Close Brothers Group plc

Pillar 3 disclosures for the year ended 31 July 2015

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Should you have any queries please e-mail: pillar3@closebrothers.com

1. Overview

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 EU's Capital Requirements Regulation ("CRR"), and are based on data at 31 July 2015 with comparative figures for 31 July 2014 where relevant.

Within this document are references to the Close Brothers Group plc's annual report which can be found at: www.closebrothers.com/investor-relations/investor-information/results-reports-and-presentations

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. The main subsidiary institutions which are subject to the CRR are Close Brothers Limited ("CBL"), Winterflood Securities Limited, and Close Asset Management Limited. Details of the group's principal subsidiaries are included in Note 31 of the group's annual report. There are no differences between the basis of consolidation of the group for accounting and regulatory purposes.

Other than restrictions due to regulatory capital requirements for regulated entities, there are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities when due between the group and its subsidiaries.

The group has not applied for any Internal Ratings Based ("IRB") waivers and consequently no Pillar 3 IRB disclosures are included in this document.

Policy

Disclosures will be issued as a minimum on an annual basis and are published on the group's website. These disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the group's annual report. These disclosures are ratified by the Group Risk and Compliance Committee ("GRCC") and approved by the CBG board ("the board").

The Pillar 3 disclosures have been prepared purely for explaining the basis on which the group has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgement about the group.

Solo-consolidation

CBL, the group's regulated banking subsidiary, makes use of the provisions laid down in CRR Article 9 and reports to the PRA on a solo-consolidated basis. This solo-consolidated group includes CBL and its major trading subsidiaries as at 31 July 2015.

2. Risk management objectives and policies

The board has overall responsibility for maintaining a system of internal control to ensure that an effective risk management and oversight process operates across the group. The risk management framework and associated governance arrangements are designed to ensure that there is a clear organisation structure with well defined, transparent and consistent lines of responsibility and effective processes to identify, manage, monitor and report the risks to which the group is, or might become, exposed. The board has a well defined risk appetite with risk appetite measures which are integrated into decision making, monitoring and reporting processes, with early warning trigger levels set to drive the required corrective action before overall tolerance levels are reached. The risk framework through key committees, including the Risk Committee and Audit Committee, is the mechanism that ensures the board receives comprehensive risk information in a timely manner.

Identification, measurement and management of risk are fundamental to the success of the group. Over the past 12 months the group has continued to strengthen its risk management framework and further develop the group's risk committees, at both board and divisional level, and these continue to work efficiently and effectively.

The group's risk and control framework is designed to allow the capture of business opportunities while maintaining an appropriate balance of risk and reward within the group's agreed risk appetite. It further ensures that the risks to which the group is or may become exposed are appropriately identified and that those which the group chooses to take are managed, controlled and, where necessary, are mitigated so that the group is not subject to material unexpected loss.

The group reviews and adjusts its risk appetite annually as part of the strategy setting process. This aligns risk taking with the achievement of strategic objectives. Adherence to appetite is monitored by the group's risk committees.

The risk management framework is based on the concept of "three lines of defence", as set out in the table overleaf, and the key principles underlying risk management in the group are:

- Business management own all the risks assumed throughout the group and are responsible for their management on a day-to-day basis to ensure that risk and return are balanced;
- The board and business management promote a culture in which risks are identified, assessed and reported in an open, transparent and objective manner;
- The overriding priority is to protect the group's long-term viability and produce sustainable medium to long-term revenue streams;
- Risk functions are independent of the businesses and provide oversight of and advice on the management of risk across the group;
- Risk management activities across the group are proportionate to the scale and complexity of the group's individual businesses;
- Risk mitigation and control activities are commensurate with the degree of risk; and
- Risk management and control supports decision making.

2. Risk management objectives and policies continued

Risk Management Framework

First line	Second line	Third line
The businesses Group Risk and Compliance Committee (Reports to the Risk Committee)	**Risk and Compliance** Risk Committee (Reports to the board)	**Internal Audit** Audit Committee (Reports to the board)
Chief executive delegates to divisional and operating business heads day-to-day responsibility for risk management, regulatory compliance, internal control and conduct in running their divisions or businesses. Business management has day-to-day ownership, responsibility and accountability for risks: • Identifying and assessing risks; • Managing and controlling risks; • Measuring risk (key risk indicators/early warning indicators); • Mitigating risks; and • Reporting risks. **Key features** • Promotes a strong risk culture and focus on sustainable risk-adjusted returns; • Implements the risk framework; • Promotes a culture of adhering to limits and managing risk exposures; • Promotes a culture of customer focus and appropriate behaviours; • Ongoing monitoring of positions and management of risks; • Portfolio optimisation; and • Self-assessment.	Risk Committee delegates to the group chief risk officer day-to-day responsibility for oversight and challenge on risk related issues. Risk functions (including Compliance) provide support and independent challenge on: • The design and operation of the Risk framework; • Risk assessment; • Risk appetite and strategy; • Performance management; • Risk reporting; • Adequacy of mitigation plans; and • Group risk profile. **Key features** • Overarching "risk oversight unit" takes an integrated view of risk (qualitative and quantitative); • Risk management separate from risk control but work together; • Supports through developing and advising on risk strategies; • Creates constructive tension through challenge - "critical friend"/"trusted advisor"; and • Oversight of business conduct.	Audit Committee mandates the head of group internal audit with day-to-day responsibility for independent assurance. Internal audit provides independent assurance on: • First and second line of defence; • Appropriateness/effectiveness of internal controls; and • Effectiveness of policy implementation. **Key features** • Draws on deep knowledge of the group and its businesses; • Independent assurance on the activities of the firm including the risk management framework; • Assesses the appropriateness and effectiveness of internal controls; and • Incorporates review of culture and conduct.

The Risk Committee

The Risk Committee's principal roles and responsibilities are to support the board in its oversight of risk management across the group. The Committee's key roles and responsibilities are therefore in summary to:

- Oversee the maintenance and development of a supportive culture in relation to the management of risk;
- Review and set risk appetite, which is the level of risk the group is willing to take in pursuit of its strategic objectives;
- Monitor the group's risk profile against the prescribed appetite;
- Review the effectiveness of the risk framework to ensure that key risks are identified and appropriately managed; and
- Provide input from a risk perspective into the alignment of remuneration with performance against risk appetite (through the Remuneration Committee).

The Risk Committee's full terms of reference are available from the corporate governance section of the Company's website.

The Risk Committee met six times throughout the year. Further information on the number of times the Committee met, and attendees, is set out on page 46 of the group's annual report.

The Risk Committee conducted its annual review of the adequacy and effectiveness of the group's risk management and internal control arrangements in relation to the group's strategy and risk profile for the financial year. This review was approved by the board which considers that it has in place adequate systems and controls with regard to the company's profile and strategy.

2. Risk management objectives and policies continued

Principal risks and uncertainties

The group faces a number of risks in the normal course of business providing a range of financial services to small businesses and individuals. These risks are managed by:

- Adhering to our established and proven business model outlined on pages 8 to 11 of the group's annual report;
- Implementing an integrated risk management approach based on the concept of "three lines of defence" which is outlined in detail on pages 3 and 4; and
- Setting clearly defined risk appetites monitored with specific metrics within set limits.

A summary of the principal risks and uncertainties which may impact the group's ability to deliver its strategy, how we seek to mitigate these risks and the change in the perceived level of risk over the year is set out below. The risks identified remain broadly unchanged from the prior year reflecting the group's consistent strategy and adherence to its established business model.

