Close Brothers Group plc

Pillar 3 disclosures for the year ended 31 July 2014

Contents

1. Overview 2
2. Risk management objectives and policies 2
3. Capital resources 9
4. Capital adequacy 10
5. Counterparty credit risk 11
6. Credit risk 12
7. Credit risk: standardised approach 15
8. Credit Risk Mitigation 15
9. Non-trading book exposures in equities 15
10. Interest rate risk in the non-trading book 16
11. Securitisation 16
12. Asset encumbrance 17
13. Remuneration 17
Appendix 1: EBA regulatory capital balance sheet reconciliation 21
Appendix 2: EBA Capital Instruments' key features 23
Appendix 3: EBA Transitional Own funds Disclosure 25

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 2014 with comparative figures for 31 July 2013 where relevant.

Within this document are references to the group’s annual report which can be found at: http://www.closebrothers.com/investor-relations/company-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 directly regulated by either the PRA or overseas regulators, and our Securities and Asset Management divisions are regulated by 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 25 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 2014.

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

2. Risk management objectives and policies continued

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 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.

The risk management framework is based on the concept of "three lines of defence" set out below.

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.	Risk Committee delegates to the group chief risk officer day-to-day responsibility for oversight and challenge on risk related issues.	Audit Committee mandates the head of group internal audit with day-to-day responsibility for independent assurance.
Business management has day-to-day ownership, responsibility and accountability for risks: • Identifying and assessing risks; • Managing and controlling risks; • Measures risk (key risk indicators/early warning indicators); • Mitigating risks; and • Reporting risks.	Risk functions (including Compliance) provide support and independent challenge on: • Risk framework; • Risk assessment; • Risk appetite and strategy; • Performance management; • Risk reporting; • Adequacy of mitigation plans; and • Group risk profile.	Internal audit provides independent assurance on: • First and second line of defence; • Appropriateness/effectiveness of internal controls; and • Effectiveness of policy implementation.
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.	**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.	**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.

2. Risk management objectives and policies continued

The key principles underlying risk management in the group are:
- Business management own all the risks assumed throughout the group and are responsible for ensuring that these are managed 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 businesses;
- Risk management across the group is 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.

The Risk Committee supports 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 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 Remco")).

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

In delivering the group's strategy the group faces a number of risks. These risks are managed by:
- Adhering to our prudent and established business model;
- Following an integrated risk management approach; and
- Setting clearly defined risk appetites and monitoring these with specific metrics and 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 on the following pages. The risks identified remain broadly unchanged from the prior year.

This summary should not be regarded as a complete and comprehensive statement of all potential risk 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.

In preparing disclosures related to these risks and our approach to risk management, the group has considered the recommendations of the Enhanced Disclosure Task Force issued in October 2012.

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 42, 43 and 49. In addition, Strone Macpherson is a director of Estover Energy Ltd and Geoffrey Howe of Gateway Electronic Components Ltd.

