

Close Brothers Limited

Pillar 3 disclosures for the year ended 31 July 2009

Section 1

Capital resources

The table below summarises the composition of regulatory capital as at 31 July 2009, at which point Close Brothers Limited and the group's individual entities complied with all of the externally imposed capital requirements to which they are subject.

		At 31 July 2009 £ million	At 31 July 2008 £ million
Core Tier 1 capital			
Called up ordinary share capital		82.5	82.5
Retained earnings and other reserves	1	291.5	271.5
Minority interests		1.7	2.0
Deductions from tier 1 capital			
Intangible assets	2	(36.6)	(34.5)
Securitisation positions	3		(3.3)
Tier 1 capital after deductions		339.1	318.2
Tier 2 capital			
Subordinated debt	4	75.0	75.0
General/Collective provision			2.2
Deductions from Tier 2 capital			
Securitisation positions	3		(3.3)
Tier 2 capital after deductions		75.0	73.9
Total regulatory capital		414.1	392.1

Notes:

1. Retained earnings and other reserves excludes unrealised gains or losses on cash flow hedges and available for sale assets and consists of the profit and loss account reserve and the exchange movements reserve.

2. Intangible assets include goodwill, capitalised software and intangible assets arising on acquisition.

3. For Pillar 3 reporting purposes 50% of the securitisation positions are required to be deducted from tier 1 capital and 50% from tier 2 capital. In the 2008 Annual Report the whole of this deduction has been deducted from the total of tier 1 and tier 2. For the year ended 31 July 2009 there are no securitisations.

4. All the subordinated loan capital is denominated in sterling. If we opt not to prepay at the prepayment date, the interest rate is reset to a margin over the yield on five year UK Treasury securities. Terms are as follows:

Final maturity Date	Prepayment Date	Initial interest Rate	2009 £ million
2020	2015	7.39%	30.0
2026	2021	7.42%	15.0
2026	2021	7.62%	30.0
			75.0

Section 2

Capital adequacy

The Close Brothers Limited group's policy has always been to be well capitalised and soundly financed. Our approach to capital management is driven by strategy and organisational requirements, while also taking into account the regulatory and commercial environments in which we operate. We maintain a strong capital base to support the development of the business and to ensure we meet regulatory capital requirements at all times. We would therefore expect to have capital adequacy ratios well in excess of minimum regulatory requirements even before taking account of the need to fund our non regulated activities and small acquisitions.

The board considers the overall group's capital position and requirements on a regular basis and after taking into account each company's regulatory and operational requirements, excess capital is transferred to the parent company every six months by way of dividend to permit the strategic allocation of capital.

Internal capital adequacy assessment process ("ICAAP")

The introduction of Basel II resulted in a formal requirement for Close Brothers Limited and the offshore banks in Guernsey and the Isle of Man to each carry out internal capital adequacy assessments. The process used to achieve this requirement combines existing risk assessment, budgetary and stress testing practices together with some of the Basel II requirements into an integrated internal capital adequacy assessment process. This forms an integral part of the group's risk management processes. The board considers that given the group's risk profile an annual process is sufficient. The output from the process is a report for each entity required to carry out an ICAAP which addresses all material risks faced by the entity to determine the level of capital required against each major source of risk over a three-year time horizon which is the group's standard business planning timescale.

The Close Brothers Limited group ICAAP is coordinated by the Group Risk function which reports to a Basel II steering committee comprising of the executive directors of Close Brothers Group and other relevant senior executives of the group. Management at all levels within the group are involved by carrying out risk assessments for their business units, having input into stress testing and scenario analysis and where necessary approving inputs into the process.

The group's Pillar 1 capital requirement is set out in the table below. The Pillar 1 requirement in respect of credit risk is based on 8% of the risk weighted exposure amounts for each of the following standardised exposure classes.

	At 31 July 2009 Capital requirement £ million	At 31 July 2008 Capital requirement £ million
Credit risk - standardised approach		
Central governments or central banks	0	0
Regional governments or local authorities	0	0
Administrative bodies and non-commercial undertakings	0.5	0.9
Multilateral development banks	0	0
International organisations	0	0
Institutions	11.3	13.6
Corporates	32.7	29.9
Retail	84.7	73.5
Secured on real estate property	33.2	33.8
Past due items	13.4	4.6
Covered bonds	0	0
Securitisation positions	0	0
Short term claims on institutions and corporates	26.7	25.8
Other items	11.6	7.8
	214.1	189.9
Operational risk – basic indicator approach	32.5	29.8
Market risk - non trading book		
Foreign currency PRR *	0.5	0.8
Total Pillar 1 capital requirement	247.1	220.5

* Position Risk Requirement.