This summary should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties faced by the group but rather those risks which the group currently believes may have a significant impact on the group's performance and future prospects.

Key: — No change ↗ Risk increased ↘ Risk decreased

Risk	Mitigation	Change
Credit losses At 31 July 2015 the group had loans and advances to customers totaling £5.7 billion. The group is exposed to credit losses if customers are unable to repay loans and outstanding interest and fees. In addition the group has exposure to counterparties with which it places deposits or trades, and also has limited derivative contracts to hedge interest rate and foreign exchange exposures.	We seek to minimise our exposure to credit losses from our lending by: • Applying strict lending criteria when testing the credit quality and covenant of the borrower. • Maintaining consistent and conservative loan to value ratios with low average loan size and short-term tenor. • Lending on a predominantly secured basis with significant emphasis placed on the underlying security. • Maintaining rigorous and timely collections and arrears management processes. • Operating strong control and governance both within our lending businesses and with oversight by a central credit risk team. Our exposures to counterparties are mitigated by: • Conservative management of our liquidity requirements and surplus funding with £1.0 billion or c.85% placed with the Bank of England. • Continuous monitoring of credit quality of our counterparties within approved set limits. • Winterflood's trading relating to exchange traded cash securities and being settled on a delivery against payment basis. Counterparty exposure and settlement failure monitoring controls are also in place.	— The loan impairment rate has remained low reflecting our lending discipline as well as favourable market conditions. The group's other counterparty exposures are broadly unchanged with the majority of our liquidity requirements and surplus funding placed with the Bank of England. Further commentary on the credit quality of our loan book is outlined in the group's annual report on pages 21 and 22. Further details on loans and advances to customers and debt securities held are in the group's annual report in notes 11 and 12 on pages 103 and 104 of the Financial Statements and in this document within Section 6. Our approach to credit risk management and monitoring is outlined in more detail in note 29 of the group's annual report on page 125.

2. Risk management objectives and policies continued

Risk	Mitigation	Change
Economic environment Any downturn in economic conditions could impact the group's performance through: • Lower demand for the group's products and services; • Lower investor risk appetite as a result of financial markets instability; • Higher bad debts as a result of customers inability to service debt and lower asset values on which loans are secured; and • Increased volatility in funding markets.	The majority of the group's activities are in specialist areas where our people have significant experience and expertise. Our long standing commitment to our proven business model and strong financial position has enabled us to support our clients in all economic conditions. This assists us in our aim of developing long-term relationships with our clients. The group carries out regular stress testing on its performance and financial positions to test resilience in the event of adverse economic conditions.	– Whilst the UK economy has proven resilient and the outlook appears stable, significant global uncertainty remains. Further commentary on the attributes and resilience of the group's business model is shown in the group's annual report on pages 8 to 11.
Legal and regulatory Changes to the existing legal, regulatory and tax environments and failure to comply with existing requirements may materially impact the group. Failing to treat customers fairly, safeguard client assets or provide advice/products contrary to clients' best interest has the potential to damage our reputation and may lead to legal or regulatory sanctions including litigation and customer redress. This applies to current, past and future business. Similarly changes to regulation and taxation can impact our performance, capital and liquidity and the markets in which we operate.	The group seeks to manage these risks by: • Commitment to provide straightforward and transparent products and services to our clients. • Governance and control processes to review and approve new products and services. • Significant investment in both staff and operating systems to ensure the group is well placed to respond to changes in regulation. • Investment in training for all staff including anti-money laundering, bribery and corruption, data protection and information security. Additional tailored training for relevant employees is provided in key areas such as complaint handling. • Continuous monitoring of key legal, regulatory and tax developments to anticipate their potential impact. • Maintaining constructive and positive relationships and dialogue with regulatory bodies and tax authorities.	↗ Financial services businesses remain subject to significant scrutiny. We believe the potential risks from legal and regulatory changes continue to increase. The group's approach to regulatory reform during the year is discussed in the group's annual report in the Chairman and Chief Executive's Statement on page 6 and the Risk Committee report on pages 51 and 52 of the Corporate Governance report. Further information on our approach to conduct risk can be found in the group's annual report in the Sustainability Report on pages 34 to 35.
Competition The group operates in highly competitive markets and as the UK economy improves we expect to see competition continue to increase particularly in the Banking division.	The group has a long track record of trading successfully in all types of competitive environment. We value our clients and build long-term relationships offering a differentiated proposition based on: • Speed and flexibility of service. • Local presence. • Experienced and expert people. • Tailored, client driven product offerings.	↗ We continue to experience increasing levels of competition particularly in the Banking division. Further commentary on the market environment for the Banking division is outlined in the group's annual report on page 21. Our business model is set out in the group's annual report on pages 8 to 11.

2. Risk management objectives and policies continued

Risk	Mitigation	Change
Technology Maintaining robust and secure IT infrastructure, systems and software is fundamental to allow the group to operate effectively, respond to new technology, protect client and company data and counter the evolving cyber threat. Failure to keep up with changing customer expectations or manage upgrades to existing technology has the potential to impact group performance.	The group continues to invest in its IT infrastructure, information security and software. We also continue to invest in our IT resources including the appointment of a chief information officer in the Banking division with extensive relevant experience in the financial services sector. The group has strong governance in place to oversee its major projects. We have in place business continuity and disaster recovery plans which are regularly tested.	The group continues to invest and upgrade its IT infrastructure to simplify our technology architecture and reduce exposure to cyber attack. However the risk of cyber threats or new technology impacting our business model remains. Further detail on our technology related investment is outlined in the annual report on pages 6 and 21. For further information on our response to cyber threats and the independent review on our business continuity plans see page 52 of the Corporate Governance report in the group's annual report.
Employees The calibre, quality and expertise of employees is critical to the success of the group. The loss of key individuals or teams may have an adverse impact on the group's operations and ability to deliver its strategy.	The group seeks to attract, retain and develop staff by: • Operating remuneration structures which are competitive and recognise and reward performance. • Implementing succession planning for key roles. • Aiming to develop a pipeline of future leaders through our Emerging Leaders Programme. • Investing in training and development for all staff. • Attracting high quality staff including via our graduate and school leaver programmes, and new training academy in asset finance.	Our highly skilled people are likely to be targeted but we are confident we are able to retain key employees. Our latest employee survey identified 88% of employees were either satisfied or very satisfied working at Close Brothers. Further detail on the employee survey and our investment in our people is outlined in the group's annual report in the Sustainability Report on pages 32 to 34.
Funding The Banking division's access to stable funding remains key to support its lending activities and the liquidity requirements of the group.	At 31 July 2015 the group's funding position was strong with total funding 131% of the loan book. This provides a prudent level of liquidity to support our lending activities. Our funding is well diversified both by source and tenor. Liquidity in our Banking division is assessed on a daily basis and tested weekly to ensure adequate liquidity is held and readily accessible in stressed conditions. Our funding approach is conservative based on the principle of "borrow long and lend short". Over 50% of our total funding is repayable after more than one year with an average duration of 31 months. This compares to our weighted average loan maturity of 14 months.	The group remains well funded, retains sufficient liquidity and is well placed to access further funding as required. Further commentary on funding and liquidity is provided in the annual report on pages 17 to 19. Further financial analysis of our funding is shown in the group's annual report in note 19 on page 110 of the Financial Statements.

