
|---|---|---|---|---|
| Repayable: | | | | |
| On demand | 7.9 | 8.1 | 1.1 | 1.2 |
| Within three months | 337.5 | 0.6 | 337.5 | 0.6 |
| Between three months and one year | 617.2 | 199.7 | 617.2 | 199.7 |
| Between one and two years | 50.0 | 1,003.6 | 50.0 | 1,003.6 |
| Between two and five years | 60.0 | 110.0 | 60.0 | 110.0 |
| Total bank loans and overdrafts | 1,072.6 | 1,322.0 | 1,065.8 | 1,315.1 |

Included in the above table for group and company is £402.2 million with a residual maturity of between three months and one year (2009: £405.1 million with a residual maturity of between one and two years) of committed sale and repurchase facilities.

## 16. Debt securities – loan notes issued

| | Group 2010 £m | Group 2009 £m |
|---|---|---|
| Repayable: | | |
| Between two and five years | 20.8 | – |
| More than five years | – | 21.4 |

The loan notes are euro denominated and mature on 20th April, 2015.

## 17. Amounts due to group undertakings

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | £m | £m | £m | £m |
| Amounts due to ultimate parent undertaking | 358.5 | 69.0 | 358.2 | 66.3 |
| Amounts due to fellow subsidiary undertakings | 33.4 | 36.3 | 531.5 | 397.7 |
| Total amounts due to group undertakings | 391.9 | 105.3 | 889.7 | 464.0 |

## 18. Accruals, deferred income and other liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | £m | £m | £m | £m |
| Accruals and deferred income | 79.3 | 102.4 | 56.5 | 77.8 |
| Current corporation taxation | 24.0 | 9.7 | 8.1 | 3.0 |
| Other liabilities | 32.6 | 58.6 | 15.0 | 32.3 |
| Total other liabilities | 135.9 | 170.7 | 79.6 | 113.1 |

## 19. Deferred taxation

| | Group | |
|---|---|---|
| | 2010 | 2009 |
| | £m | £m |
| Capital allowances | 20.6 | 13.2 |
| Short term and other timing differences | 5.7 | 9.3 |
| Total deferred taxation asset | 26.3 | 22.5 |

| | |
|---|---|
| | £m |
| Movement during the year: | |
| Deferred taxation asset at 1st August, 2009 | 22.5 |
| Credited to the profit and loss account | 6.2 |
| Other movements | (2.4) |
| **Deferred taxation asset at 31st July, 2010** | **26.3** |

## 20. Subordinated loan capital

| Final maturity date | Prepayment date at issuer's option | Initial rate (%) | 2010 £m | 2009 £m |
|---|---|---|---|---|
| 2020 | 2015 | 7.39 | 30.0 | 30.0 |
| 2026 | 2021 | 7.42 | 15.0 | 15.0 |
| 2026 | 2021 | 7.62 | 30.0 | 30.0 |
| Total subordinated loan capital | | | 75.0 | 75.0 |

The subordinated loan capital is denominated in sterling. If the company opts not to prepay at the prepayment date, the interest rate is reset to a margin over the yield of 5 year UK Treasury Securities.

There are no circumstances in which early repayment can be demanded of any issue other than upon the passing of a winding-up order in respect of the company, in which case the loan capital is subordinated to the claims of all unsubordinated creditors, including depositors.

## 21. Share capital

| | 2010 | 2009 |
|---|---|---|
| | £m | £m |
| Authorised ordinary shares of £1 each | 100.0 | 100.0 |
| Allotted, issued and fully paid | 82.5 | 82.5 |

## 22. Share-based awards

Share based awards have been granted under the following Close Brothers Group plc share schemes: the 1995 Executive Share Option scheme, the Inland Revenue approved Savings Related Share Option Scheme (the "SAYE Scheme"), the 2004 Long Term Incentive Plan (the "2004 LTIP"), the 2009 Long Term Incentive Plan (the "2009 LTIP"), and the discretionary annual performance arrangement satisfied by deferred shares ("DSA").

