Close Brothers Group plc

Pillar 3 disclosures for the half year ended 31 January 2024

Executive Summary

Background

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, set out in the Capital Requirements Regulation as implemented in the PRA Rulebook CRR Instrument and the PRA Rulebook CRR Firms: Leverage Instrument (collectively known as "CRR"), and are based on data at 31 January 2024 with comparative figures for 31 July 2023 and 31 January 2023 where relevant.

Scope

The Prudential Regulation Authority ("PRA") supervises Close Brothers Group plc ("CBG" or "the group") on a consolidated basis and receives information on the capital adequacy of, and sets capital requirements for, the group as a whole. In addition, a number of subsidiaries are regulated for prudential purposes by either the PRA or the Financial Conduct Authority ("FCA"). Close Brothers Limited ("CBL") is regulated under CRR. Close Asset Management Limited and Winterflood Securities Limited are regulated under the FCA's Prudential sourcebook for Investment Firms. Details of the group's principal subsidiaries are included in note 28 of the group's Annual Report.

Presentation of information

The group's Pillar 3 disclosure for the half year ended 31 January 2024 provides an update on the capital position disclosed in the group's Pillar 3 disclosure for the year ended 31 July 2023. The information has been prepared in accordance with the Disclosure Part of the CRR.

Capital and leverage ratios reported as at 31 January 2024 include all profits for the six month period, less foreseeable dividends and charges.

The liquidity coverage ratio ("LCR") is reported as a 12-month average to 31 January 2024 whilst the net stable funding ratio ("NSFR") is reported as a four quarter average to 31 January 2024.

Summary of Key Metrics

Capital and leverage

Over the first half of the 2024 financial year, the CET1 capital ratio reduced from 13.3% to 13.0%, mainly driven by loan book growth (-c.60bps), a decrease in IFRS 9 transitional arrangements (-c.20bps), and the Bluestone Motor Finance acquisition (-c.20bps). This was partly offset by capital generation through profit (c.70bps). Following the announcement that the group will not pay any dividends on its ordinary shares for the current financial year, no foreseeable dividend on ordinary shares has been deducted from CET1 capital.

CET1 capital increased 3% to £1,353.0 million (31 July 2023: £1,310.8 million), reflecting capital generation through profit of £68.8 million, partly offset by a decrease in the transitional IFRS 9 add-back to capital of £16.6 million and an increase in intangible assets deducted from capital of £4.9 million.

Tier 1 capital increased 18% to £1,553.0 million (31 July 2023: £1,310.8 million), primarily driven by the issuance of the group's inaugural additional tier 1 ("AT1") capital instrument in a £200 million transaction to optimise the capital structure and provide further flexibility to grow the business. The transaction strengthened the regulatory capital position by filling the Pillar 1 and Pillar 2A AT1 capacity with the proceeds and was in line with the group's strategy and capital management framework.

Total capital increased 16% to £1,753.0 million (31 July 2023: £1,510.8 million), reflecting the AT1 issuance.

Risk weighted assets ("RWAs") increased 5% to £10.4 billion (31 July 2023: £9.8 billion), driven by loan book growth (c.£445 million) primarily in Commercial and Property, and the acquisition of Bluestone Motor Finance (c.£105 million).

At 31 January 2024, CET1, tier 1 and total capital ratios were 13.0% (31 July 2023: 13.3%), 15.0% (31 July 2023: 13.3%) and 16.9% (31 July 2023: 15.3%), respectively.

The CET1, tier 1 and total capital ratio requirements, excluding any applicable PRA buffer, were 9.5%, 11.2% and 13.4%, respectively, at 31 January 2024. Accordingly, we continue to have headroom significantly above the requirements of c.350bps in the CET1 capital ratio, c.380bps in the tier 1 capital ratio and c.350bps in the total capital ratio.

The leverage ratio, which is a transparent measure of capital strength not affected by risk weightings, increased to 12.7% (31 July 2023: 11.4%).