2. Risk management objectives and policies continued

Risk	Mitigation	Change
Market exposure Market volatility and/or changes in interest and exchange rates have the potential to impact the group's performance. Although the majority of the group's activities are carried out in the UK, there is foreign exchange exposure on deposits, lending and funding balances as part of our banking activities as well as trading in foreign securities.	Winterflood primarily act as a market-maker in exchange traded cash securities reducing exposure to market volatility. In addition trading positions are monitored on a real time basis and both individual and trading book limits are set to control exposure. The group matches fixed and variable interest rate assets and liabilities using swaps where appropriate. The sensitivity analysis on interest rate exposures shown in note 29 on page 128 of the group's annual report shows the expected impact of interest rate changes. The group's capital and reserves are not hedged. Foreign exchange exposures in the Banking division are hedged using currency swaps with exposures monitored daily against approved limits. Trading exposures on foreign securities are also hedged and monitored against limits.The group does not speculate on foreign currency movements. Stress tests are regularly performed on market risks to ensure we maintain adequate liquidity and capital even under extreme downside scenarios.	– The group's approach and the underlying risks are unchanged. Further detail on the group's exposure to market risk is outlined in the group's annual report in note 29 on pages 128 and 129 of the Financial Statements.

Information on number of directorships

Information on the number of directorships held by members of the management body, and information on the recruitment and diversity policy with regards to selection of members of the management body are shown in the group's annual report on pages 40, 41 and 55.

In addition, Strone Macpherson is a director of Estover Energy Ltd and Geoffrey Howe of Gateway Electronic Components Ltd.

3. Capital resources

The table below summarises the composition of regulatory capital as at 31 July 2015. The group's individual regulated 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 31 July 2015 and 2014.

	31 July 2015 £ million	31 July 2014 £ million
Common equity tier 1 capital		
Called up share capital	**37.7**	37.7
Share premium account	**284.0**	283.8
Retained earnings	**694.4**	589.8
Other reserves recognised for common equity tier 1 capital	**18.3**	21.4
Non-controlling interests	**-**	-
Deductions from common equity tier 1 capital		
Intangible assets, net of associated deferred tax liabilities	**(140.6)**	(142.1)
Foreseeable dividend[1]	**(52.4)**	(47.7)
Investment in own shares	**(25.6)**	(27.9)
Pension asset, net of associated deferred tax liabilities	**(2.5)**	(3.9)
Additional valuation adjustments	**(0.1)**	(0.3)
Common equity tier 1 capital	**813.2**	710.8
Tier 2 capital		
Subordinated debt[2]	**31.5**	60.0
Unrealised gains on available for sale equity shares	**3.3**	9.6
Tier 2 capital	**34.8**	69.6
Total regulatory capital	**848.0**	780.4

1 Under the Regulatory Technical Standards on own funds, a deduction has been recognised at 31 July 2015 and 31 July 2014 for a foreseeable dividend being the proposed final dividend as set out in note 9 of the group's annual report.
2 Under the Capital Requirements Regulation's transitional arrangements, 70% (31 July 2014: 80%) of the principal value of subordinated debt is recognised.

The following table shows a reconciliation between equity and common equity tier 1 capital after deduction:

	31 July 2015 £ million	31 July 2014 £ million
Equity	**1,009.9**	917.6
Regulatory deductions from equity:		
Intangible assets, net of associated deferred tax liabilities	**(140.6)**	(142.1)
Foreseeable dividend[1]	**(52.4)**	(47.7)
Pension asset, net of associated deferred tax liabilities	**(2.5)**	(3.9)
Additional valuation adjustments	**(0.1)**	(0.3)
Other reserves not recognised for common equity tier 1 capital:		
Available for sale movements reserve	**(3.3)**	(9.6)
Cash flow hedging reserve	**2.3**	(2.1)
Non-controlling interests	**(0.1)**	(1.1)
Common equity tier 1 capital	**813.2**	710.8

1 Under the Regulatory Technical Standards on own funds, a deduction has been recognised at 31 July 2015 and 31 July 2014 for a foreseeable dividend being the proposed final dividend as set out in note 9 of the group's annual report.

Intangible assets include goodwill, capitalised software and intangible assets arising on acquisition. All the subordinated loan capital has been issued by CBL and is denominated in sterling. A reconciliation of regulatory capital to the balance sheet is shown in Appendix 1.

4. Capital adequacy

The group's policy is to be well capitalised, and its 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. The group maintains a strong capital base to support the development of the business and to ensure the group meets the Pillar 1 capital requirements and Individual Capital Guidance at all times. As a result, the group maintains capital adequacy ratios comfortably above minimum regulatory requirements.

Internal capital adequacy assessment process ("ICAAP")

The group undertakes a group-wide internal capital adequacy assessment annually which is an integral part of the group's risk management processes. The main output from the process is an assessment of all material risks faced by the group, determination of the level of capital required to be held against each major source of risk and an analysis of a number of severe stress tests over a three-year time horizon, which is the group's standard business planning timescale. Management at all levels within the group are involved in 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 by both the GRCC and by the Risk Committee, before approval by the board.

Capital requirement

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.

	2015 £ million	2014 £ million
Credit risk - standardised approach		
Central governments or central banks	**-**	-
Regional governments or local authorities	**0.1**	0.1
Public sector entities	**0.2**	0.1
Institutions	**6.0**	1.7
Corporates	**93.2**	85.1
Retail	**166.2**	154.9
Secured by mortgages on immovable property	**98.9**	83.1
Exposures in default	**10.5**	9.0
Items associated with particular high risk	**0.6**	1.5
Other items	**29.9**	26.5
	405.6	362.0
Operational risk - standardised approach[1]	**60.3**	55.6
Counterparty credit risk	**2.7**	3.2
Market risk - trading book		
Interest rate PRR[2]	**0.4**	2.8
Equity PRR[2]	**5.0**	9.1
Market risk - non-trading book		
Foreign currency PRR[2]	**0.6**	3.0
Total Pillar 1 capital requirement	**474.6**	435.7

1 The Standardised Approach is used for Securities, Asset Management and non-lending income in the Banking division. The Alternative Standardised Approach is applied to the loan book and securities exposures in the Banking division.
2 Position Risk Requirement.

The movements in the capital requirements during the year result from growth in the group's business, principally loan book growth in the Banking division in relation to credit risk, and from changes in the balance sheet.

5. Counterparty credit risk

Counterparty credit risk is the risk of loss as a result of a counterparty to a transaction defaulting before the final settlement of the transaction's cash flows.

Counterparty credit risk derives from derivative exposures, including the regulatory credit valuation adjustment, and from exposures arising in the Securities division trading in the cash markets with regulated counterparties on a delivery versus payment basis such that any credit exposure is limited to price movements in the underlying securities. It also includes exposures resulting from free deliveries in the Securities division.

The table above shows that counterparty credit risk amounts to less than 1% (2014: less than 1%) of the overall capital requirement. Consequently, on the grounds of materiality, no further detail is provided on this risk.

6. Credit risk

Credit risk is the risk of a reduction in earnings and/or value, as a result of the failure of a counterparty or associated party with whom the group has contracted to meet its obligations in a timely manner and arises mainly from the lending and treasury activities of the Banking division. The following tables analyse regulatory credit risk exposures at 31 July 2015:

	2015 £ million	2014 £ million	Average exposure in 2015 £ million
Central governments or central banks	**1,058.2**	1,216.7	1,137.4
Regional governments or local authorities	**6.3**	4.5	5.4
Public sector entities	**10.9**	8.3	9.6
Institutions	**203.0**	106.4	154.7
Corporates	**1,777.2**	1,658.4	1,717.8
Retail	**3,097.4**	2,958.2	3,027.8
Secured by mortgages on immovable property	**1,979.3**	1,823.9	1,901.6
Exposures in default	**99.0**	87.5	93.3
Items associated with particular high risk	**4.7**	12.1	8.4
Collective investment undertakings	**0.1**	0.1	0.1
Other items	**307.2**	276.4	291.8
	8,543.3	8,152.5	8,347.9

The exposures are before applying risk weightings and include undrawn commitments. The retail exposure class consists of loans to individuals and small and medium sized entities with similar characteristics.

