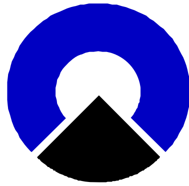

Close Brothers Group plc

Pillar 3 disclosures for the year ended 31 July 2008

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

1. Overview

Background

The aim of Basel II 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 aims to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a 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 and are based on data as at 31 July 2008.

Scope

The Financial Services Authority ("FSA") supervises 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 the FSA. Details of the group's principal subsidiaries are included in note 22 of the group's annual report. There are no differences between the basis of consolidation of the group for accounting and regulatory purposes and, therefore, all of the group's subsidiaries are included in these Pillar 3 disclosures.

Other than restrictions due to regulatory capital requirements for individual regulated entities and corporate law restrictions on the reduction, redemption and purchase of share capital, 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 Close Brothers Group plc ("CBG") and its subsidiaries.

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

Policy

This is the first time that disclosures under Pillar 3 have been published. Further disclosures will be issued as a minimum on an annual basis and will be published on the group's website as soon as practicable after the publication of the group's annual report. 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.

The Pillar 3 disclosures have been prepared in order to comply with regulatory requirements to provide information on the group's risk management objectives and policies, its capital position, its approach to assessing the adequacy of its capital and its exposure to credit, market and operational risk. They do not constitute financial statements of the group and should not be relied on in making investment decisions in relation to the group.

Solo – consolidation

CBG's banking subsidiary, Close Brothers Limited ("CBL"), makes use of the provisions laid down in the FSA handbook BIPRU Chapter 2.1 and reports to the FSA on a solo-consolidated basis. This solo consolidated group includes CBL and its subsidiaries other than its debt collection subsidiary (Close Credit Management) and the offshore banks in Guernsey, Isle of Man and Cayman.

2. Risk management objectives and policies

Objectives of the group's risk management framework

Risk management is the process of identifying the principal risks to the group achieving its strategic objectives, establishing appropriate controls to manage those risks and ensuring that appropriate monitoring and reporting systems are in place to ensure that controls remain robust and evolve with the changing risk profile of the group. The group's risk management process balances cost against risk within the constraints of the group's risk appetite and is consistent with the prudent management required of a large financial organisation.

The group's risk management framework

The group has adopted a "three lines of defence" model to manage its principal business risks:

- Line one is risk management: primary responsibility for strategy, performance and risk management lies with the board, the chief executive and the heads of each division and operating business.

- Line two is risk oversight: risk oversight is provided by the Group Risk and Compliance Committee ("GRCC") and the head of Group Risk working with counterparts in the divisions and operating businesses and with Group Compliance. This is supplemented by a range of risk related committees at divisional and operating business levels.

- Line three is independent assurance: independent assurance on the effectiveness of the risk management systems is provided by Group Internal Audit reporting to the Audit Committee (Click here for the Audit Committee terms of reference).

There are clear reporting lines and defined areas of responsibility at board, divisional and business level. This structure is designed to ensure, amongst other things, that key issues and developments are escalated on a timely basis.

The CBG board has overall responsibility for ensuring the adequacy of the group's risk management arrangements with the chief executive charged with day to day responsibility for the group-wide management of risk. The GRCC is a committee established by the chief executive to assist him in the discharge of that responsibility comprising the executives of the group board supported by the heads of Group Risk, Group Compliance and Group Internal Audit. It meets monthly and is responsible for:

- recommending for board approval the group's risk appetite;
- the group's risk management strategy, approach and policy;
- the approval of group wide policies in respect of risk management and regulatory compliance; and
- receiving regular reports on significant risk management, regulatory compliance and internal control issues and for monitoring their analysis and resolution.

The heads of Group Risk and Group Compliance report to the chief executive and are responsible for the oversight of risk management and regulatory compliance around the group. The head of Group Internal Audit has a primary functional reporting line to the chairman of the Audit Committee with a secondary reporting line to the group finance director for administrative purposes.