2. Risk management objectives and policies continued

Key: No change Risk increased Risk decreased

Risk	Mitigation	Change
Credit losses The group is exposed to credit and counterparty risk particularly in the Banking division. The Banking division has a loan book of £5.3 billion to a range of small businesses and individuals and remains exposed to credit losses if these customers are unable to repay loans and any outstanding interest and fees. The group is also exposed to counterparties with which it places deposits or trades and has limited derivative contracts to hedge interest rate, foreign exchange and equity exposures.	The Banking division's loan book is predominately secured with conservative loan to values. Average loan size remains small with short average tenor. The portfolio is diversified with a limited number of individual deals which could materially impact the group's earnings. Control and governance is exercised both within the business and through oversight by a central team. Strict lending criteria are applied when testing the credit quality and covenant of the underlying borrower and significant emphasis is placed on the quality of the underlying security. Rigorous and timely collections and arrears management processes are also in place. The Banking division currently places the majority of its liquidity requirements and surplus funding with the Bank of England. The credit quality of the counterparties with whom it places deposits or trades is continuously monitored and all trading is performed within approved limits. Interest rate and foreign exchange derivatives are held for hedging purposes only and material exposures are cash collateralised. Our Securities businesses predominately trade in exchange traded instruments with regulated counterparties on a delivery against payment basis. Counterparty exposure and settlement failure monitoring controls are also in place.	 The Banking division's loan book impairment rate is at a 10 year low reflecting our strong lending discipline, favourable market conditions and the improved credit quality of our borrowers. However, against a backdrop of a recovering economy and the potential for rising interest rates the outlook for our customers remains challenging. At 31 July 2014 the Banking division's liquidity requirements and surplus funding was placed with the Bank of England or held in UK gilts. Further commentary on the credit quality of our loan book is outlined in the group's annual report on page 24. 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 104 and 105 of the Financial Statements and in this document within section 6.
Economic environment Despite the improved outlook, any downturn in economic conditions could impact the group's performance through: • Lower demand for the group's product and services; • Lower investor risk appetite as a result of financial markets instability; and • Higher bad debts as a result of customers inability to service debt and lower asset values on which loans are secured.	The group operates in specialist areas where staff have significant expertise of the market and our products along with an in depth understanding of our clients' requirements. Across our businesses we aim to build long-term relationships with clients improving our resilience in difficult economic conditions. Regular stress testing on our performance and financial position is performed to test our resilience in adverse economic conditions.	 Whilst the UK outlook has improved, we are yet to see a sustained global recovery particularly in the Eurozone. 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.

2. Risk management objectives and policies continued

Risk	Mitigation	Change
Legal and regulatory The evolving legal and regulatory environment has the ability to impact materially the group's performance, capital and liquidity, the markets in which we operate, the behaviour and expectations of our clients and the way we conduct our business. Not treating customers fairly, failing to adequately safeguard client assets or providing advice and products which are not in our customer's best interest or fit for purpose, whether in the future or in respect of past business, has the potential to damage the group's reputation, impact performance and may lead to legal or regulatory sanctions including litigation and customer redress. Failure to identify, interpret and comply with relevant legal requirements, or obligations has the potential to impact significantly on the group's performance.	We continue to invest significantly in both staff and operating systems to ensure the group remains well placed to respond to changes in regulation. Our staff review key legal and regulatory developments in order to anticipate their potential impact on our performance and our business model. This is supported by a constructive dialogue with regulatory bodies and strong compliance procedures across the group to ensure we remain well placed to meet current regulatory and legislative requirements. Across the group we are committed to providing straightforward and transparent products and services to our clients. New products and services are subject to our business initiatives policy and both new and existing products and services are regularly reviewed by risk and compliance committees to ensure they remain fit for purpose. The conduct of our employees is a priority and the group has developed a robust framework to control, monitor and report conduct risk. During the year we have looked to embed fully the organisations culture and traditional values of service and integrity through initiatives such as the "Vision and Values" programme and the "Banking Customer Service Programme".	 Following changes to the UK regulatory regime in April 2013 and recent well publicised focus on the financial services industry, the risk of legal or regulatory action resulting in fines, penalties, censure or other sanction from failure to identify or meet regulatory and legislative requirements has increased. 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 53 and 54 of the Corporate Governance report. Further detail on the group's capital funding and liquidity position is outlined in the group's annual report on pages 18 to 21. 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 39.
Competition The group operates in highly competitive markets and as the UK economy improves we expect to see increased competition particularly in the Banking division which may impact the group's performance.	The group has a strong track record of operating in specialist areas where we aim to be market leaders. Across the group we value our clients and build strong long-term relationships which result in high levels of repeat business. Our differentiated proposition, strong financial position and prudent financial management allows us to support our clients and trade profitably through the economic cycle and is based on the following key principles: • Speed and flexibility of service; • Local presence with experienced and knowledgeable staff; and • Tailored product offerings.	 We continue to see increased competition in parts of our Banking division. Competition in Securities and Asset Management has remained high. Further commentary on the market environment for the Banking division is outlined in the group's annual report on page 23. 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 technological innovation and changing customer expectations has the potential to impact group performance.	We continued to invest in IT infrastructure, information security and software during the year which has included the replacement of legacy systems and the enhancement of front end technology. The progress of major IT projects is regularly reviewed and all systems are subjected to rigorous testing before going live. The UK Government and Bank of England has highlighted cyber threat as an issue across the financial sector. The group's audit and risk functions have carried out cyber threat reviews which included testing our internal controls framework and reviewing planned investment on cyber risk to ensure we remain well placed to detect and resist threats. We have well established and regularly tested business continuity and disaster recovery plans. These plans are subject to periodic external review to ensure they remain robust.	 The group maintains a robust IT infrastructure and remains well placed to respond to new technology. However, the risk of new technology impacting our business model or a cyber threat to data or our services is increasing. Further detail on the technology related investment is outlined in the annual report on page 6. For further information on our response to cyber risk and the independent review on our business continuity plans see page 54 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 operates in specialist areas and across our businesses we are committed to developing staff. Key roles have succession planning in place and through the Emerging Leaders Programme we aim to develop a strong pipeline of future leaders throughout the group. During the year we also launched a graduate scheme which follows the Aspire programme for school leavers created last year. The group's performance management framework ensures remuneration structures are competitive and recognise and reward performance.	 As competition increases we expect our highly skilled employees to be targeted. However, we remain confident in our ability to retain key employees, a view supported by the bi-annual employee survey carried out last year which identified 90% of employees surveyed 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 34 to 39.