As at 31 July 2015, the group's exposure to SMEs is £3,545 million (excluding undrawn commitments).

6. Credit risk continued

Geographic distribution of exposures by regulatory exposure asset class at 31 July 2015:

	British Isles £ million	Europe £ million	Rest of world £ million	**Total £ million**
Central governments or central banks	1,058.2	-	-	**1,058.2**
Regional governments or local authorities	6.3	-	-	**6.3**
Public sector entities	10.9	-	-	**10.9**
Institutions	198.6	3.8	0.6	**203.0**
Corporates	1,608.3	157.1	11.8	**1,777.2**
Retail	2,852.4	245.0	-	**3,097.4**
Secured by mortgages on immovable property	1,979.3	-	-	**1,979.3**
Exposure in default	93.7	5.3	-	**99.0**
Items associated with particular high risk	4.7	-	-	**4.7**
Collective investment undertakings	0.1	-	-	**0.1**
Other items	306.0	1.1	0.1	**307.2**
	8,118.5	412.3	12.5	**8,543.3**

Residual maturity breakdown of regulatory exposure asset classes on a contractual basis at 31 July 2015:

	Less than three months £ million	Three months to one year £ million	One to five years £ million	More than five years £ million	**Total £ million**
Central governments or central banks	1,012.6	25.3	20.3	-	**1,058.2**
Regional governments or local authorities	0.8	2.1	3.4	-	**6.3**
Public sector entities	0.9	3.5	6.5	-	**10.9**
Institutions	76.3	115.0	11.7	-	**203.0**
Corporates	913.0	307.1	526.8	30.3	**1,777.2**
Retail	595.0	934.3	1,559.3	8.8	**3,097.4**
Secured by mortgages on immovable property	565.1	1,134.9	279.3	-	**1,979.3**
Items associated with particular high risk	4.7	-	-	-	**4.7**
Collective investment undertakings	0.1	-	-	-	**0.1**
Other items	198.8	60.1	48.0	0.3	**307.2**
	3,367.3	2,582.3	2,455.3	39.4	**8,444.3**
Exposures in default					**99.1**
					8,543.4

Impairment of financial assets

The group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as available for sale or loans and receivables is impaired. A financial asset or group of financial assets is impaired and an impairment loss incurred if there is objective evidence that an events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

(a) Loans and advances to customers
Treatment

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables has been incurred, the group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition.

6. Credit risk continued

Impairment losses are assessed individually for financial assets that are individually significant and individually or collectively for assets that are not individually significant. In making collective assessment of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics.

For loans and receivables, 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 effective interest rate. As the loan amortises over its life, the impairment loss may 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 effective interest rate 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.

Differences in accounting and regulatory treatment

For accounting purposes, a financial asset is treated as past due when a counterparty has failed to make a payment when contractually due and an impairment provision is made where there is objective evidence of impairment. In contrast, under regulatory rules, a financial asset is treated as past due when the payment is ninety days past the contractual due date. Value adjustments and provisions required under regulatory rules are calculated on the same basis as impairment provisions, and so all provisions for impaired loans and advances are referred to as impairment provisions. The impairment provisions shown below are the accounting values shown in Note 29 of the group's annual report, where further relevant information can be found.

Analysis of impairment provisions

For accounting purposes, impaired loans and advances to customers are analysed according to whether the impairment provisions are individually or collectively assessed, as described in more detail in Note 29 of the group's annual report. However, for regulatory purposes the group does not have any general/collective provisions as defined under the CRR.

(b) Financial instruments classified as available for sale

When a decline in the fair value of a financial asset classified as available for sale has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss is removed from equity and recognised in the consolidated income statement. The loss is measured as the difference between the amortised cost of the financial asset and its current fair value. Impairment losses on available for sale equity instruments are not reversed through the consolidated income statement, but those on available for sale debt instruments are reversed, if there is an increase in fair value that is objectively related to a subsequent event.

Analysis of impaired and past due loans

The tables overleaf analyse impaired loans as treated for accounting purposes and past due loans as treated for regulatory purposes at 31 July 2015.

6. Credit risk continued

Counterparty type[1] analysis of gross impaired and past due loans, and impairment provisions at 31 July 2015:

	Gross impaired loans 2015 £ million	Gross past due loans 2015 £ million	Impairment provisions 2015 £ million	Charges for impairment provisions during the period to 2015 £ million
Corporates	85.5	77.1	38.7	18.1
Retail	76.8	75.3	17.4	23.8
Total	**162.3**	**152.4**	**56.1**	**41.9**

1 Counterparty type analysis is based on mapping all relevant loans to either Corporates or Retail.

Geographical analysis of gross impaired and past due loans, and impairment provisions at 31 July 2015:

	Gross impaired loans 2015 £ million	Gross past due loan 2015 £ million	Impairment provisions 2015 £ million	Charges for impairment provisions during the period to 2015 £ million
British Isles	152.6	142.9	51.4	41.4
Europe	9.7	9.5	4.7	0.5
Total	**162.3**	**152.4**	**56.1**	**41.9**

Impairment provisions on loans and advances to customers:

	£ million
At 1 August	**48.3**
Charge for the year	**41.9**
Amounts written off net of recoveries	**(34.1)**
As 31 July	**56.1**

7. Credit risk: standardised approach

The group uses external credit assessments provided by Moody's Investors Service ("Moody's") to determine the risk weight of rated counterparties in each standardised credit risk exposure class. Moody's is recognised by the PRA as an eligible external credit assessment institution for the purposes of calculating credit risk requirements under the standardised approach. The external ratings of Moody's are mapped to the prescribed credit quality step assessment scale that in turn produces standard risk weightings. Exposures to central governments and central banks that have obtained a 0% risk weight from using external credit assessments are omitted from the tables below. As the standardised approach applies to both credit and counterparty credit risk, the following tables cover both risk categories.

7. Credit risk: standardised approach continued

The tables below show the exposure amounts associated with the credit quality steps and the relevant risk weightings as at 31 July 2015 (only credit quality steps with exposures are shown):

Institutions

Credit quality step	Moody's rating	Risk weight	**Exposure £million**
1	Aaa to Aa3	20%	**4.9**
2	A1 to A3	50% / 20%[1]	**166.5**
3	Baa1 to Baa3	50% / 20%[1]	**59.5**
Total			**230.9**

1 20% risk weight applies where residual maturity is three months or less.

Corporate

Credit quality step	Moody's rating	Risk weight	**Exposure £million**
3	Baa1 to Baa3	100%	**4.2**
Total			**4.2**

8. Credit risk mitigation

In the normal course of business cash collateral (margin) is posted by the counterparty to collateralise the mark to market exposure on a derivative portfolio. This covers £13.5 million of exposures within the institutions exposure class as shown in Section 6 "Credit risk".

As explained in Section 2 "Risk management objectives and policies" and in Note 29 of the group's annual report, the majority of the Banking division's lending is secured. The security taken does not result in any reduction in risk weighted assets under the standardised approach to credit risk. The group does not make use of on-balance sheet netting.