There are a number of specialist risk committees at divisional or business level. The principal such risk committees are as follows:

Division	Committee	Objective
Banking	Credit committees	Loan underwriting in accordance with centrally established limits of authority.
	Treasury committee	Establishment of policies in respect of interest rate, foreign exchange and liquidity management and counterparty risk for the treasury activities of the group.
Asset management	Risk and Compliance committee	Establishment of divisional level risk and regulatory compliance policies and oversight of compliance with those policies.
	Asset Management Division Executive committee	Approval of new products or changes to existing products, as well as review of existing products.
	Investment Review committee	Review of investment performance and associated risk.
Corporate finance	Risk committee	Acceptance of new clients or mandates and consideration of material points of principle associated with accepted mandates.

Risk assessment

The board considers the principal risks and uncertainties facing the group to fall within the following risk categories and types:

Risk category	Risk type
Non-financial	Reputational Strategic Operational Regulatory compliance

Financial	Credit Market Liquidity

The group's exposures under each of these risks are reviewed and reassessed on a bottom-up and top-down basis by senior executives at operating business, divisional and CBG levels at least annually in an exercise coordinated by the Group Risk function. The group uses a probability and impact scoring system linked to the group's risk appetite to assess the significance of individual risks and the adequacy of risk controls. These risk assessments are reviewed and approved by the board responsible for the management of those risks with the CBG board approving the CBG risk assessment.

A high level summary of those risk assessments is set out below:

Reputational Risk The board considers a loss of reputation to be the most significant risk to a business operating in the financial services sector but that this risk would crystallise only as a consequence of a failure in managing the group's other principal risks.
Strategic Risk Strategic risk results from external factors and inadequate senior management processes that could lead to a significant failure of the effectiveness of the strategy of the group as a whole, or of its divisions and businesses. This risk is mitigated by the group having a well established reporting structure for agreeing strategy, risk appetite, planning and budgets. Detailed monthly group management accounts are produced and variances and trends are closely monitored. Divisional heads report to the group board each month on the performance of, and key issues affecting, their division. Detailed budgets and three year plans, which are based upon group strategy, are stress tested to take account of potential adverse conditions and are subject to rigorous challenge at divisional and board level to ensure that the group has adequate capital to meet its business and regulatory needs.
Credit Risk Credit risk is the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion and arises mainly from the lending and treasury activities of our Banking division. Our loan book is well spread, short term, secured and with a low average loan size in order to avoid concentration risk. Credit risk resulting from our lending activities is controlled by a number of local credit committees within centrally set limits of authority. For transactions above such limits, there is a group level credit committee. The credit quality of our counterparties with whom we place deposits or whose certificates of deposit or floating rate notes we buy is monitored by the Treasury committee which establishes specific limits. These counterparties have, almost exclusively, a credit rating of "AA" or better. Credit risk in our Securities division is limited as our businesses in that division trade 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. Counterparty exposure and settlement failure monitoring controls are in place.

Market Risk

Market risk is the risk of loss that arises from adverse movements in equity, bond, interest rate, foreign exchange or other traded markets and arises primarily in our Securities division.

The Securities division is exposed to the market risk deriving from trading in equity and fixed income securities. Senior management is closely involved in its risk management process, which is also regularly monitored at group level. There are controls, supplemented by cash limits, on individual large or slow moving equity or fixed income positions. Real time controls on the size and risk profile of trading books and of individual books within these are maintained.

Our treasury operations do not trade actively in money market instruments although they are held for liquidity and yield purposes. Nor do we trade speculatively in derivatives as a principal. Interest rate mismatch and currency exposure policies are established by the Treasury Committee with compliance monitored daily. We continue our long established policy of broadly matching interest rate liabilities whereby we swap variable rate financing into fixed rate, particularly in regard to our asset financing book. Returns from the group's capital and reserves are necessarily subject to interest rate fluctuations and as a matter of policy these are not hedged.

