Close Brothers Group plc

Pillar 3 disclosures for the half year ended 31 January 2022

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 PRA Rulebook (CRR) Instrument 2021 ("CRR"), and are based on data at 31 January 2022 with comparative figures for 31 July 2021 and 31 January 2021 where relevant.

Scope

The Prudential Regulation Authority supervises Close Brothers Group plc (“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, Winterflood Securities Limited and Close Asset Management Limited.

Presentation of information

The group’s Pillar 3 disclosure for the half year ended 31 January 2022 provide an update on the capital position disclosed in the group’s Pillar 3 disclosure for the year ended 31 July 2021. The information has been prepared in accordance with the Disclosure Part of the CRR.

Capital and leverage ratios reported as at 31 January 2022 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 2022 is prepared as a 12-month average whilst the net stable funding ratio (“NSFR”) as at 31 January 2022 is prepared on a spot basis.

2. Key Regulatory Metrics

The table below summarises the key regulatory metrics on a transitional basis as at 31 January 2022:

UK KM1 - Key Metrics[1]	31 Jan 2022 £ million	31 Jul 2021 £ million	31 Jan 2021 £ million
Available own funds (amounts)			
Common equity tier 1 ("CET1") capital	**1,405.7**	1,439.3	1,350.2
Tier 1 capital	**1,405.7**	1,439.3	1,350.2
Total capital	**1,605.7**	1,662.7	1,531.4
Risk-weighted exposure amounts			
Total risk-weighted exposure amount	**9,306.3**	9,105.3	8,826.5
Capital ratios (as a percentage of risk-weighted exposure amount)[2]			
Common equity tier 1 ratio	**15.10%**	15.81%	15.30%
Tier 1 ratio	**15.10%**	15.81%	15.30%
Total capital ratio	**17.25%**	18.26%	17.35%
Additional own funds requirements based on SREP[3] (as a percentage of risk-weighted exposure amount)			
Additional CET1 SREP requirements	**0.57%**	0.57%	0.58%
Additional AT1 SREP requirements	**0.19%**	0.19%	0.19%
Additional T2 SREP requirements	**0.26%**	0.26%	0.26%
Total SREP own funds requirements	**9.02%**	9.02%	9.02%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
Capital conservation buffer	**2.50%**	2.50%	2.50%
Institution specific countercyclical capital buffer	**—%**	—%	—%
Combined buffer requirement	**2.50%**	2.50%	2.50%
Overall capital requirements	**11.52%**	11.52%	11.52%
CET1 available after meeting total SREP own funds requirements[4]	**8.34%**	9.04%	8.53%
Leverage ratio			
Total exposure measure excluding claims on central banks	**11,539.4**	12,208.6	12,478.9
Leverage ratio excluding claims on central banks	**12.18%**	11.79%	10.82%
Liquidity coverage ratio[5]			
Total high-quality liquid assets ("HQLA") (Weighted value - average)	**1,425.9**	1,614.2	1,459.7
Cash outflows - Total weighted value	**604.6**	643.8	594.5
Cash inflows - Total weighted value	**903.7**	957.1	946.1
Total net cash outflows (adjusted value)	**151.1**	161.0	148.6
Liquidity coverage ratio	**943.42%**	1,002.87%	982.20%
Net stable funding ratio[6]			
Total available stable funding	**8,913.2**		
Total required stable funding	**7,601.0**		
Net stable funding ratio	**117.26%**		

1 The table above follows the template set out in the CRR in which certain rows have been omitted as they are not applicable.
2 Shown after applying IFRS 9 transitional arrangements and the CRR transitional and qualifying own funds arrangements. At 31 January 2022 the fully loaded CET1 capital ratio is 14.2% (31 July 2021: 14.2% excluding the benefit from the treatment of software assets) and total capital ratio is 16.4% (31 July 2021: 16.7% excluding the benefit from the treatment of software assets).
3 Supervisory review and evaluation process.
4 CET1 available after meeting Tier 1 SREP requirements expressed as a percentage of risk-weighted exposure amount.
5 12-month average.
6 Disclosure for the first time and prepared on a spot basis.

2. Key regulatory metrics

Strong capital position

The prudent management of capital is a core part of our business model. During periods of uncertainty, our strong capital position enables the group to continue supporting customers, clients and colleagues. Our business is also highly capital generative and our regulatory capital is significantly above the applicable minimum requirements.

Movements in capital and leverage metrics in the period

The CET1 capital ratio reduced from 15.8% to 15.1% primarily reflecting a change in the regulatory treatment of software assets, as well as the partial unwind of IFRS 9 transitional arrangements. These regulatory impacts accounted for c.50bps and c.25bps of the overall impact on the ratios, respectively. Excluding the impact of the software assets treatment and the transitional arrangements, the CET1 ratio remained stable in the first half at 14.2% (31 July 2021: 14.2%).

In the first half, CET1 capital decreased 2% to £1,405.7 million (31 July 2021: £1,439.3 million) primarily reflecting the regulatory change in the treatment of software assets, which increased the intangible assets deducted from CET1 capital by £50.2 million, and a decrease in the transitional IFRS 9 add back to capital of £20.5 million. This was partially offset by the capital generation through profit net of the regulatory deduction of dividends paid and foreseen of £48.9 million. Total capital decreased 3% to £1,605.7 million (31 July 2021: £1,662.7 million), also reflecting the regulatory change in the treatment of software assets, and a small repayment of our subordinated debt.

Risk weighted assets (“RWAs”) increased 2% to £9.3 billion (31 July 2021: £9.1 billion), mainly driven by an increase in the loan book and risk weighted assets related to derivatives held for hedging purposes, partly offset by the regulatory change treatment of software assets.

As a result, CET1, tier 1 and total capital ratios were to 15.1% (31 July 2021: 15.8%), 15.1% (31 July 2021: 15.8%) and 17.3% (31 July 2021: 18.3%), respectively.

The leverage ratio, which is a transparent measure of capital strength, not affected by risk weightings, remains strong at 12.2% (31 July 2021: 11.8%). The leverage ratio increased on the position at the end of the 2021 financial year, due to a change in calculation under the UK leverage framework to exclude central banks reserves, partly offset by an increase in on-balance sheet assets.

Movements in liquidity and funding metrics in the period

The group continues to adopt a conservative stance on liquidity, ensuring it is comfortably ahead of both internal risk appetite and the regulatory minimum requirements of 100% for both LCR and NSFR.

Treasury assets, comprising cash and balances at central banks, and debt securities held to support lending in the Banking division, reduced 5% to £1.7 billion (31 July 2021: £1.8 billion). Nevertheless, in light of the uncertain UK economic outlook, our liquidity levels remain elevated on the pre-Covid position to provide additional flexibility whilst enabling us to maximise any opportunities available.

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 2022 LCR of 943.4% (12-month average to 31 July 2021: 1,002.9%). 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 as at 31 January 2022 was 117.3%.