The group applies IFRS 9 regulatory transitional arrangements which allow banks to add back to their capital base a proportion of the IFRS 9 impairment charges during the transitional period. Our capital and leverage ratios are presented on a transitional basis after the application of these arrangements. On a fully loaded basis, without their application, the CET1, tier 1 and total capital ratios would be 12.9%, 14.8% and 16.8%, respectively and the leverage ratio would be 12.6%.

As outlined at the Full Year 2023 results, our application to transition to the Internal Ratings Based approach has successfully moved to Phase 2 of the process and engagement with the regulator continues, following our initial application to the PRA in December 2020. Our Motor Finance, Property Finance and Energy portfolios, where the use of models is most mature, were submitted with our initial application.

Liquidity and funding

The group continues to adopt a conservative stance on liquidity, ensuring it is comfortably ahead of both internal risk appetite and regulatory requirements.

We regularly assess and stress test the group's liquidity requirements and continue to meet the LCR regulatory requirements, with a 12-month average LCR to 31 January 2024 of 1,090.8% (2023: 1,142.8%). In addition to internal measures, we monitor funding risk based on the CRR rules for the NSFR. The four-quarter average NSFR to 31 January 2024 was 130.8% (31 July 2023: 126.0%).

Close Brothers Limited

For liquidity and funding, the PRA supervises CBL on an individual basis, excluding all subsidiary undertakings. For capital and leverage, the PRA supervises CBL on an individual consolidation basis as permitted under CRR article 9. The individual consolidation group does not include all subsidiary undertakings and therefore differs to the accounting consolidation group under IFRS. Differences between the group and individual consolidations relate primarily to reserves held by entities that sit outside of the scope of individual consolidation but are included in the group consolidation, and the impact from the RWAs of these entities.

At 31 January 2024, CBL's CET1 capital ratio was 12.5% (31 July 2023: 12.4%). CET1 capital increased to £1,213.7 million (31 July 2023: £1,139.6 million) reflecting capital generation through profit, partly offset by a decrease in the transitional IFRS 9 add-back to capital and the regulatory deduction for foreseeable dividends and charges. RWAs increased to £9,678.4 million (31 July 2023: £9,159.2 million) driven by loan book growth, primarily in Commercial and Property.

Regulatory Developments

The PRA published PS 17/23, part one of the near-final rules on the implementation of Basel 3.1 standards, in December 2023. The second part is expected by 30 June 2024, which should provide further clarity regarding the SME supporting factor. The implementation date is set for 1 July 2025. As previously announced, we estimate that if implemented in its current form, it would represent an increase of up to c.10% in the group's RWAs calculated under the standardised approach. This is primarily as a result of the proposed removal of the SME supporting factor, new conversion factor for cancellable facilities and new market risk rules.

Pillar 3 Policy and approval

These disclosures have been prepared, verified and approved under the group's Pillar 3 and regulatory reporting standards, which set out the internal processes and controls to verify that the disclosures are appropriate and in compliance with the requirements set out in CRR.

Full disclosures are issued as a minimum on an annual basis, with key metrics disclosed on a semi-annual basis, as the group meets the requirements of CRR article 433c. The group's interim Pillar 3 disclosures are published on the group's website and are unaudited. The disclosures have been subject to senior first line and second line review, prior to review and endorsement by the Capital Adequacy Committee and the Group Asset and Liability Committee as appropriate. Approval was given by the CBG board on 18 March 2024.

"I attest that, to the best of my knowledge, these disclosures have been prepared in accordance with the group's formal policies and internal processes, systems and controls".

Mike Morgan, Group Finance Director

Annex I: Key metrics and overview of risk-weighted exposure amounts

UK KM1 – Key metrics

The table below provides a summary of the main prudential regulation ratios and measures for the group and for CBL on an individual basis.