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

| | Executive share options | | SAYE | | 2004 LTIP | | 2009 LTIP | | Deferred share awards | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number | Weighted average exercise price | Number | Weighted average exercise price | Number | Weighted average exercise price | Number | Weighted average exercise price | Number | Weighted average exercise price |
| At 1 August, 2008 | 1,329,422 | 678.3p | 361,182 | 646.9p | 327,813 | – | – | – | 83,491 | – |
| Transferred | 9,517 | 919.4p | – | – | – | – | – | – | – | – |
| Granted | – | – | 517,710 | 428.0p | 160,907 | – | – | – | 116,424 | – |
| Exercised | (109,689) | 438.6p | (5,094) | 590.2p | (5,435) | – | – | – | – | – |
| Forfeited | (88,095) | 756.0p | (281,981) | 630.0p | – | – | – | – | – | – |
| Lapsed | – | – | – | – | (70,867) | – | – | – | – | – |
| At 31 July, 2009 | 1,141,155 | 697.3p | 591,817 | 463.9p | 412,418 | – | – | – | 199,915 | – |
| Transferred | – | – | – | – | – | – | – | – | – | – |
| Granted | – | 0.0p | 141,130 | 616.0p | – | – | 151,945 | – | 60,651 | – |
| Exercised | (228,851) | 585.6p | (31,948) | 525.7p | (25,867) | – | – | – | (66,380) | – |
| Forfeited | (168,590) | 774.5p | (70,765) | 551.0p | – | – | – | – | – | – |
| Lapsed | – | 0.0p | (10,808) | 434.4p | (81,347) | – | (7,679) | – | – | – |
| At 31July, 2010 | 743,714 | 714.2p | 619,426 | 485.9p | 305,204 | – | 144,266 | – | 194,186 | – |
| Exercisable at: | | | | | | | | | | |
| 31 July, 2010 | 743,714 | 714.2p | – | – | – | – | – | – | 17,111 | – |
| 31 July, 2009 | 950,640 | 705.7p | – | – | 738 | – | – | – | 28,755 | – |

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

| | 2010 | 2009 |
|---|---|---|
| Executive Share Options | 776.9p | 594.5p |
| SAYE | 703.8p | 639.5p |
| 2004 LTIP | 750.5p | 542.3p |
| 2009 LTIP | – | – |
| DSA | 759.8p | – |

## 22. Share-based awards *continued*

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

| | Options outstanding 2010 | | Options outstanding 2009 | |
|---|---|---|---|---|
| Exercise price range | Number outstanding | Weighted average remaining contractual life Years | Number outstanding | Weighted average remaining contractual life Years |
| Executive share options | | | | |
| Between £4 and £5 | 64,765 | 2.2 | 136,642 | 3.2 |
| Between £5 and £6 | 48,924 | 1.2 | 82,971 | 2.2 |
| Between £6 and £7 | 264,263 | 4.2 | 360,180 | 5.2 |
| Between £7and £8 | 254,680 | 3.2 | 432,026 | 3.1 |
| Above £10 | 111,082 | 0.2 | 129,336 | 1.2 |
| SAYE | | | | |
| Between £4 and £5 | 435,187 | 2.6 | 492,895 | 3.6 |
| Between £5 and £6 | – | – | 28,055 | 0.8 |
| Between £6 and £7 | 140,498 | 0.3 | 48,642 | 2.1 |
| Between £8 and £9 | 3,809 | 1.8 | 22,225 | 1.4 |
| 2004 LTIP | | | | |
| Nil | 305,204 | 1.7 | 412,418 | 2.4 |
| 2009 LTIP | | | | |
| Nil | 144,266 | 3.3 | – | – |
| DSA | | | | |
| Nil | 194,186 | 5.1 | 199,915 | 5.5 |
| Total | 2,006,796 | 2.1 | 2,345,305 | 3.4 |

Grants under the DSA arrangement and SAYE scheme are made annually and are expected to continue for the forseeable future. No further grants will be made under the 2004 LTIP or the 1995 scheme. Following the payment of a special dividend by CBG on 6 November, 2007, options under the CBG's 1995 Executive Share Option Scheme (other than options under the HM Revenue and Customs approved section of that Scheme) were adjusted by the Remuneration Committee of CBG ("the Committee") to take account of the depreciatory effect of the special dividend.