9. Non-trading book exposures in equities

At 31 July 2015, the group had £10.1 million of equity investments in the non-trading book, of which £10.0 million were classified as available for sale and £0.1 million as held at fair value through profit or loss under the fair value option. All equity investments are unlisted. The capital requirement amounted to £0.9 million, with £2.2 million of equity investments being classified as high risk for regulatory purposes. Cumulative realised gains from sales in the period where £6.8 million.

The accounting policies for classifying equity investments are outlined below.

Equity investments 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 they are impaired, the cumulative gains and losses recognised in equity are recycled through the income statement.

Equity investments designated at inception under fair value option

These are equity shares fair valued where the resulting gains and losses are included in the income statement.

9. Non-trading book exposures in equities continued

Movements in equity shares in the year to 31 July 2015 were as follows:

	Available for sale £ million	Fair value through profit or loss £ million
At 31 July 2014	19.5	0.1
Additions	-	-
Disposals	(8.1)	-
Currency translation differences	(0.4)	-
Changes in fair value of:		
Equity shares classified as available for sale	(1.0)	-
Unlisted equity shares held at fair value	-	-
At 31 July 2015	**10.0**	**0.1**

10. Interest rate risk in the non-trading book

The group's exposure to interest rate fluctuations relates primarily to the returns from its capital and reserves. The group's policy is to match repricing characteristics of assets and liabilities naturally where possible or by using interest rate swaps where necessary to secure the margin on its loans and advances to customers. These interest rate swaps are disclosed in note 14 of the annual report.

The sensitivities below are based upon reasonably possible changes in interest rate scenarios, including parallel shifts in the yield curve. At 31 July 2015 changes in interest rates compared to actual rates would increase/(decrease) the group's annual net interest income by the following amounts:

	2015 £ million
1.0% increase	**4.3**
0.5% decrease	**(2.2)**

The above analysis is calculated in sterling as the group's exposure to foreign exchange risk is immaterial, as described in Note 29 of the group's annual report.

11. Leverage

The leverage ratio is a transparent, comparable measure not affected by risk weightings. It is calculated as tier 1 capital divided by adjusted balance sheet exposure. At 31 July 2015 the leverage ratio was 10.2%, significantly above the expected minimum which will be required as a result of the Financial Policy Committee's proposed leverage ratio framework, announced in October 2014. The level of leverage is actively monitored and regularly assessed alongside capital and capital ratios, as described in Section 4 "Capital adequacy".

11. Leverage continued

The table below provide more details on the components of the exposure measure used to calculate the group's leverage ratio:

	31 July 2015 £ million
Total assets per accounting balance sheet	**7,957.3**
Reversal of accounting values:	
Derivatives	**(19.7)**
	7,937.6
Replaced with values after applying regulatory rules:	
Derivatives	**41.5**
Repurchase agreements and securities financing transactions	**6.1**
Addition of off balance sheet commitments and guarantees:	
Commitments	**144.8**
Exclude assets already deducted from capital[1]	**(143.1)**
Total leverage exposure	**7,986.9**
Common Equity Tier 1 capital	**813.2**
Additional Tier 1 capital	**-**
Total Tier 1 capital	**813.2**
Leverage ratio	**10.2%**

1 Represents intangible assets (£140.6 million) and pension asset (£2.5 million), both net of associated deferred tax liabilities (see Section 3 "Capital resources").

12. Securitisation

The group has securitised without recourse and restrictions £1,164.8 million (31 July 2014: £1,134.1 million) of its insurance premium and motor loan receivables in return for debt securities in issue of £874.8 million (31 July 2014: £848.6 million). As the group has retained exposure to substantially all the credit risk and rewards of the residual benefit of the underlying assets it continues to recognise these assets in loans and advances to customers in its consolidated balance sheet, and risk weight accordingly. As a result, CRR Article 243 does not apply when calculating risk weighted assets on the securitised loans, and no further disclosures are required.

13. Asset encumbrance

As an integral aspect of its business, the group engages in activities that result in certain assets being encumbered. The main activity relates to securitisation which is explained in Section 12 "Securitisation" above, and from accessing the Bank of England's Funding for Lending Scheme. The group also pledges assets for repurchase agreements and securities borrowing agreements, mainly in our Securities division. The group monitors the level of encumbrance to ensure it remains within approved Risk Appetite limits which are based on loan book and balance sheet encumbrance levels and which have remained largely unchanged over recent years. Further information on asset encumbrance can be found in Note 29 of the group's annual report under the section "Assets pledged and received as collateral" and "Financial assets: Loans and advances to customers".

13. Asset encumbrance continued

The Pillar 3 asset encumbrance disclosure templates[1], shown below, have been compiled in accordance with PRA and European Banking Authority ("EBA") regulatory reporting requirements, specifically the PRA's supervisory statement SS11/14 ("CRD IV: Compliance with the EBA's Guidelines on the disclosure of encumbered and unencumbered assets"). In accordance with the threshold criteria under SS11/14, the group is not required to report Template B on the fair value of encumbered and unencumbered collateral received. Also, the values disclosed will differ from the group's disclosures contained in the 2015 Annual Report and Accounts as the data is presented as a median calculation rather than point in time.

Template A: Encumbered and unencumbered assets

		Carrying amount of encumbered assets £ million	Fair value of encumbered assets £ million	Carrying amount of unencumbered assets £ million	Fair value of unencumbered assets £ million
		010	040	060	090
010	Assets of the reporting institution	1,826		5,948	
030	Equity instruments	-	-	43	43
040	Debt securities	-	-	113	113
120	Other assets	7		950	

Template C: Encumbered Assets, Collateral Received and Associated Liabilities

		Matching liabilities, contingent liabilities or securities lent £ million	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £ million
		010	030
010	Carrying amount of selected financial liabilities	1,056	1,384

1 Template formats follow specified EBA templates, including row and column references.

14. Remuneration

Remuneration Committee membership

The membership of the Remuneration Committee ("Remco" or "the Committee") comprises four non-executive directors. They are Bridget Macaskill, Oliver Corbett, Geoffrey Howe and Lesley Jones. The Committee met five times during the year.

Remco Responsibilities

The Remco's main responsibilities are to:

- Review and determine the total remuneration packages of executive directors and other senior executives in consultation with the chairman and chief executive and within the terms of the agreed policy;
- Approve the design and targets of any performance related pay schemes operated by the group;
- Review the design of all employee share incentive plans;
- Ensure that contractual terms on termination and any payments made are fair to the individual and the group, that failure is not rewarded and that a duty to mitigate risk is fully recognised;
- Review any major changes in employee benefits structures throughout the group;
- Select, appoint and determine terms of reference for independent remuneration consultants to advise the Committee on remuneration policy and levels of remuneration;
- Ensure that the remuneration structures in the group are compliant with the rules and requirements of regulators and all relevant legislation;
- Ensure that provisions regarding disclosure of remuneration are fulfilled; and
- Seek advice from group risk to ensure remuneration structures and annual bonuses are appropriately aligned to the group's risk appetite.

Advice

During the year under review the Remco consulted and took advice from PwC, the chairman of the board, the chief executive, the group head of human resources, the group head of reward and HR operations, the group chief risk officer and the group company secretary. Where the committee seeks advice from employees this never relates to their own remuneration.

Remuneration Policy

The reward structure aims to:

- Attract, motivate and retain high calibre employees across the group;
- Reward good performance;
- Promote the achievement of the group's annual plans and its longe-term strategic objectives;
- Align the interests of employees with those of all key stakeholders in particular shareholders, clients and regulators; and
- Support effective risk management and promote a positive client conduct culture.