		Group			Individual[1]		
		a[2]	c	e	a[2]	c	e
£m		**31 Jan 2024**	31 Jul 2023	31 Jan 2023	**31 Jan 2024**	31 Jul 2023	31 Jan 2023
	Available own funds (amounts)						
1	Common equity tier 1 ("CET1") capital	**1,353.0**	1,310.8	1,310.7	**1,213.7**	1,139.6	1,133.3
2	Tier 1 capital	**1,553.0**	1,310.8	1,310.7	**1,413.7**	1,139.6	1,133.3
3	Total capital	**1,753.0**	1,510.8	1,510.7	**1,613.7**	1,339.6	1,333.3
	Risk-weighted exposure amounts						
4	Total risk-weighted exposure amount	**10,380.2**	9,847.6	9,383.3	**9,678.4**	9,159.2	8,674.1
	Capital ratios (as a percentage of risk-weighted exposure amount)						
5	Common equity tier 1 ratio (%)	**13.0**	13.3	14.0	**12.5**	12.4	13.1
6	Tier 1 ratio (%)	**15.0**	13.3	14.0	**14.6**	12.4	13.1
7	Total capital ratio (%)	**16.9**	15.3	16.1	**16.7**	14.6	15.4
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)[3]						
UK 7a	Additional CET1 SREP requirements (%)	**0.6**	0.6	0.6	**0.8**	0.8	0.8
UK 7b	Additional AT1 SREP requirements (%)	**0.2**	0.2	0.2	**0.3**	0.3	0.3
UK 7c	Additional T2 SREP requirements (%)	**0.3**	0.3	0.3	**0.3**	0.3	0.3
UK 7d	Total SREP own funds requirements (%)	**9.0**	9.0	9.0	**9.4**	9.4	9.4
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)						
8	Capital conservation buffer (%)	**2.5**	2.5	2.5	**2.5**	2.5	2.5
9	Institution specific countercyclical capital buffer (%)	**1.9**	1.9	0.9	**1.9**	1.9	0.9
11	Combined buffer requirement (%)	**4.4**	4.4	3.4	**4.4**	4.4	3.4
UK 11a	Overall capital requirements (%)	**13.4**	13.4	12.4	**13.8**	13.8	12.8
12	CET1 available after meeting total SREP own funds requirements (%)	**7.9**	6.3	7.2	**7.3**	5.3	6.0
	Leverage ratio[4]						
13	Total exposure measure excluding claims on central banks	**12,249.7**	11,495.0	10,963.2	**11,116.5**	10,540.3	10,081.0
14	Leverage ratio excluding claims on central banks (%)	**12.7**	11.4	12.0	**12.7**	10.8	11.2

		Group			Individual[1]		
		a[2]	c	e	a[2]	c	e
£m		**31 Jan 2024**	31 Jul 2023	31 Jan 2023	**31 Jan 2024**	31 Jul 2023	31 Jan 2023
	Liquidity coverage ratio[5]						
15	Total high-quality liquid assets ("HQLA") (Weighted value - average)	**2,120.9**	1,931.8	1,500.6	**2,120.9**	1,931.8	1,500.6
UK 16a	Cash outflows - Total weighted value	**777.7**	676.2	580.4	**881.7**	698.4	589.7
UK 16b	Cash inflows - Total weighted value	**1,327.6**	1,183.9	1,050.7	**2,197.6**	2,036.1	1,901.7
16	Total net cash outflows (adjusted value)	**194.4**	169.0	145.1	**220.4**	174.6	147.4
17	Liquidity coverage ratio (%)	**1,090.8**	1,142.8	1,034.2	**962.2**	1,106.4	1,017.9
	Net stable funding ratio[6]						
18	Total available stable funding	**10,110.9**	9,433.6	8,981.6	**9,709.0**	9,139.8	8,673.8
19	Total required stable funding	**7,726.6**	7,483.5	7,217.5	**6,726.5**	6,505.1	6,422.2
20	Net stable funding ratio (%)	**130.8**	126.0	124.4	**144.3**	140.5	135.1

1 For capital and leverage, the PRA supervises CBL on an individual consolidation basis as permitted under CRR article 9. For liquidity and funding, the PRA supervises CBL on an individual basis, excluding all subsidiary undertakings.
2 Columns b and d have been removed as the group is only required to disclose information on a semi-annual basis.
3 SREP requirements presented are as at the period end.
4 Rows 14a-14e have been removed as only LREQ firms are required to disclose this information.
5 Figures presented are for the 12 month average to the period end.
6 Figures presented are for the four quarter average to the period end.

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