We have immaterial currency exposures, since most of our business is transacted in sterling. Non-sterling financing is funded by liabilities in the relevant currency or swapped into sterling to hedge currency exposure. Most of the group's activities are located in the British Isles. Our currency exposure resulting from our investment in overseas subsidiaries, although increased, is relatively small. The extent to which the group's profit and net assets is affected by movements in exchange rates is not material.

Liquidity Risk

Liquidity risk is the risk of not being able to meet liabilities as they fall due and arises mainly in our Banking division. Each of our operations is responsible for its own liquidity within specified guidelines. Each is capitalised at a level required to meet its business and regulatory needs and, where necessary, has appropriate borrowing facilities from the company, treasury or external lenders. The liquidity of each division is reviewed at its monthly board meeting and the overall funding position is reported to the group board each month.

In the Banking division our policy is to be able to finance our customer loans and advances by capital and reserves, longer term deposits and committed facilities with only limited financing from shorter term deposits. This policy is kept under review by the Treasury Committee with compliance monitored daily.

Operational Risk

Operational risk is the risk of material loss or other adverse impact resulting from inadequate internal processes, people or systems or from external events and is inherent in all our businesses. Each of our main operations is managed separately and has its own financial control, operations and IT departments with operational risk management carried out by the local management.

Regulatory Compliance Risk

Regulatory compliance risk is the risk of loss or other material adverse impact resulting from failure to comply with laws, regulations, codes of conduct or standards of good practice governing the financial services sectors in which we operate. Each of our regulated businesses has a dedicated compliance officer reporting to the chief executive of that business who is responsible for supporting the business in meeting its regulatory compliance objectives and for executing risk-based monitoring programmes to confirm compliance. The activities of

these compliance professionals is co-ordinated and overseen on a group-wide basis by the head of Group Compliance.

Risk monitoring and reporting

There is regular reporting at operating business and divisional level of risk and performance information. Summary information is reported to the GRCC, the Audit Committee and the board. At all levels of reporting if past or forecast business performance appears to have moved or is likely to move outside of agreed parameters or there is a breach or near breach of policy limits, the relevant board or committee will ensure that the most appropriate course of action is implemented.

3. Capital resources

The table below summarises the composition of regulatory capital as at 31 July 2008, at which point the group's individual entities and the group complied with all of the externally imposed capital requirements to which they are subject.

	Notes	At 31 July 2008 Basel II £ million
Core tier 1 capital		
Called up ordinary share capital		37.3
Share premium account		274.1
Retained earnings and other reserves	1	404.7
Unaudited earnings	2	43.3
Minority interests		5.0
Deductions from core tier 1 capital		
Intangible assets	3	(134.4)
Goodwill in associates		(49.7)
Investment in own shares		(33.1)
Securitisation positions	4	(3.3)
Core tier 1 capital after deductions		543.9
Tier 2 capital		
Subordinated debt	5	75.0
Unrealised gains on available for sale equity shares		4.2
Collective impairment allowances		2.2
Deductions from tier 2 capital		
Securitisation positions	4	(3.3)
Tier 2 capital after deductions		78.1
Total tier 1 and tier 2 after deductions		622.0
Deductions from total of tier 1 and tier 2		
Participation in a non-financial undertaking		(6.5)
Other regulatory adjustments	4	(1.9)
Total regulatory capital		613.6

Notes:

1. Retained earnings and other reserves excludes unrealised gains or losses on cash flow hedges and available for sale assets and consists of the profit and loss account reserve (excluding earnings unverified by 31 July 2008), the share-based awards reserve and the exchange movements reserve.

2. Unaudited earnings comprise earnings for the six months ended 31 July 2008 not verified by that date which have been subsequently audited.

3. Intangible assets include goodwill, capitalised software and intangible assets arising on acquisition.

4. For Pillar 3 reporting purposes 50% of the securitisation positions are required to be deducted from tier 1 capital and 50% from tier 2 capital. In the 2008 Annual Report the whole of this deduction has been deducted from the total of tier 1 and tier 2 as part of ‘Other regulatory adjustments’.