The aggregate amount payable on the exercise of these options and the latent gain per share will be unaltered, subject to normal market factors.

Annual DSA's are at the discretion of the Committee and are determined in light of the factors described in the Remuneration Policy set out in the Annual Report of CBG. A proportion of an employees performance related award may be deferred and satisfied in ordinary shares of CBG ("shares"). Performance related awards up to 100% of salary will be paid in cash without deferral. Awards in excess of 100% of salary will usually be paid between 50% and 65% in cash without deferral and between 35% and 50% in shares which vest after two years ("the deferred element"). The deferred element will be forfeited if the employee leaves employment in certain circumstances or is dismissed for cause before the relevant vesting date. The number of shares comprised in the deferred element will be determined by reference to the market value of a share shortly following the announcement of CBG's results for the relevant financial year. Following vesting, these shares may be called for at any time up to the seventh anniversary of grant. When the shares are called for, the employee is entitled to the value of the dividends in respect of the shares under the deferred element accumulated over the period of deferral. The exercise price of each DSA issue is nil.

## 22. Share-based awards *continued*

For each SAYE and 2009/2004 LTIP issue, the exercise end dates are six months and twelve months after the exercise start date respectively. All eligible employees are entitled to participate in the SAYE Scheme on the same terms. Options are granted for a fixed contract period of three or five years, usually at an exercise price at discount of 20% to the mid-market price at the date of invitation to participate. The exercise price of each 2009 and 2004 LTIP issue is nil.

The 2009 LTIP is based on a conditional award of free shares subject to demanding performance conditions being met. Grants are restricted to a maximum of twice an individual's salary in any one year. Performance conditions for each award are determined by the Committee at the time of each grant. Performance is measured over a single period of three years with no re-testing.

The performance conditions are split evenly under the 2009 LTIP and consist of earnings per share ("EPS") growth, absolute Total Shareholder Return ("TSR") growth and a balanced scorecard of strategic goals for the remaining one third. The Committee considers that this mix of targets provides an appropriate balance between rewarding improvements in CBG's financial performance, while also recognising relative stock market performance. Performance criteria will be calculated by the Committee. Please refer to CBG's Annual Report 2010 for full details of the schemes.

| Exercise period | Share price at issue | Exercise price | Expected volatility | Expected option life in years | Dividend yield | Risk free interest rate |
|---|---|---|---|---|---|---|
| SAYE | | | | | | |
| 1st December, 2012 to 31st May, 2014 | 770.0p | 616.0p | 46.0% | 3 | 5.3% | 2.4% |
| 1st December, 2014 to 31st May, 2015 | 770.0p | 616.0p | 39.0% | 5 | 5.3% | 2.7% |
| LTIP | | | | | | |
| 7th October, 2011 to 6th October, 2012 | 730.0p | – | 44.0% | 3 | 5.3% | 1.9% |
| DSA | | | | | | |
| 1st September, 2010 to 30th September, 2015 | 793.0p | – | – | – | – | – |

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

## 23. Reserves

| | Group | Company |
|---|---|---|
| | £m | £m |
| **Profit and loss account:** | | |
| At 1st August, 2009 | 295.1 | 152.4 |
| Retained profit for the year | 40.5 | 150.1 |
| Exchange adjustment | 0.3 | – |
| Other movements | (0.4) | – |
| Taxation on movement of other reserves | (9.6) | (9.6) |
| At 31st July, 2010 | 325.9 | 292.9 |

The cumulative goodwill written off directly to reserves since the formation of the group is £11.3 million (2009: £11.3 million).

| | Group | |
|---|---|---|
| **Reconciliation of movements in shareholders funds:** | 2010 | 2009 |
| | £m | £m |
| Profit attributable to shareholders | 57.6 | 37.2 |
| Dividends paid | (17.1) | (19.1) |
| Retained profit for the year | 40.5 | 18.1 |
| Exchange adjustment | 0.3 | 0.9 |
| Other reserves | 34.5 | (35.9) |
| Other movements | (0.4) | – |
| Taxation on movement of other reserves | (9.6) | 10.1 |
| Net addition/(reduction) to shareholders funds | 65.3 | (6.8) |
| Opening shareholders funds | 320.8 | 327.6 |
| Closing shareholders funds | 386.1 | 320.8 |

