Close Brothers Group plc

Pillar 3 disclosures for the half year ended 31 January 2023

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 2023 with comparative figures for 31 July 2022 and 31 January 2022 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 Prudential sourcebook for Investment Firms ("IFPRU").

Presentation of information

The group's Pillar 3 disclosure for the half year ended 31 January 2023 provides an update on the capital position disclosed in the group's Pillar 3 disclosure for the year ended 31 July 2022. The information has been prepared in accordance with the Disclosure Part of the CRR.

Capital and leverage ratios reported as at 31 January 2023 include all profits (both verified and unverified) for the six month period, less foreseeable dividends.

The liquidity coverage ratio ("LCR") reported as at 31 January 2023 is prepared as a 12-month average whilst the net stable funding ratio ("NSFR") as at 31 January 2023 is prepared on a spot basis.

Summary of Key Metrics

The CET1 capital ratio reduced from 14.6% to 14.0%, mainly driven by the impact of the IFRS 9 transitional arrangements (-c.45bps) and profits net of dividends paid and foreseen (-c.35bps), partly offset by a decrease in risk weighted assets ("RWAs") (c.30bps). The impact of Novitas on the CET1 ratio was -c.125bps.

CET1 capital decreased 6% to £1,310.7 million (31 July 2022: £1,396.7 million), reflecting a decrease in the transitional IFRS 9 add-back to capital of £49.0 million, the regulatory deduction of dividends paid and foreseen of £33.5 million and an increase in the intangible assets deducted from capital of £8.4 million. This was partially offset by the capital generation through profit of £8.4 million.

Total capital decreased 5% to £1,510.7 million (31 July 2022: £1,596.7 million).

RWAs fell by 2% to £9.4 billion (31 July 2022: £9.6 billion), mainly driven by a reduction in risk weighted assets related to derivatives held for hedging purposes and the IFRS 9 transitional adjustment, partly offset by an increase in the loan book.

As a result, CET1, tier 1 and total capital ratios were 14.0% (31 July 2022: 14.6%), 14.0% (31 July 2022: 14.6%) and 16.1% (31 July 2022: 16.6%), respectively.

At 31 January 2023, the applicable minimum CET1, tier 1 and total capital ratio requirements, excluding any applicable PRA buffer, were 8.5%, 10.2% and 12.4%, respectively. Accordingly, we continue to have headroom significantly above the applicable minimum regulatory requirements of 550bps in the CET1 capital ratio, 380bps in the tier 1 capital ratio and 365bps in the total capital ratio.

The group applies IFRS 9 regulatory transitional arrangements which allows banks to add back to their capital base a proportion of the IFRS 9 impairment charges during the transitional period. Our capital 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 13.7%, 13.7% and 15.8%, respectively.

The leverage ratio, which is a transparent measure of capital strength not affected by risk weightings, remains strong at 12.0% (31 July 2022: 12.0%).

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 to 31 January 2023 LCR of 1034% (31 July 2022: 924%). In addition to internal measures, we monitor funding risk based on the CRR rules for the NSFR which became effective on 1 January 2022. The NSFR at 31 January 2023 was 124.4% (31 July 2022: 118.1%).

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

UK KM1 – Key metrics

		a[1]	c	e
£m		**31 Jan 2023**	31 Jul 2022	31 Jan 2022
	Available own funds (amounts)			
1	Common equity tier 1 ("CET1") capital	**1,310.7**	1,396.7	1,405.7
2	Tier 1 capital	**1,310.7**	1,396.7	1,405.7
3	Total capital	**1,510.7**	1,596.7	1,605.7
	Risk-weighted exposure amounts			
4	Total risk-weighted exposure amount	**9,383.3**	9,591.3	9,306.3
	Capital ratios (as a percentage of risk-weighted exposure amount)[1]			
5	Common equity tier 1 ratio (%)	**14.0**	14.6	15.1
6	Tier 1 ratio (%)	**14.0**	14.6	15.1
7	Total capital ratio (%)	**16.1**	16.6	17.3
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)			
UK 7a	Additional CET1 SREP requirements (%)	**0.6**	0.6	0.6
UK 7b	Additional AT1 SREP requirements (%)	**0.2**	0.2	0.2
UK 7c	Additional T2 SREP requirements (%)	**0.3**	0.3	0.3
UK 7d	Total SREP own funds requirements (%)	**9.0**	9.0	9.0
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer (%)	**2.5**	2.5	2.5
9	Institution specific countercyclical capital buffer (%)	**0.9**	0.0	0.0
11	Combined buffer requirement (%)	**3.4**	2.5	2.5
UK 11a	Overall capital requirements (%)	**12.4**	11.5	11.5
12	CET1 available after meeting total SREP own funds requirements (%)	**7.2**	7.8	8.3
	Leverage ratio[2]			
13	Total exposure measure excluding claims on central banks	**10,963.2**	11,626.6	11,539.4
14	Leverage ratio excluding claims on central banks (%)	**12.0**	12.0	12.2
	Liquidity coverage ratio			
15	Total high-quality liquid assets ("HQLA") (Weighted value - average)	**1,500.6**	1,259.9	1,425.9
UK 16a	Cash outflows - Total weighted value	**580.4**	545.1	604.6
UK 16b	Cash inflows - Total weighted value	**1,050.7**	938.7	903.7
16	Total net cash outflows (adjusted value)	**145.1**	136.3	151.1
17	Liquidity coverage ratio (%)	**1,034.2**	924.5	943.4
	Net stable funding ratio			
18	Total available stable funding	**8,981.6**	8,814.8	8,913.2
19	Total required stable funding	**7,217.5**	7,462.6	7,601.0
20	Net stable funding ratio (%)	**124.4**	118.1	117.3

1 Columns b and d have been removed as only required to disclose information on a semi-annual basis.
2 Rows 14a-14e have been removed as only LREQ firms are required to disclose this information.

Close Brothers
Modern Merchant Banking

Close Brothers Group plc
10 Crown Place
London EC2A 4FT
Tel: +44 (0)333 321 6100
www.closebrothers.com