5. All the subordinated loan capital has been issued by CBG’s banking subsidiary CBL and is denominated in sterling. If CBL opts not to prepay at the prepayment date, the interest rate is reset to a margin over the yield on five year UK Treasury securities. Terms are as follows:

Final maturity date	Prepayment date	Initial interest rate	2008 £ million
2020	2015	7.39%	30.0
2026	2021	7.42%	15.0
2026	2021	7.62%	30.0
			75.0

4. Capital adequacy

The group's policy has always been to be well capitalised and soundly financed. Our approach to capital management is driven by strategy and organisational requirements, while also taking into account the regulatory and commercial environments in which we operate. We maintain a strong capital base to support the development of the business and to ensure we meet regulatory capital requirements at all times. We would therefore expect to have capital adequacy ratios well in excess of minimum regulatory requirements even before taking account of the need to fund our non regulated activities and small acquisitions.

The board considers both the overall group and each division's capital position and requirements on a regular basis and after taking into account each division's regulatory and operational requirements, excess capital is transferred to the parent company every six months by way of dividend to permit the strategic allocation of capital.

Internal capital adequacy assessment process ("ICAAP")

The introduction of Basel II has resulted in a formal requirement for the group, CBL and the offshore banks in Guernsey and the Isle of Man to each carry out internal capital adequacy assessments. A group-wide process has been developed to achieve this requirement which combines existing risk assessment, budgetary and stress testing practices together with some of the new Basel II requirements into an integrated internal capital adequacy assessment process. This now forms an integral part of the group's risk management processes. The board considers that given the group's risk profile an annual process is sufficient. The output from the process is a report for each entity required to carry out an ICAAP which addresses all material risks faced by the entity to determine the level of capital required against each major source of risk over a three-year time horizon which is the group's standard business planning timescale.

The group ICAAP is coordinated by the Group Risk function which reports to a Basel II steering committee comprising of the executive directors of CBG and other relevant senior executives of the group. Management at all levels within the group are involved by 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 board of CBG approves the final ICAAP.

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.

	At 31 July 2008 £ million
Credit risk - standardised approach	
Central governments or central banks	0.0
Regional governments or local authorities	0.0
Administrative bodies and non-commercial undertakings	0.9
Multilateral development banks	0.0
International organisations	0.0
Institutions	13.8
Corporates	31.6
Retail	73.5
Secured on real estate property	33.8
Past due items	4.8
Items belonging to regulatory high risk categories	2.6
Covered bonds	0.0
Securitisation positions	0.0
Short term claims on institutions and corporates	26.3
Collective investment undertakings	1.4
Other items	13.5
	202.2
Operational risk – basic indicator approach	82.0
Credit risk – trading book	
Counterparty risk capital component	2.6
Market risk - trading book	
Interest rate PRR*	2.0
Equity PRR*	4.3
Market risk - non trading book	
Foreign currency PRR*	4.6
Total Pillar 1 capital requirement	**297.7**

* Position Risk Requirement.

5. Counterparty credit risk

Counterparty credit risk is the risk of loss as a result of a party to a transaction defaulting before the final settlement of the transaction's cash flows. Credit risk in our trading book is limited as our Securities businesses trade 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. This can be seen from the table in section 4 where counterparty credit risk amounts to less than one percent of the overall capital requirement. Consequently, on the grounds of materiality, no further detail will be provided on this risk.

6. Credit risk and dilution risk

Impairment of financial assets

Loans and advances to customers

Impairment provisions are made if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of a significant loan or a portfolio of loans ("a loan") that have an impact on future cash flows which can be reliably estimated.

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 (EIR). 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 EIR applied to the carrying amount as reduced by an allowance for impairment.

For portfolios of loans where the loans 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.

For accounting purposes, a financial asset is treated as past due when a counterparty has failed to make a payment when contractually due. In contrast, under regulatory rules, a financial asset is treated as past due when the payment is ninety days past the contractual due date.