Our Approach to Remuneration

The remuneration structures within the group are designed to support the group's key attributes of expertise, service and relationships. In order to attract the calibre of employees which can support these attributes, compensation must be competitive and designed to encourage the right behaviours. Although the risk profile of the business is short-term in nature, we seek to promote prudence, strong client relationships and sustained performance over the medium to long term with a remuneration structure for executives and senior employees which includes deferral of a proportion of the annual bonus above certain thresholds and a Long Term Incentive Plan subject to performance measures applicable over a three year period.

All our businesses have a "pay for performance" culture. Performance management is integral to our annual compensation review processes and assessment of performance for discretionary bonus awards takes into account a broad range of performance measures, both financial and non-financial. These include an assessment of risk management behaviour which ensures that negative behaviours are penalised, resulting in lower or no annual variable compensation, regardless of financial performance. Our review process to determine annual awards includes input from the group control functions (risk, compliance and internal audit) to ensure awards have been adjusted to take into account positive or negative issues from a risk and compliance perspective.

14. Remuneration continued

The Committee believes the remuneration policies aim to balance the requirements of all key stakeholders, including clients, shareholders, regulators and employees. The shareholder "share" of adjusted operating profit, calculated as the dividend and retained earnings as a percentage of adjusted operating profit before bonus and after tax, has increased over the last three years from 58% to 68% for the 2015 financial year. The ratio of total compensation to adjusted operating income for the 2015 financial year is 36%.

The Committee believes that the group's strong performance over the past three years shows that the group's remuneration policies provide an effective incentive for executives and employees while striking a balance between risk and reward for the business as a whole.

Remuneration Schemes for Code Staff

Remuneration Code Staff (also known as Material Risk Takers) comprises categories of staff whose professional activities have a material impact on the firm's risk profile ("Code Staff"). The remuneration of Code Staff is subject to specific requirements within the Remuneration Code.

Base Salary

The base salary is designed to attract and retain high calibre employees and reflect an employee's role, skills and knowledge. These are set annually based on the individual's role and experience, pay for the broader employee population and external factors, where applicable.

Discretionary Bonus Scheme

The majority of employees in the group have the potential to receive a performance related element of pay as part of their overall compensation package. This element is based on a combination of the overall assessment of the performance of the business and individual performance. Employees have individual objectives against which their personal performance is rated. These objectives cover both financial and non-financial measures, including risk management objectives appropriate to their role. In addition to the assessment of performance against these objectives (conducted by an individual's line manager as part of their overall performance review) the group chief risk officer reports independently to the Remco on behalf of group risk, compliance and internal audit to ensure that any concerns highlighted by the control functions during the year are appropriately addressed in individual remuneration proposals.

A portion of any discretionary bonus above certain thresholds and for certain individuals is deferred. This is generally into Close Brothers Group plc shares but in certain areas, where it is appropriate for the business based on the risk profile of that business, this may be deferred in cash. The deferred awards for Code Staff are subject to forfeiture and malus provisions. The malus provisions mean that the awards may be subject to forfeiture or may be reduced after grant in certain adverse circumstances. The deferred awards for Executive Directors are subject to clawback provisions which mean that the awards already paid out may be subject to repayment in certain circumstances.

The aggregate level of bonuses is determined by reference to group and divisional metrics, including financial and non-financial measures, such as risk and strategic considerations.

Long Term Incentive Plan ("LTIP") Award

The LTIP is delivered through an annual award of nil cost options (or conditional shares or restricted shares) with a face value of up to 200% of base salary. The Remco decides annually the actual size of individual awards. The shares vest after three years subject to the following performance targets for the 2015 awards:

- 40% of the award is subject to absolute total shareholder return ("TSR") growth;
- 40% of the award is subject to adjusted earnings per share ("EPS") growth; and
- 20% of the award is subject to risk management objectives.

The LTIP awards are subject to forfeiture and malus provisions. In addition, LTIP awards for Executive Directors are subject to clawback provisions.

14. Remuneration continued

Targets for the LTIP awards for 2015 are:

Absolute TSR:

Absolute TSR growth over three years	Vesting % of TSR element
20% p.a. or greater	100%
Between 20% p.a. and 10% p.a.	Straight-line between these points
10% p.a.	25%
Less than 10% p.a.	0%

Adjusted EPS:

Adjusted EPS growth over three years	Vesting % of EPS element
RPI + 10% p.a. or greater	100%
Between RPI + 10% p.a. and RPI + 3% p.a.	Straight-line between these points
RPI + 3% p.a.	25%
Less than RPI + 3% p.a.	0%

Risk Management Objectives
There are two objectives, with equal weighting of each:

- Capital and balance sheet management; and
- Risk, compliance and controls.

Share Match Plan (“SMP”)
In addition to the elements outlined above, members of the Group Executive Committee (“Exco”) (all of whom are Code Staff) can choose to invest up to 100% of base salary from their total annual bonus into Close Brothers Group plc shares (“Invested Shares”). The Invested Shares have a deferral period of three years and are subject to malus provisions. In addition, the Invested shares for Executive Directors are subject to clawback.

Invested shares are matched with free Matching Shares for every invested share, subject to performance conditions over the three year period. The Remuneration Committee has determined the maximum matching ratio for the 2015 award to be two Matching Shares for each Invested Share. The Matched Shares are subject to the same performance conditions, malus and clawback provisions as the LTIP. Clawback currently applies to Executive Directors.

Risk Management
The remuneration policy approved by the Remco is designed to promote sound and effective risk management and to ensure that risk taking within the group does not exceed the group’s risk tolerance. The Remco also approves changes to compensation structures for groups of individuals and mandates the involvement of group risk in determining new structures to ensure that they are appropriately aligned to the risk profile of the business in which they operate.

The group chief risk officer, group head of compliance, internal audit, and the divisional heads of risk and compliance are closely involved in the remuneration process to ensure that remuneration practices support this. The group chief risk officer reports independently to the Remco to ensure that remuneration decisions and practices support these objectives. Risk and compliance provide input into, and independent review of, the remuneration policies of the company.

Recovery and Withholding
As outlined in the sections above, variable remuneration for Code Staff is subject to malus, and variable remuneration for Executive Directors is subject to both malus and clawback.

The cash bonus for Executive Directors is subject to clawback for a period of three years from award.

14. Remuneration continued

The deferred bonuses for Code Staff and Executive Directors are subject to malus prior to vesting. In addition, the deferred bonuses for Executive Directors are subject to clawback for the period of three years from the date of grant.

The LTIP for Code Staff and Executive Directors is subject to malus for the three year period to the point of vesting. In addition, LTIP for Executive Directors is subject to clawback for four years from the date of grant.

The Invested SMP shares for Code Staff and Executive Directors are subject to malus until vesting and in addition, Invested SMP shares for Executive Directors are subject to clawback for three years from the date of grant. The Matched SMP shares are subject to malus until vesting and, for Executive Directors, to clawback for four years from the date of grant.

The events which may trigger malus are as follows:
- The ED's employment has been terminated for misconduct or the ED has been issued with a formal disciplinary warning for misconduct under the firm's disciplinary policy; or
- The firm suffers a material loss where the ED has operated outside the risk parameters or risk profile applicable to their position and as such the Committee considers a material failure in risk management has occurred; or
- The level of the award is not sustainable when assessing the overall financial viability of the firm.

