

**Close Brothers Limited**

**Pillar 3 disclosures for the year ended 31 July 2011**

## Overview

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. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess key pieces of information on that firm's capital, risk exposures and risk assessment process. The disclosures contained in this document cover the qualitative and quantitative disclosure requirements of Pillar 3 in line with BIPRU 11.4.5 and are based on data as at 31 July 2011 with comparative figures for 31 July 2010 where relevant.

## Capital resources

The table below summarises the composition of regulatory capital as at 31 July 2011, at which point Close Brothers Limited ("CBL") and the CBL Group's individual entities complied with all of the externally imposed capital requirements to which they are subject.

	Notes	2011 £ million	2010 £ million
<b>Core tier 1 capital</b>			
Called up ordinary share capital		82.5	82.5
Retained earnings and other reserves		374.1	338.0
Minority interests		1.7	1.0
<b>Deductions from tier 1 capital</b>			
Intangible assets	1	(41.1)	(41.9)
<b>Core tier 1 capital after deductions</b>		<b>417.2</b>	379.6
<b>Tier 2 capital before deductions</b>			
Subordinated debt	2	75.0	75.0
<b>Tier 2 capital after deductions</b>		<b>75.0</b>	75.0
<b>Total tier 1 and tier 2 after deductions</b>		<b>492.2</b>	454.6
<b>Total regulatory capital</b>		<b>492.2</b>	454.6

Notes:

1. Intangible assets include goodwill, capitalised software and intangible assets arising on acquisition.
2. All the subordinated loan capital has been issued by CBL and is denominated in sterling. The subordinated loans have over five years until the final maturity date and the option for prepayment is solely as CBL's discretion therefore the full subordinated loan capital of £75m has been included as lower Tier 2 capital.

There has been no change from 31 July 2010 and the terms are as follows:

Final maturity Date	Prepayment Date	Initial interest Rate	2011 £ million
2020	2015	7.39%	30.0
2026	2021	7.42%	15.0
2026	2021	7.62%	30.0
			<b>75.0</b>

### Capital adequacy

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

CBL makes use of the provisions laid down in the FSA handbook BIPRU Chapter 2.1 and reports to the FSA on a solo-consolidated basis. This solo-consolidated group includes CBL and its subsidiaries other than its debt collection subsidiary (Close Credit Management).

### Internal capital adequacy assessment process (“ICAAP”)

The introduction of Basel II has resulted in a formal requirement for CBL to carry out an internal capital adequacy assessment. A process has been developed to undertake this requirement and is now an integral part of the CBL risk management processes. The board considers that given the risk profile of CBL, an annual process is sufficient. The main output from the process is an assessment of all material risks faced by the entity to determine the level of capital required against each major source of risk and an analysis of severe stress over a three-year time horizon, which is the CBL standard business planning timescale.

The CBL ICAAP is produced by CBL Finance reporting to the Bank Risk Control Committee (BRCC). Management at all levels within CBL 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 ICAAP is subject to detailed review and challenge before approval by both the BRCC and by the board. This ICAAP is incorporated into the overall Close Brothers Group ICAAP which receives overall approval from the Group Risk Control Committee and the Close Brothers Group board.

The CBL 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 in accordance with FSA rules.

	<b>2011</b>	2010
	<b>£ million</b>	£ million
<b>Credit risk - standardised approach</b>		
Central governments or central banks	-	-
Regional governments or local authorities	-	-
Administrative bodies and non-commercial undertakings	<b>0.1</b>	0.1
Institutions	<b>2.4</b>	11
Corporates	<b>60.7</b>	50
Retail	<b>127.3</b>	102.2
Secured by mortgages on residential property	<b>0.1</b>	-
Secured by mortgages on commercial real estate <sup>1</sup>	<b>37.6</b>	34.4
Past due items	<b>13.2</b>	16.8
Short term claims on institutions and corporates	<b>14.8</b>	14.8
Other items	<b>12.7</b>	11.6
	<b>268.9</b>	240.9
<b>Operational risk</b>	<b>21.9</b>	36.4
<b>Counterparty credit risk</b>	<b>0.9</b>	2.7
<b>Market risk - non trading book</b>		
Foreign currency PRR <sup>2</sup>	<b>0.2</b>	0.6
<b>Total Pillar 1 capital requirement</b>	<b>291.9</b>	280.6

<sup>1</sup> Previously classified as "secured on real estate property". In 2011 FSA changed this classification to "secured by mortgages" split between residential and commercial real estate. As a result, it has been necessary to map the majority of the group's real estate lending to this classification, despite not being secured by mortgages.

<sup>2</sup> Position Risk Requirement

As at 31<sup>st</sup> July 2011, to reflect improvements in the operational risk framework, CBL migrated to the Standardised Approaches in calculating operational risk. The 2010 comparative is calculated using the Basic Indicator Approach.