## 24. Other reserves

| | Group and Company | |
|---|---|---|
| | 2010 | 2009 |
| | £m | £m |
| **Available-for-sale reserve:** | | |
| At 1st August, 2009 | (43.2) | (22.9) |
| Movement on available for sale assets | 26.1 | (20.3) |
| At 31st July, 2010 | (17.1) | (43.2) |
| **Cash flow hedging reserve:** | | |
| At 1st August, 2009 | (13.6) | 2.0 |
| Movement on derivatives | 8.4 | (15.6) |
| At 31st July, 2010 | (5.2) | (13.6) |
| Total other reserves | (22.3) | (56.8) |

## 25. Contingent liabilities

### Memorandum items

The company has contingent liabilities in respect of guarantees arising in the normal course of business amounting to £0.5 million (2009: £8.9 million). The group has contingent liabilities in respect of guarantees arising in the normal course of business amounting to £1.8 million (2009: £10.0 million).

### Other contingent liabilities

The company has given guarantees on behalf of subsidiary undertakings in respect of amounts drawn under bank facilities and amounts due in respect of property leases and intra-group bank guarantees of £1.7 million (2009: £1.7 million) and £0.5 million (2009: £0.5 million), respectively. The company has also given a guarantee of €25 million in respect of Euro Medium Term notes issued by its subsidiary Close Brothers Finance plc.

### Financial Services Compensation Scheme levy

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

The FSCS raises annual levies from the banking industry to meets its management expenses and compensation costs and individual institutions make payments based on their level of market participation. The group has accrued £1.3 million (2009: £1.3 million) for its share of levies that will be raised by the FSCS, including the interest on the loan from HM Treasury, in respect of the levy years ended 31st March, 2010 and 31st March, 2011.

## 26. Commitments

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **£m** | £m | **£m** | £m |
| **Memorandum items** | | | | |
| Undrawn facilities, credit lines other commitments to lend: | | | | |
| Within one year | **539.9** | 326.9 | **163.9** | 77.4 |

### Other commitments

The company is committed to purchase minority interests in certain subsidiary undertakings at an agreed fair valuation.

The group had contracted capital commitments of £0.1 million (2009: £nil) of which the company had £0.1 million (2009: £nil).

Annual commitments under non-cancellable operating leases, at 31st July, 2010 were as follows:

| | Premises | | Other | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| | £m | £m | £m | £m |
| Expiring: | | | | |
| Within one year | 0.4 | 0.3 | 0.1 | – |
| Between two and five years | 1.7 | 0.6 | 0.7 | – |
| More than five years | 2.4 | 0.2 | – | – |
| Total annual commitments | 4.5 | 1.1 | 0.8 | – |

## 27. Capital management

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

The group's individual entities and the group as a whole complied with all of the externally imposed capital requirements to which they are subject for the years ended 31st July, 2010 and 2009. A full analysis of the composition of regulatory capital and Pillar 1 risk weighted assets as at those financial year ends is shown in the table below.

Regulatory capital (core tier 1 and total) increased in 2010 due to an increase in retained earnings and other reserves, and the improvement of unrealised losses on available for sale assets in total capital. The composition of capital remained consistent with 92.7% (2009: 90.7%) of the total capital consisting of core tier 1 capital.