In the event that one of these is triggered, the Committee may, at its discretion, defer and/or reduce, in whole or in part any unvested award.

The events which may trigger clawback are as follows:
- Discovery of a material mis-statement resulting in an adjustment in the audited consolidated accounts of the company, or the audited accounts of any material subsidiary. This would also be for a period that was wholly or partly before the end of the period over which the performance target applicable to an award was assessed; or
- The assessment of any performance target or condition in respect of an award was based on material error, or materially inaccurate or misleading information; or
- The discovery that any information used to determine the bonus and number of shares subject to an award was based on material error, or materially inaccurate or misleading information; or
- Action or conduct of a plan participant which, in the reasonable opinion of the board, amounts to fraud or gross misconduct.

In the event that one of these is triggered, the Committee may require the ED to repay all or part of a relevant award, and any associated dividend equivalents.

Link between reward and performance - financial year 2015

The group's financial results have been strong this year, and over the past three years. Adjusted operating profit has increased 16% in the year to £224.9 million, and it has grown 68% or 19% per annum compounded over the last three financial years. Return on equity has increased from 17.9% in 2014 to 19.5% this year, and it is up from 12.5% in 2012.

These factors were taken into consideration in determining bonus payments for the Code Staff for the financial year.

2015 Aggregate Remuneration[1] in respect of Code Staff by business

Banking £ million	Securities £ million	Asset Management £ million	Group £ million
15.1	9.2	4.4	9.9

1 Aggregate Remuneration consists of fixed and variable remuneration as outlined below.

14. Remuneration continued

2015 Aggregate Remuneration in respect of Code Staff split into fixed and variable remuneration

	Senior Management	Other Code Staff
Number of Code Staff	28	30
Fixed Remuneration (£ million)[1]	9.2	5.0
Variable Remuneration (£ million)[2]	19.9	4.5

1 Fixed Remuneration consists of base salary, company pension contributions and any other fixed allowances.
2 Variable Remuneration consists of the discretionary annual bonus, 60% of the face value of the LTIP award and 60% of the SMP match value (60% being a reasonable estimate based on historic and expected future levels of vesting as these awards are subject to performance conditions).

Appendix 1: EBA regulatory capital balance sheet reconciliation

	Balance sheet extract 31 July 2015 £ million	Balance sheet components 31 July 2015 £ million	Ref
Assets			
Intangible assets	144.2		
of which: deduction from common equity tier 1 capital		144.2	A
Deferred tax asset	39.4		
of which: deferred tax liability - intangible assets		(3.6)	B
of which: deferred tax liability - pension related		(0.6)	C
Prepayments, accrued income and other assets	117.8		
of which: defined-benefit pension fund assets		3.1	D
Total Assets	**7,957.3**		
Liabilities			
Subordinated loan capital	46.4		
of which: Tier 2 capital		31.5	E
Total liabilities	**6,947.4**		
Equity			
Called up share capital	37.7		
of which: amount eligible for common equity tier 1 capital		37.7	F
Share premium account	284.0		
of which: amount eligible for common equity tier 1 capital		284.0	G
Retained earnings	694.4	694.4	H
Other reserves	(6.3)		
of which: exchange movements reserve		(2.8)	I
of which: cash flow hedging reserve		(2.3)	J
of which: share based awards reserve[1]		(4.5)	K
of which: available for sale reserve		3.3	L
Total equity	**1,009.9**		
Total liabilities and equity	**7,957.3**		
Non balance sheet items			
Foreseeable dividend		(52.4)	M
Additional valuation adjustments		(0.1)	N

1 Consists of £25.6 million relating to holdings of own capital instruments (shown separately in Section 3 "Capital resources" and appendix 3), and £21.1 million relating to share based payments reserve (as described in Note 27 of the group's annual report).

The letters in the "Ref" column in the table above are referenced to the capital table on the following page to show how the group's regulatory capital is derived from the group's balance sheet.

Appendix 1: EBA regulatory capital balance sheet reconciliation continued

	31 July 2015 £ million	Ref
Capital instruments and the related share premium accounts	**321.7**	F + G
Retained earnings	**694.4**	H
Accumulated other comprehensive income and other reserves	**(9.6)**	I + J + K
Intangible assets net of associated deferred tax liabilities	**(140.6)**	A + B
Foreseeable dividend	**(52.4)**	M
Pension asset net of associated deferred tax liabilities	**(2.5)**	C + D
Cash flow hedging reserve not recognised	**2.3**	J
Additional valuation adjustments	**(0.1)**	N
Common equity tier 1 capital	**813.2**	
Capital instruments and the related share premium accounts[1]	**3.3**	L
Qualifying own funds instruments included in consolidated tier 2 capital issued by subsidiaries and held by third parties	**31.5**	E
Tier 2 capital	**34.8**	
Total capital	**848.0**	

1 Classification £3.3 million AFS reserve follows treatment as shown in appendix 3.

Appendix 2: EBA Capital Instruments' key features

Capital Instruments main features template

1	Issuer	CBL	CBL
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	None	None
3	Governing law(s) of the instrument	English	English
	Regulatory treatment		
4	Transitional CRR rules	Tier 2 capital	Tier 2 capital
5	Post-transitional CRR rules	Ineligible	Ineligible
6	Eligible at solo/(sub-) consolidated/ solo&(sub-) consolidated	Solo and consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt	Subordinated debt
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	£12 million	£24 million
9	Nominal amount of instrument	£15 million	£30 million
9a	Issue price	Par	Par
9b	Redemption price	Par	Par
10	Accounting classification	Amortised cost	Amortised cost
11	Original date of issuance	02/03/01	01/03/01
12	Perpetual or dated	Dated	Dated
13	Original maturity date	02/03/26	01/03/26
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	02/03/21; Tax event call	01/03/21;Tax event call
16	Subsequent call dates, if applicable	At any time	At any time
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed and then floating after optional call date	Fixed and then floating after optional call date
18	Coupon rate and any related index	7.42%	7.62%
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	Yes	Yes
22	Noncumulative or cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A

Appendix 2: EBA Capital Instruments' key features continued

29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Outstanding CBL Senior unsecured	Outstanding CBL Senior unsecured
36	Non-compliant transitioned features	Yes	Yes
37	If yes, specify non-compliant features	Step up reset rate	Step up reset rate

Appendix 3: EBA Transitional Own funds Disclosure

Transitional Own Funds Disclosure template		31 July 2015 £ million
Common equity tier 1 capital: instruments and reserves		
1	Capital instruments and the related share premium accounts of which: Instrument type 1 of which: Instrument type 2 of which: Instrument type 3	**321.7**
2	Retained earnings	**694.4**
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	**16.0**
3a	Funds for general banking risk	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from common equity tier 1 capital Public sector capital injections grandfathered until 1 January 2018	
5	Minority Interests (amount allowed in consolidated common equity tier 1 capital)	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	**(52.4)**
6	Common equity tier 1 capital before regulatory adjustments	**979.7**
Common equity tier 1 capital: regulatory adjustments		
7	Additional value adjustments	**(0.1)**
8	Intangible assets (net of related tax liability)	**(140.6)**
9	Empty Set in the EU	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met)	
11	Fair value reserves related to gains or losses on cash flow hedges	**2.3**
12	Negative amounts resulting from the calculation of expected loss amounts	
13	Any increase in equity that results from securitised assets	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	
15	Defined-benefit pension fund assets	**(2.5)**
16	Direct and indirect holdings by an institution of own common equity tier 1 capital instruments	**(25.6)**
17	Holdings of the common equity tier 1 capital instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution	
18	Direct and indirect holdings by the institution of the common equity tier 1 capital instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)	
19	Direct, indirect and synthetic holdings by the institution of the common equity tier 1 capital instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	
20	Empty Set in the EU	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	
20b	of which: qualifying holdings outside the financial sector	
20c	of which: securitisation positions	
20d	of which: free deliveries	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met)	