2. Risk management objectives and policies continued

Risk	Mitigation	Change
Funding The Banking division's access to funding remains key to support its lending activities and the liquidity requirements of the group.	At 31 July 2014 the group's funding position was strong with total funding 135% of the loan book. This surplus provides a significant liquidity risk reserve. Our funding sources remain diversified and during the year we accessed the following markets: • Retail funding; • Corporate deposits; • Interbank facilities; • Securitised funding; and • Debt capital markets. The Banking division assesses liquidity on a daily basis and weekly tests are performed to ensure adequate liquidity is held for stressed situations. At 31 July 2014 high quality liquid assets accounted for all of the group's treasury assets.	 The group remains well funded, retains sufficient liquidity and is well placed to access further funding if required. Further commentary on funding and liquidity is provided in the annual report on pages 19 and 20. Further financial analysis of our funding at 31 July 2014 is shown in the group's annual report in note 20 on page 113 of the Financial Statements.
Exposure to markets Volatility or a sudden dislocation in financial markets may impact the group's profitability particularly in the Securities division. Changes in interest rates have the potential to impact the group's earnings particularly interest income. While the majority of the group's activities are located in the UK and are transacted in sterling there is limited foreign exchange exposure principally arising on deposits, lending and funding balances in the Banking division.	Our Securities division primarily act as market-makers in exchange traded cash securities. Trading positions are monitored on a real time basis and both individual and book limits are set to limit exposure. The group's policy is to match fixed and variable interest rate assets and liabilities using swaps where appropriate. The group's capital and reserves are not hedged as a matter of policy. A sensitivity analysis on interest rate exposures is shown in the group's annual report in note 31 on page 132 of the Financial Statements. Foreign exchange exposures in the Banking division are hedged using currency swaps with exposures monitored daily against approved 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 to managing exposure to markets is consistent with prior year and the associated risks remain unchanged. Further detail on the group's exposure to market risk is outlined in the group's annual report in note 31 on pages 132 and 133 of the Financial Statements.

3. Capital resources

The table below summarises the composition of regulatory capital as at 31 July 2014. 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 2014 and 2013.