The table below summarises the composition of regulatory capital as at 31st July, 2010 and 31st July, 2009.

| | 2010 | 2009 |
|---|---|---|
| | £m | £m |
| Total tier 1 capital | 421.5 | 375.7 |
| Total tier 2 capital | 75.0 | 75.0 |
| Total deductions | (41.9) | (36.6) |
| Total regulatory capital | 454.6 | 414.1 |

Total tier 1 capital consists of core tier 1 capital and total tier 2 capital consists of £75.0 million (2009: £75.0 million) of subordinated loan capital as detailed in note 20.

| | 2010 | 2009 |
|---|---|---|
| | £m | £m |
| Risk weighted assets: | | |
| Credit risk | 3,045.2 | 2,676.5 |
| Operational risk* | 455.6 | 405.6 |
| Market risk* | 7.8 | 6.4 |
| Total risk weighted assets | 3,508.6 | 3,088.5 |

The group capital ratios remained strong with a core tier 1 ratio of 10.8% (2009: 11.0%) and total capital ratio of 13.0% (2009: 13.4%). The fall in the capital ratios was principally due to a significant increase in risk weighted assets as a result of growth in the loan book, including the acquisition of the invoice financing business as detailed in note 11.

| | % | % |
|---|---|---|
| Capital ratios: | | |
| Tier 1 ratio | 10.8 | 11.0 |
| Total ratio | 13.0 | 13.4 |

* Operational and market risk include a notional adjustment at 8% in order to determine notional risk weighted assets under Basel II.

## 28. Financial risk management

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

The group's financial risk management objectives are summarised in the Report of the directors. 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 tables below analyse the group's financial assets and liabilities in accordance with the categories of financial instruments in FRS 26.

At 31st July, 2010

| | Held for trading | Held to maturity | Available for sale | Loans and receivables | Other | Total |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **Assets** | | | | | | |
| Cash and balances at central banks | – | – | – | 452.6 | – | 452.6 |
| Loans and advances to banks | – | – | – | 116.6 | – | 116.6 |
| Loans and advances to customers | – | – | – | 2,912.6 | – | 2,912.6 |
| Debt securities | – | 7.0 | 901.0 | 672.1 | – | 1,580.1 |
| Derivative financial instruments | 1.9 | – | – | – | 21.1 | 23.0 |
| | 1.9 | 7.0 | 901.0 | 4,153.9 | 21.1 | 5,084.9 |
| **Liabilities** | | | | | | |
| Deposits by banks | – | – | – | – | 48.1 | 48.1 |
| Deposits by customers | – | – | – | – | 3,114.3 | 3,114.3 |
| Bank loans and overdrafts | – | – | – | – | 1,072.6 | 1,072.6 |
| Debt securities – loan notes issued | – | – | – | – | 20.8 | 20.8 |
| Derivative financial instruments | 1.7 | – | – | – | 18.8 | 20.5 |
| Amounts due to group undertakings | – | – | – | – | 391.9 | 391.9 |
| Subordinated loan capital | – | – | – | – | 75.0 | 75.0 |
| | 1.7 | – | – | – | 4,741.5 | 4,743.2 |

At 31st July, 2009

| | Held for trading | Held to maturity | Available for sale | Loans and receivables | Other | Total |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **Assets** | | | | | | |
| Cash and balances at central banks | – | – | – | 1.7 | – | 1.7 |
| Loans and advances to banks | – | – | – | 156.3 | – | 156.3 |
| Loans and advances to customers | – | – | – | 2,364.9 | – | 2,364.9 |
| Debt securities | – | 15.0 | 1,039.7 | 1,202.2 | – | 2,256.9 |
| Derivative financial instruments | – | – | – | – | 32.5 | 32.5 |
| | – | 15.0 | 1,039.7 | 3,725.1 | 32.5 | 4,812.3 |
| **Liabilities** | | | | | | |
| Deposits by banks | – | – | – | – | 48.0 | 48.0 |
| Deposits by customers | – | – | – | – | 2,918.5 | 2,918.5 |
| Bank loans and overdrafts | – | – | – | – | 1,322.0 | 1,322.0 |
| Debt securities – loan notes issued | – | – | – | – | 21.4 | 21.4 |
| Derivative financial instruments | – | – | – | – | 21.9 | 21.9 |
| Amounts due to group undertakings | – | – | – | – | 105.3 | 105.3 |
| Subordinated loan capital | – | – | – | – | 75.0 | 75.0 |
| | – | – | – | – | 4,512.1 | 4,512.1 |

## 28. Financial risk management *continued*

### (b) Valuation hierarchy

The group holds financial instruments that are measured at fair value subsequent to initial recognition. Each instrument has been categorised within one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. These levels are based on the degree to which the fair value is observable and are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities where prices are readily available and represent actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient frequency to provide ongoing pricing information;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly, as prices, or indirectly, derived from prices;
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data ("unobservable inputs").