Financial instruments classified as "held to maturity"

If there is objective evidence that a "held to maturity" asset is impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate.

Financial instruments classified as available for sale

If there is objective evidence that an available for sale asset is impaired, the cumulative gains and losses recognised in equity are recycled to the income statement.

The following tables analyse regulatory credit risk exposures at 31 July 2008. On materiality grounds, the below exposures focus on the following financial assets which are deemed to have the greatest exposure to credit risk: loans and advances to customers; loans and advances to banks, certificates of deposit and floating rate notes.

Analysis of exposures by regulatory exposure asset class

	Exposure at 31 July 2008 £ million	Average exposure for period to 31 July 2008 £ million
Standardised approach		
Regional governments or local authorities	1.2	1.3
Administrative bodies and non-commercial undertakings	10.8	11.3
Institutions	741.4	753.9
Corporates	570.3	589.0
Retail	1,279.4	1,187.5
Secured on real estate property	537.6	518.5
Past due items	47.5	38.6
Short term claims on institutions	1,671.6	1,631.8
	4,859.8	**4,731.9**

The retail exposure class consists of loans to individuals and small and medium sized entities, which are one of a significant number of loans with similar characteristics, such that the risks associated with such lending are reduced. Past due items above follows the regulatory definition as disclosed on the previous page and is net of any provisions made against such items. Short term claims on institutions consists of exposures where a short term credit rating is held and the remaining maturity is less than twelve months.

Geographic distribution of exposures by regulatory exposure asset class at 31 July 2008

	British Isles £ million	Europe £ million	Rest of world £ million	**Total £ million**
Standardised approach				
Regional governments or local authorities	1.2	0.0	0.0	**1.2**
Administrative bodies and non-commercial undertakings	10.8	0.0	0.0	**10.8**
Institutions	373.5	215.8	152.1	**741.4**
Corporates	525.7	18.4	26.2	**570.3**
Retail	1,222.1	57.3	0.0	**1,279.4**
Secured on real estate property	524.1	13.5	0.0	**537.6**
Past due items	47.2	0.3	0.0	**47.5**
Short term claims on institutions	1,569.4	62.4	39.8	**1,671.6**
	4,274.0	**367.7**	**218.1**	**4,859.8**

Residual maturity breakdown of regulatory exposure asset classes on a contractual basis at 31 July 2008

	< 3 months £ million	3 months - 1 year £ million	1-5 years £ million	> 5 years £ million	**Total £ million**
Regional governments or local authorities	0.0	0.6	0.6	0.0	**1.2**
Administrative bodies and non-commercial undertakings	1.2	4.0	5.6	0.0	**10.8**
Institutions	0.0	0.0	685.2	56.2	**741.4**
Corporates	287.5	99.6	154.2	29.0	**570.3**
Retail	459.3	296.0	516.0	8.1	**1,279.4**
Secured on real estate property	265.0	231.4	41.2	0.0	**537.6**
Short term claims on institutions	1,369.0	302.6	0.0	0.0	**1,671.6**
	2,382.0	**934.2**	**1,402.8**	**93.3**	**4,812.3**

The period greater than one year in institutions consists mainly of marketable securities. Past due items have been excluded from the above table.

Analysis of exposures by counterparty type at 31 July 2008

	£ million
Standardised approach	
Regional governments or local authorities	1.2
Administrative bodies and non-commercial undertakings	10.8
Institutions	2,413.0
Corporates	1,135.1
Retail	1,299.7
	4,859.8

Impaired and past due exposures; value adjustments and provisions; charges for value by significant counterparty type

	Impaired loans 31 July 2008 £ million	Past due loans 31 July 2008 £ million	Value adjustments and provisions 31 July 2008 £ million	Charges for value adjustments during the period to 31 July 2008 £ million
Corporates	58.6	48.8	22.0	14.1
Retail	44.8	39.7	28.3	14.5
Total	**103.4**	**88.5**	**50.3**	**28.6**

Value adjustments are individually assessed balance sheet impairments while provisions are defined as collectively assessed balance sheet impairments.