	31 July 2014 £ million	31 July 2013[1] £ million
Common equity tier 1 capital[2]		
Called up share capital	**37.7**	37.7
Share premium account	**283.8**	283.7
Retained earnings	**589.8**	511.9
Other reserves recognised for common equity tier 1 capital[2]	**21.4**	26.0
Non-controlling interests	**-**	3.7
Deductions from common equity tier 1 capital[2]		
Intangible assets[3]	**(142.1)**	(141.6)
Foreseeable dividend[4]	**(47.7)**	-
Investment in own shares	**(27.9)**	(33.9)
Pension asset, net of associated deferred tax liabilities	**(3.9)**	-
Additional valuation adjustments	**(0.3)**	-
Common equity tier 1 capital[2]	**710.8**	687.5
Deductions from common equity tier 1 capital		
50% of material holdings	**-**	(6.2)
Common equity tier 1 capital	**710.8**	681.3
Tier 2 capital		
Subordinated debt[5]	**60.0**	75.0
Unrealised gains on available for sale equity shares	**9.6**	9.1
Deductions from tier 2 capital		
50% of material holdings	**-**	(6.1)
Tier 2 capital	**69.6**	78.0
Deductions from total of tier 1 and tier 2 capital		
Other regulatory adjustments	**-**	(0.4)
Total regulatory capital	**780.4**	758.9

1 Restated – see notes 1 and 32 of the group's annual report.
2 Under Capital Requirements Directive IV ("CRD IV") the highest quality capital is now defined as "common equity tier 1" being previously referred to as "core tier 1". Accordingly 2013 comparatives are based on the legislative definition of core tier 1 capital in force at that time.
3 At 31 July 2014, under CRD IV requirements intangible assets have been reduced by the level of associated deferred tax liabilities.
4 Under the Regulatory Technical Standards on own funds, a deduction has been recognised at 31 July 2014 for a foreseeable dividend being the proposed final dividend (as set out in note 9 of the group's annual report).
5 Under CRD IV transitional arrangements, 80% of the principal value of subordinated debt is recognised at 31 July 2014.

3. Capital resources continued

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

	31 July 2014 £ million	31 July 2013[1] £ million
Equity	**917.6**	836.5
Regulatory deductions from equity:		
Intangible assets[2]	**(142.1)**	(141.6)
Foreseeable dividend[3]	**(47.7)**	-
Pension asset, net of associated deferred tax liabilities	**(3.9)**	-
Additional valuation adjustments	**(0.3)**	-
Other reserves not recognised for common equity tier 1 capital[4]:		
Available for sale movements reserve	**(9.6)**	(9.1)
Cash flow hedging reserve	**(2.1)**	1.7
Non-controlling interests	**(1.1)**	-
Common equity tier 1 capital[4]	**710.8**	687.5

1 Restated – see notes 1 and 32 of the group's annual report.
2 At 31 July 2014, under CRD IV requirements intangible assets have been reduced by the level of associated deferred tax liabilities.
3 Under the Regulatory Technical Standards on own funds, a deduction has been recognised at 31 July 2014 for a foreseeable dividend being the proposed final dividend (as set out in note 9 of the group's annual report).
4 Under Capital Requirements Directive IV ("CRD IV") the highest quality capital is now defined as "common equity tier 1" being previously referred to as "core tier 1". Accordingly 2013 comparatives are based on the legislative definition of core tier 1 capital in force at that time.

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 ICG 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 is required to carry out internal capital adequacy assessments. An annual group-wide process has been developed and 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 before approval by both the GRCC and 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.

4. Capital adequacy continued

	2014 £ million	2013 £ million
Credit risk - standardised approach		
Central governments or central banks	**-**	-
Regional governments or local authorities	**0.1**	0.1
Public sector entities	**0.1**	0.1
Institutions	**1.7**	5.0
Corporates	**85.1**	81.5
Retail	**154.9**	162.6
Secured by mortgages on immovable property	**83.1**	65.8
Exposures in default	**9.0**	11.6
Items associated with particular high risk	**1.5**	0.8
Other items	**26.5**	19.6
	362.0	347.1
Operational risk - standardised approach[1]	**55.6**	54.3
Counterparty credit risk	**3.2**	2.6
Market risk - trading book		
Interest rate PRR[2]	**2.8**	1.5
Equity PRR[2]	**9.1**	7.2
Market risk - non-trading book		
Foreign currency PRR[2]	**3.0**	2.4
Total Pillar 1 capital requirement	**435.7**	415.1

1 Including the Alternative Standardised Approach for relevant 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, except for the impact of the implementation of CRD IV during the year which is summarised in Note 24 of the group's annual report.