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

At 31st July, 2010

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Assets | | | | |
| Debt securities: | | | | |
| Floating rate notes classified as available for sale | – | 615.4 | – | 615.4 |
| Gilts and government guaranteed debt classified as available for sale | 285.6 | – | – | 285.6 |
| Derivative financial instruments | – | 23.0 | – | 23.0 |
| | 285.6 | 638.4 | – | 924.0 |
| Liabilities | | | | |
| Derivative financial instruments | – | 20.5 | – | 20.5 |
| | – | 20.5 | – | 20.5 |

Instruments classified as Level 1 comprise investments in G10 government securities.

Investments classified as Level 2 comprise floating rate notes and over the counter derivatives.

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

### (c) Credit risk

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

The maximum exposure to credit risk arising from financial instruments at 31st July, 2010, before taking into account any collateral, was:

| | 2010 | 2009 |
|---|---|---|
| | £m | £m |
| Cash and balances at central banks | 452.6 | 1.7 |
| Loans and advances to banks | 116.6 | 156.3 |
| Loans and advances to customers | 2,912.6 | 2,364.9 |
| Financial instruments classified as available for sale | 901.0 | 1,039.7 |
| Certificates of deposit classified as loans and receivables | 672.1 | 1,202.2 |
| Floating rate notes held to maturity | 7.0 | 15.0 |
| Derivative financial instruments | 23.0 | 32.5 |
| Undrawn commitments | 539.9 | 326.9 |
| Guarantees | 1.8 | 10.0 |
| Total maximum exposure to credit risk | 5,626.6 | 5,149.2 |

## 28. Financial risk management *continued*

### Collateral held in respect of financial assets

Loans and advances to customers are generally short term in nature and with low average loan size. The large number of customer loans mitigates the credit risk with the rate of default impacted by economic conditions in the UK. The vast majority of loans and advances to customers are secured against specific assets. The security will correspond to the type of lending as detailed in the segmental loan book analysis included in the Review of Business on page 5. Consistent and prudent lending criteria are applied across the whole loan book with emphasis on the quality of the security provided. Furthermore, conservative loan to value ("LTV") ratios are applied to further mitigate credit risk.

The group has entered into a repurchase agreement whereby floating rate notes to the value of £553.6 million have been loaned in exchange for cash of £401.4 million. The agreement matures in November 2010 and the group has agreed to enter into a similar transaction with a maturity of November 2011. These floating rate notes remain on the group's balance sheet and the group retains the risks and rewards of ownership.

### Loans and advances to customers

*Credit risk management and monitoring*

The overall credit risk appetite and policy is set by the BRCC. Each of the businesses within the group use credit underwriting and monitoring measures appropriate to the diverse and specialised nature of their lending:

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

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

The property businesses comprise a portfolio of high value, low volume lending which enables credit monitoring on a loan by loan basis. Loans are continually monitored to determine whether they are performing satisfactorily. Performing loans with elevated levels of credit risk are placed on graded watchlists, depending on the perceived severity of the credit risk.

## 28. Financial risk management *continued*

*Credit risk classification*

Loans and advances to customers within the group, as disclosed in note 8 on page 22, are segmented between the following categories for credit risk reporting: neither past due nor impaired; past due but not impaired; impaired.

### Neither past due nor impaired

The following table shows the ageing of loans and advances to customers split by credit assessment method which are neither past due nor impaired. This demonstrates the short term nature of the lending, with £1,595.1 million having a contractual maturity of less than 12 months. These loans and advances reflect the application of consistent and conservative lending criteria on inception, and the quality and level of security held. The contractual repayments are monitored to ensure that classification as neither past due nor impaired remains appropriate.