Appendix 3: EBA Transitional Own funds Disclosure continued

		31 July 2015 £ million
22	Amount exceeding the 15% threshold	
23	of which: direct and indirect holdings by the institution of the common equity tier 1 capital instruments of financial sector entities where the institution has a significant investment in those entities	
24	Empty Set in the EU	
25	of which: deferred tax assets arising from temporary differences	
25a	Losses for the current financial year	
25b	Foreseeable tax charges relating to common equity tier 1 capital items	
26	Regulatory adjustments applied to common equity tier 1 in respect of amounts subject to pre-CRR treatment	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468 of which: …filter for unrealised loss 1 of which: …filter for unrealised loss 2 of which: …filter for unrealised gain 1 of which: …filter for unrealised gain 2	
26b	Amount to be deducted from or added to common equity tier 1 capital with regard to additional filters and deductions required pre CRR of which: …	
27	Qualifying additional tier 1 capital deductions that exceed the additional tier 1 capital of the institution	
28	Total regulatory adjustments to common equity tier 1 capital	**(166.5)**
29	Common equity tier 1 capital	**813.2**

Additional tier 1 capital: instruments

30	Capital instruments and the related share premium accounts	
31	of which: classified as equity under applicable accounting standards	
32	of which: classified as liabilities under applicable accounting standards	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from additional tier 1 capital Public sector capital injections grandfathered until 1 January 2018	
34	Qualifying Tier 1 capital included in consolidated additional tier 1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	
35	of which: instruments issued by subsidiaries subject to phase out	
36	Additional tier 1 capital before regulatory adjustments	

Additional tier 1 capital: regulatory adjustments

37	Direct and indirect holdings by an institution of own additional tier 1 capital instruments	
38	Holdings of the additional tier 1 capital instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution	
39	Direct and indirect holdings of the additional tier 1 capital instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions)	
40	Direct and indirect holdings by the institution of the additional tier 1 capital instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions)	

Appendix 3: EBA Transitional Own funds Disclosure continued

		31 July 2015 £ million
41	Regulatory adjustments applied to additional tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	
41a	Residual amounts deducted from additional tier 1 capital with regard to deduction from common equity tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013 of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc	
41b	Residual amounts deducted from additional tier 1 capital with regard to deduction from tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013 of which items to be detailed line by line, e.g. Reciprocal cross holdings in tier 2 capital instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc	
41c	Amount to be deducted from or added to additional tier 1 capital with regard to additional filters and deductions required pre- CRR of which: …possible filter for unrealised losses of which: …possible filter for unrealised gains of which: …	
42	Qualifying tier 2 capital deductions that exceed the tier 2 capital of the institution	
43	Total regulatory adjustments to additional tier 1 capital	
44	Additional tier 1 capital	
45	Tier 1 capital	**813.2**

Tier 2 capital: instruments and provisions

46	Capital instruments and the related share premium accounts	**3.3**[1]
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from tier 2 capital Public sector capital injections grandfathered until 1 January 2018	
48	Qualifying own funds instruments included in consolidated tier 2 capital (including minority interests and additional tier 1 capital instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	**31.5**
49	of which: instruments issued by subsidiaries subject to phase out	
50	Credit risk adjustments	
51	Tier 2 capital before regulatory adjustments Tier 2 capital: regulatory adjustments	**34.8**
52	Direct and indirect holdings by an institution of own tier 2 capital instruments and subordinated loans	
53	Holdings of the tier 2 capital instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution	
54	Direct and indirect holdings of the tier 2 capital instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	
54a	of which new holdings not subject to transitional arrangements	
54b	of which holdings existing before 1 January 2013 and subject to transitional arrangements	
55	Direct and indirect holdings by the institution of the tier 2 capital instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	

Appendix 3: EBA Transitional Own funds Disclosure continued

		31 July 2015 £ million
56	Regulatory adjustments applied to tier 2 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	
56a	Residual amounts deducted from tier 2capital with regard to deduction from common equity tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	

Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc

56b	Residual amounts deducted from tier 2 capital with regard to deduction from Additional tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013 of which items to be detailed line by line, e.g. reciprocal cross holdings in additional tier 1 capital instruments, direct holdings of non significant investments in the capital of other financial sector entities, etc	
56c	Amount to be deducted from or added to tier 2 capital with regard to additional filters and deductions required pre CRR of which: …possible filter for unrealised losses of which: …possible filter for unrealised gains of which: …	
57	Total regulatory adjustments to tier 2 capital	
58	Tier 2 capital	**34.8**
59	Total capital	**848.0**
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013(i.e. CRR residual amounts) of which: …items not deducted from common equity tier 1 capital (Regulation (EU) No 575/2013residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own common equity tier 1 capital, etc) of which: …items not deducted from additional tier 1 capital items (Regulation (EU) No 575/2013residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in tier 2 capital instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc) Items not deducted from tier 2 capital items (Regulation (EU) No 575/2013residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own tier 2 capital instruments, indirect holdings of non significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)	
60	Total risk weighted assets	**5,932.1**

Capital ratios and buffers

61	Common equity tier 1 (as a percentage of risk exposure amount)	**13.7%**
62	Tier 1 (as a percentage of risk exposure amount)	**13.7%**
63	Total capital (as a percentage of risk exposure amount)	**14.3%**
64	Institution specific buffer requirement (common equity tier 1 capital requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	

Appendix 3: EBA Transitional Own funds Disclosure continued

		31 July 2015 £ million
65	of which: capital conservation buffer requirement	
66	of which: countercyclical buffer requirement	
67	of which: systemic risk buffer requirement	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	
68	Common equity tier 1 available to meet buffers (as a percentage of risk exposure amount)	**13.7%**
69	[non relevant in EU regulation]	
70	[non relevant in EU regulation]	
71	[non relevant in EU regulation]	
	Amounts below the thresholds for deduction (before risk weighting)	
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	
73	Direct and indirect holdings by the institution of the common equity tier 1 capital instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	
74	Empty Set in the EU	
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	**43.6**
	Applicable caps on the inclusion of provisions in tier 2 capital	
76	Credit risk adjustments included in tier 2 capital in respect of exposures subject to standardised approach (prior to the application of the cap)	
77	Cap on inclusion of credit risk adjustments in tier 2 capital under standardised approach	
78	Credit risk adjustments included in tier 2 capital in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	
79	Cap for inclusion of credit risk adjustments in tier 2 capital under internal ratings-based approach	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)	
80	Current cap on common equity tier 1 capital instruments subject to phase out arrangements	
81	Amount excluded from common equity tier 1 capital due to cap (excess over cap after redemptions and maturities)	
82	Current cap on additional tier 1 capital instruments subject to phase out arrangements	
83	Amount excluded from additional tier 1 capital due to cap (excess over cap after redemptions and maturities)	
84	Current cap on tier 2 capital instruments subject to phase out arrangements	**31.5**
85	Amount excluded from tier 2 capital due to cap (excess over cap after redemptions and maturities)	**13.5**

1 Includes £3.3 million AFS reserve which does not meet the transitional treatment for common equity tier 1 capital.