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 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% (2013: 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. The following tables analyse regulatory credit risk exposures at 31 July 2014:

	2014 **£ million**	Average exposure in 2014 £ million
Central governments or central banks	**1,216.7**	1,098.5
Regional governments or local authorities	**4.5**	3.9
Public sector entities	**8.3**	5.8
Institutions	**106.4**	141.9
Corporates	**1,658.4**	1,544.3
Retail	**2,958.2**	2,859.1
Secured by mortgages on immovable property	**1,823.9**	1,608.4
Exposures in default	**87.5**	99.8
Items associated with particular high risk	**12.1**	9.4
Collective investment undertakings	**0.1**	0.1
Other items	**276.4**	261.1
	8,152.5	7,632.3

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 2014, the group's exposures to SMEs is £3,412 million (excluding undrawn commitments).

Geographic distribution of exposures by regulatory exposure asset class at 31 July 2014:

	British Isles £ million	Europe £ million	Rest of world £ million	**Total** **£ million**
Central governments or central banks	1,216.6	0.1	-	**1,216.7**
Regional governments or local authorities	4.5	-	-	**4.5**
Public sector entities	8.3	-	-	**8.3**
Institutions	86.1	17.0	7.5	**110.6**
Corporates	1,427.9	220.2	6.1	**1,654.2**
Retail	2,682.8	275.4	-	**2,958.2**
Secured by mortgages on immovable property	1,823.7	0.2	-	**1,823.9**
Exposure in default	81.9	5.6	-	**87.5**
Items associated with particular high risk	12.1	-	-	**12.1**
Collective investment undertakings	0.1	-	-	**0.1**
Other items	272.6	3.6	0.2	**276.4**
	7,616.6	**522.1**	**13.8**	**8,152.5**

6. Credit risk continued

Residual maturity breakdown of regulatory exposure asset classes on a contractual basis at 31 July 2014:

	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	1,171.1	25.3	20.3	-	**1,216.7**
Regional governments or local authorities	0.3	1.9	2.3	-	**4.5**
Public sector entities	0.6	2.3	5.4	-	**8.3**
Institutions	95.1	3.8	11.7	-	**110.6**
Corporates	892.0	297.0	423.8	41.4	**1,654.2**
Retail	647.2	849.8	1,449.3	11.9	**2,958.2**
Secured by mortgages on immovable property	360.5	841.0	622.4	-	**1,823.9**
Items associated with particular high risk	5.9	1.3	4.9	-	**12.1**
Collective investment undertakings	0.1	-	-	-	**0.1**
Other items	132.4	60.7	83.1	0.2	**276.4**
	3,305.2	2,083.1	2,623.2	53.5	**8,065.0**
Exposures in default					**87.5**
					8,152.5

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) 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.

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 overleaf are the

6. Credit risk continued

accounting values shown in Note 31 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 31 of the group's annual report. However, for regulatory purposes the group does not have any general/collective provisions as defined under CRD IV.

(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 following tables analyse impaired loans as treated for accounting purposes and past due loans as treated for regulatory purposes at 31 July 2014.