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

### Past due but not impaired

Loans and advances to customers are classed as past due but not impaired when the customer has failed to make a payment when contractually due but there is no evidence of impairment. This includes loans which are individually assessed for impairment but where the value of security or collateral is sufficient to meet the required repayments. This also includes loans to customers which are past due for technical reasons such as delays in payment processing or rescheduling of payment terms.

The following table shows the contractual maturity of loans and advances to customers split by credit assessment method which are past due but for which no impairment provision has been raised.

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

### Impaired

The factors considered in determining whether assets are impaired are outlined in the accounting policies in note 1 on page 17. Impaired loans and advances to customers are analysed according to whether the impairment provisions are individually or collectively assessed.

Individually assessed provisions are determined on a case by case basis, taking into account the financial condition of the customer and an estimate of any potential recoveries and realisation of security or collateral. This methodology is applied by the property lending businesses and by the invoice finance business.

## 28. Financial risk management *continued*

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 contractual maturity of missed payments combined with the historical recovery rates for that particular portfolio. This methodology is applied by the motor, premium and asset finance businesses.

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, is reflected in the low provision to gross impaired balance ratio ('coverage ratio') of 29% (2009: 26%).

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

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

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

Whilst collateral is reviewed on a regular basis in accordance with credit policy, this varies according to the type of lending, collateral involved and the status of the loan. It is therefore impracticable to estimate and aggregate current fair values of collateral.

### Concentration and quality of financial assets

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

The credit quality of the counterparties with whom the group places deposits or whose debt securities the group holds is monitored by the BRCC which establishes specific limits. Whilst these amounts may be material, the counterparties are all regulated institutions with high credit ratings assigned by international credit-rating agencies, and fall within the large exposure limits set by the regulatory requirements.

Credit risk and counterparty risk, and the measures taken to mitigate or manage these risks, are considered further within the Principal Risks and Uncertainties section of the Business Review on page 7.

### (d) Market risk

Market risk is the risk that arises from adverse movements in bond, interest rate, foreign exchange or other traded markets.

### Interest rate risk

The group's exposure to interest rate fluctuations relates primarily to the returns from its capital and reserves which, as a matter of policy, are not hedged. The group's policy is to match fixed and variable interest rate liabilities and assets utilising interest rate swaps where necessary to secure margin on its loans and advances to customers. These interest rate swaps are disclosed in note 9 to the financial statements.

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

## 28. Financial risk management *continued*

| | Group 2010 £m | Group 2009 £m |
|---|---|---|
| Increase/(decrease) in annual net interest income | | |
| 1.0% increase in interest rates (2009: 2.0% increase) | 0.8 | 2.8 |
| 0.5% decrease in interest rates (2009: 0.5% decrease) | (0.2) | (0.7) |
| Increase/(decrease) in equity | | |
| 1.0% increase in interest rates (2009: 2.0% increase) | 3.7 | 2.0 |
| 0.5% decrease in interest rates (2009: 0.5% decrease) | (1.8) | (0.5) |

*Foreign currency risk*
The group has a small number of currency investments in subsidiaries and has chosen not to hedge those exposures. These investments are predominantly in US dollars and Euros. The impact of any reasonably expected exchange rate fluctuations would not be material.

The group has additional material currency assets and liabilities, denominated in foreign currencies, mainly US dollar and Euros, which are matched by currency, with exchange rate derivative contracts used where necessary:

| | Group 2010 £m | Group 2009 £m |
|---|---|---|
| Assets | 1,020.2 | 1,089.9 |
| Liabilities | 1,024.1 | 1,081.6 |

Details of those contracts are disclosed within note 9 to the financial statements. The group's exposure to foreign exchange risk is minimal and as such the impact of any reasonably expected exchange rate fluctuations would not be material.

*Other price risks*
Non trading financial instruments;

Net gains and losses on debt securities are disclosed in note 10.

### (e) Liquidity risk
Liquidity risk is the risk of not being able to meet liabilities as they fall due.

The group's policy is to finance customer loans and advances by capital and reserves, longer term deposits and committed facilities with only limited financing from short-term deposits. The policy is kept under review and compliance is monitored on a daily basis.

The group measures liquidity risk with a variety of processes including regular stress testing, cash flow monitoring and reporting to the group and divisional boards.