Counterparty type[1] analysis of gross impaired and past due loans, and impairment provisions at 31 July 2014:

	Gross impaired loans 2014 £ million	Gross past due loans 2014 £ million	Impairment provisions 2014 £ million	Charges for impairment provisions during the period to 2014 £ million
Corporates	96.3	103.5	33.2	18.3
Retail	63.6	27.9	15.1	25.8
Total	**159.9**	**131.4**	**48.3**	**44.1**

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 2014:

	Gross impaired loans 2014 £ million	Gross past due loans 2014 £ million	Impairment provisions 2014 £ million	Charges for impairment provisions during the period to 2014 £ million
British Isles	145.3	120.1	42.2	40.9
Europe	14.6	11.3	6.1	3.2
Total	**159.9**	**131.4**	**48.3**	**44.1**

Impairment provisions on loans and advances to customers

	£ million
At 1 August	**61.9**
Charge for the year	**44.1**
Amounts written off net of recoveries	**(57.7)**
As 31 July	**48.3**

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.

The tables below show the exposure amounts associated with the credit quality steps and the relevant risk weightings as at 31 July 2014 (only credit quality steps with exposures are shown):

Institutions

Credit quality step	Moody's rating	Risk weight	Exposure
1	Aaa to Aa3	20%	38.2
2	A1 to A3	50% / 20%[1]	50.3
3	Baa1 to Baa3	50% / 20%[1]	70.8
Total			**159.3**

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

Corporate

Credit quality step	Moody's rating	Risk weight	Exposure
2	A1 to A3	50%	0.2
3	Baa1 to Baa3	100%	1.1
Total			**1.3**

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 £21.1 million of exposures within the institutions exposure class as shown in section 7.

As explained in our approach to credit risk management in section 2 and Note 31 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 2014, the group had £19.6 million of equity investments in the non-trading book, of which £19.5 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 £1.7 million, with £3.5 million of equity investments being classified as high risk for regulatory purposes. Cumulative gains from sales in the period were immaterial.

The accounting policies for classifying equity investments are outlined on the following page:

9. Non-trading book exposures in equities continued

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.

Movements in equity shares in the year to 31 July 2014 were as follows:

	Available for sale £ million	Fair value through profit or loss £ million
At 31 July 2013	27.1	0.6
Additions	0.1	-
Disposals	(8.2)	(0.5)
Currency translation differences	(1.8)	-
Changes in fair value of:		
Equity shares classified as available for sale	2.3	-
Unlisted equity shares held at fair value	-	-
At 31 July 2014	**19.5**	**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 that is used to fund the loan book. 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.

The sensitivities below are based upon reasonably possible changes in interest rate scenarios, including parallel shifts in the yield curve. At 31 July 2014 changes in interest rates compared to actual rates would increase/(decrease) the group's annual net interest income by the following amounts:

	2014 £ million
1.0% increase	**4.2**
0.5% decrease	**(2.1)**

The above analysis is calculated in sterling as the group's exposure to foreign exchange risk is immaterial, as described in Note 31 of the group's annual report.

11. Securitisation

The group has securitised without recourse and restrictions £1,134.1 million (31 July 2013: £1,112.7 million) of its insurance premium and motor loan receivables in return for debt securities in issue of £848.6 million (31 July 2013: £846.9 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.

12. Asset encumbrance

As an integral aspect of its business, the group engages in activities that results in certain assets being encumbered. The main activity relates to securitisation which is explained in section 11 above. The group also pledges assets for repurchase agreements and securities borrowing agreements, mainly in our Securities division. The group receives collateral in certain transactions, and the credit risk mitigation benefit is explained in section 8 above. Loans to money brokers against stock advanced are the cash collateral provided to these institutions for stock borrowing by the group's market-making activities, and as at 31 July 2014 was £63.9 million. Loans from money brokers against stock advanced are the cash collateral received from institutions for stock lending by the group's market-making activities, and as at 31 July 2014 was £28.4 million.

Further information on asset encumbrance can be found in Note 31 of the group's annual report under the section "Assets pledged and received as collateral" and "Financial assets: Loans and advances to customers".

13. Remuneration

Remco Membership

The membership of the Remco is comprised of five non-executive directors. They are Bruce Carnegie-Brown, Oliver Corbett, Geoffrey Howe, Lesley Jones and Bridget Macaskill. 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 loss 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 Remco 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 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 PricewaterhouseCoopers ("PwC"), the chairman of the board, the chief executive, the group head of human resources, the group head of reward and the chief risk officer.

Where appropriate the Remco receives input and information from the chairman of the board, chief executive, finance director, group head of human resources, group head of reward, group chief risk officer and the company secretary although 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 longer term strategic objectives;

13. Remuneration continued

- Align the interests of employees with those of all key stakeholders in particular our 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 across our businesses, which are 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 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.

The Committee continues to believe 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 47% to 64% for the 2014 financial year. The ratio of total compensation to adjusted operating income for the 2014 financial year is 37%.

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

13. Remuneration continued

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 provisons. The malus provisions mean that the awards may be subject to forfeiture or may be reduced after grant in certain adverse circumstances.

The aggregate level of bonuses is determined by reference to group and divisional metrics, including financial and non-financial metrics, 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 2014 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. Targets for the LTIP awards for 2014 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.

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 2014 award to be two Matching Shares for each Invested Share. The Matched Shares are subject to the same performance conditions and malus provisions as the LTIP.

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

13. Remuneration continued

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.

Link between reward and performance - financial year 2014

The group's financial results have been strong this year, and over the past three years. AOP has increased 20% in 2014 to £200.6 million, and it has grown 53% or 15% per annum compounded over the last three financial years. Return on Equity has increased from 15.8% to 18.5% this year, and it is up from 13.1% in 2011. Dividend growth was 10% this year and dividend cover has increased to 2.1 times, from 1.9 times last year and 1.6 times in 2011.

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

2014 Aggregate Remuneration[1] in respect of Code Staff by business

Banking £ million	Securities £ million	Asset Management £ million	Group £ million
14.4	12.4	3.8	9.7

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

2014 Aggregate Remuneration in respect of Code Staff split into fixed and variable remuneration

	Senior Management	Other Code Staff
Number of Code Staff	28	38
Fixed Remuneration (£ million)[1]	8.9	6.1
Variable Remuneration (£ million)[2]	20.3	5.0

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 £ million	Balance sheet components £ million	Ref
Assets			
Intangible assets	146.3		
of which: deduction from common equity tier 1 capital		146.3	A
Deferred tax asset	31.7		
of which: deferred tax liability - intangible assets		(4.2)	B
of which: deferred tax liability - pension related		(1.0)	C
Prepayments, accrued income and other assets	128.7		
of which: defined-benefit pension fund assets		4.9	D
Total Assets	**7,700.4**		
Liabilities			
Subordinated loan capital	77.2		
of which: Tier 2 capital		60.0	E
Total liabilities	**6,782.8**		
Equity			
Called up share capital	37.7		
of which: amount eligible for common equity tier 1 capital		37.7	F
Share premium account	283.8		
of which: amount eligible for common equity tier 1 capital		283.8	G
Retained earnings	589.8	589.8	H
Other reserves	5.2		
of which: exchange movements reserve		1.0	I
of which: cash flow hedging reserve		2.1	J
of which: share based awards reserve[1]		(7.5)	K
of which: available for sale reserve		9.6	L
Total equity	**917.6**		
Total liabilities and equity	**7,700.4**		
Non balance sheet items			
Foreseeable dividend		(47.7)	M
Additional valuation adjustments		(0.3)	N

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.

1 Consists of £27.9 million relating to holdings of own capital instruments (shown separately in section 3 and appendix 3), and £20.4 million relating to share based payments reserve (as described in Note 29 of the group's annual report).