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

| At 31st July, 2010 | On demand £m | Less than three months £m | More than three months but not more than six months £m | More than six months but not more than one year £m | More than one year but not more than five years £m | More than five years £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Deposits by banks | 23.0 | 25.1 | – | – | – | – | 48.1 |
| Deposits by customers | 781.2 | 789.3 | 661.0 | 682.3 | 256.7 | 3.0 | 3,173.5 |
| Bank loans and overdrafts | 8.1 | 398.7 | 627.3 | 0.2 | 50.1 | – | 1,084.4 |
| Debt securities – loan notes issued | – | – | 0.1 | 0.1 | 21.6 | – | 21.8 |
| Derivative financial instruments | – | 169.6 | 237.6 | 7.4 | 28.0 | 0.2 | 442.8 |
| Subordinated loan capital | 2.3 | 0.6 | – | 2.8 | 53.8 | 64.0 | 123.5 |
| | 814.6 | 1,383.3 | 1,526.0 | 692.8 | 410.2 | 67.2 | 4,894.1 |

## 28. Financial risk management *continued*

| At 31st July, 2009 | On demand £m | Less than three months £m | More than three months but not more than six months £m | More than six months but not more than one year £m | More than one year but not more than five years £m | More than five years £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Deposits by banks | 17.2 | 19.6 | 2.5 | 8.3 | 0.6 | – | 48.2 |
| Deposits by customers | 768.0 | 924.8 | 310.1 | 53.5 | 935.5 | – | 2,991.9 |
| Bank loans and overdrafts | 8.2 | 3.6 | 24.1 | 204.4 | 1,118.2 | – | 1,358.5 |
| Debt securities – loan notes issued | – | – | 0.1 | 0.3 | 0.8 | 21.7 | 22.9 |
| Derivative financial instruments | – | 106.0 | 6.0 | 8.9 | 6.0 | – | 126.9 |
| Subordinated loan capital | 2.3 | 0.6 | – | 2.8 | 22.5 | 129.1 | 157.3 |
| | 795.7 | 1,054.6 | 342.8 | 278.2 | 2,083.6 | 150.8 | 4,705.7 |

## 29. Pensions

The company and its subsidiaries make payments to defined contribution pension schemes and to a defined benefits scheme for eligible employees. Assets of all schemes are held separately from those of the company and the group. The group pension charge for the year for the defined contribution pension schemes and defined benefits pension schemes was £2.8 million (2009: £2.7 million).

The defined benefits pension scheme is described in the financial statements of CBG. The scheme was closed to new entrants in August 1996 and has 84 members. Under FRS 17, contributions to this scheme by the company and its subsidiaries would be accounted for as if the scheme were a defined contribution pension scheme since assets and liabilities of the scheme cannot be attributed to each participating employer on a consistent and reasonable basis. Consequently, any surplus or deficit in this scheme would not be regarded as an asset or liability of the company or its subsidiaries, but of CBG. The agreed company contribution rate was 31.5% (2009: 29.5%) per annum of pensionable salaries at the date of the most recent actuarial valuation, which was at 31st July, 2009.

## 30. Related party transactions

### Transactions with directors

Certain directors of the company maintained deposit accounts with the company during the course of the year on normal commercial terms.

### Transactions with group undertakings

The company has taken advantage of one of the exemptions conferred by FRS 8, whereby certain details regarding transactions with group undertakings do not have to be disclosed where group financial statements are made publicly available. There are no other related party transactions that require disclosure.

## 31. Ultimate parent undertaking

The parent undertaking of the largest and smallest group of undertakings for which the group is a member is Close Brothers Group plc, the ultimate parent undertaking and controlling party which is a listed company incorporated in Great Britain and registered in England and Wales. The immediate parent undertaking is Close Brothers Holdings Limited, which is registered in England and Wales.

The consolidated financial statements of Close Brothers Group plc are available at 10 Crown Place, London EC2A 4FT.

FSC
Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fibre
Cert no. SGS-COC-004881
www.fsc.org
© 1996 Forest Stewardship Council

Typeset and Printed by BOWNE