Appendix 1: EBA regulatory capital balance sheet reconciliation continued

	£ million	Ref
Capital instruments and the related share premium accounts	321.5	F + G
Retained earnings	589.8	H
Accumulated other comprehensive income and other reserves	(4.4)	I + J + K
Intangible assets net of associated deferred tax liabilities	(142.1)	A + B
Foreseeable dividend	(47.7)	M
Pension asset net of associated deferred tax liabilities	(3.9)	C + D
Fair value reserves related to gains or losses on cash flow hedges	(2.1)	J
Additional valuation adjustments	(0.3)	N
Common equity tier 1 capital	**710.8**	
Capital instruments and the related share premium accounts[1]	9.6	L
Qualifying own funds instruments included in consolidated tier 2 capital issued by subsidiaries and held by third parties	60.0	E
Tier 2 capital	**69.6**	
Total capital	**780.4**	

1 Classification £9.6m 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	CBL
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	None	None	None
3	Governing law(s) of the instrument	English	English	English
	Regulatory treatment			
4	Transitional CRR rules	Tier 2 capital	Tier 2 capital	Tier 2 capital
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-) consolidated/ solo&(sub-) consolidated	Solo and consolidated	Solo and consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt	Subordinated debt	Subordinated debt
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	£24 million	£12 million	£24 million
9	Nominal amount of instrument	£30 million	£15 million	£30 million
9a	Issue price	Par	Par	Par
9b	Redemption price	Par	Par	Par
10	Accounting classification	Amortised cost	Amortised cost	Amortised cost
11	Original date of issuance	15/03/00	02/03/01	01/03/01
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	15/03/20	02/03/26	01/03/26
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	15/03/15; Tax event call	02/03/21; Tax event call	01/03/21;Tax event call
16	Subsequent call dates, if applicable	At any time	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	Fixed and then floating after optional call date
18	Coupon rate and any related index	7.39%	7.42%	7.62%
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	Yes	Yes	Yes
22	Noncumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	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	N/A
30	Write-down features	N/A	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	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	Outstanding CBL Senior unsecured
36	Non-compliant transitioned features	Yes	Yes	Yes
37	If yes, specify non-compliant features	Step up reset rate	Step up reset rate	Step up reset rate

Appendix 3: EBA Transitional Own funds Disclosure

Transitional Own Funds Disclosure template

		31 July 2014 £ 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	321.5
2	Retained earnings	439.6
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	23.5
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	102.5
6	Common equity tier 1 capital before regulatory adjustments	887.1
Common equity tier 1 capital: regulatory adjustments		
7	Additional value adjustments	(0.3)
8	Intangible assets (net of related tax liability)	(142.1)
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	(2.1)
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	(3.9)
16	Direct and indirect holdings by an institution of own common equity tier 1 capital instruments	(27.9)
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	

Appendix 3: EBA Transitional Own funds Disclosure continued

		31 July 2014 £ million
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)	
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	

Appendix 3: EBA Transitional Own funds Disclosure continued

		31 July 2014 £ million
28	Total regulatory adjustments to common equity tier 1 capital	(176.3)
29	Common equity tier 1 capital	710.8

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)	
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)	

Appendix 3: EBA Transitional Own funds Disclosure continued

		31 July 2014 £ million
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	710.8

Tier 2 capital: instruments and provisions

46	Capital instruments and the related share premium accounts	9.6[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	60.0
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	69.6
52	Direct and indirect holdings by an institution of own tier 2 capital instruments and subordinated loans	

Appendix 3: EBA Transitional Own funds Disclosure continued

		31 July 2014 £ million
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)	
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	69.6
59	Total capital	780.4

Appendix 3: EBA Transitional Own funds Disclosure continued

		31 July 2014 £ million
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)	5,445.8
	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)	92.3
	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	5,445.8

Capital ratios and buffers

61	Common equity tier 1 (as a percentage of risk exposure amount)	13.1%
62	Tier 1 (as a percentage of risk exposure amount)	13.1%
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)	
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)	13.1%
69	[non relevant in EU regulation]	
70	[non relevant in EU regulation]	
71	[non relevant in EU regulation]	

Appendix 3: EBA Transitional Own funds Disclosure continued

		31 July 2014 £ million
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)	
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	60.0
85	Amount excluded from tier 2 capital due to cap (excess over cap after redemptions and maturities)	15.0

1 Includes £9.6m AFS reserve which does not meet the transitional treatment for common equity tier 1 capital.