Geographical analysis of impaired and past due exposures; value adjustments and provisions at 31 July 2008

	British Isles £ million	Europe £ million	Rest of world £ million	**Total £ million**
Impaired loans	100.9	2.5	0.0	**103.4**
Past due loans	85.8	2.7	0.0	**88.5**
Value adjustments and provisions	47.6	2.7	0.0	**50.3**

Impairment losses

	£ million
Opening balance at 1 August 2007	
Individual	40.7
Collective	3.7
Total	44.4
Charge for the year	27.5
Amounts written off net of recoveries	(21.6)
Closing balance at 31 July 2008	
Individual	48.1
Collective	2.2
Total	**50.3**

7. Credit risk: standardised approach

The group uses external credit assessments provided by Moody's to determine the risk weight of rated counterparties in each standardised credit risk exposure class. The agencies used are recognised by the FSA as eligible external credit assessment institutions (ECAI) for the purposes of calculating credit risk requirements under the standardised approach. The external ratings of each ECAI are mapped to the prescribed quality assessment scale that in turn produces standard risk weightings.

The table below shows the exposure amounts associated with the credit quality steps and the relevant risk weightings as at 31 July 2008:

Institutions original effective maturity of more than three months

Credit quality step	Risk weight	Exposure	Exposure after Credit Risk Mitigation
		£ million	£ million
1	20%	667.8	667.8
2	50%	61.9	61.9
3	50%	11.7	11.7
4	100%	0.0	0.0
5	100%	0.0	0.0
6	150%	0.0	0.0
Total		**741.4**	**741.4**

Short term claims on institutions and corporates

Credit quality step	Risk weight	Exposure	Exposure after Credit Risk Mitigation
		£ million	£ million
1	20%	1,671.4	1,671.4
2	50%	0.2	0.2
3	100%	0.0	0.0
4	150%	0.0	0.0
5	150%	0.0	0.0
6	150%	0.0	0.0
Total		**1,671.6**	**1,671.6**

Corporates

Credit quality step	Risk weight	Exposure	Exposure after Credit Risk Mitigation
		£ million	£ million
1	20%	21.0	21.0
2	50%	0.0	0.0
3	100%	0.0	0.0
4	100%	0.0	0.0
5	150%	0.0	0.0
6	150%	0.0	0.0
Total		**21.0**	**21.0**

8. Non-trading book exposures in equities

At 31 July 2008, the group had £49.2 million of equity investments in the non-trading book, of which £33.0 million were classified as available for sale and £16.2 million as held at fair value through profit or loss under the fair value option. Listed investments amounted to £17.2 million with the remainder being unlisted. Under regulatory rules one investment of £6.5 million was required to be deducted from capital. The capital requirement for the remainder amounted to £4.1 million, with £16.2 million of equity investments being classified as high risk for regulatory purposes. Cumulative gains from sales in the period were immaterial.

Equity investments held as available for sale

These are recognised at fair value plus any directly attributable purchase costs, with changes being accounted for through equity. If they are sold or there is objective evidence that they are impaired, the cumulative gains and losses recognised in equity are recycled to the income statement.

Equity investments designated at fair value through profit or loss

These are equity shares classified thus because they are managed, and their performance evaluated, on a fair value basis in accordance with a documented investment strategy, with results being reported to the company's board. Resulting gains and losses are included in the income statement.

Methods of valuation

Listed investments are valued at bid price. Unlisted investments comprise investments in various funds (valued at net asset value) and in the limited liability partnerships that the group's private equity operations manage. These partnerships value their investments semi-annually in compliance with the International Private Equity and Venture Capital Valuation Guidelines, their valuations being externally audited annually. Valuations are typically based on an appropriate multiple of earnings before interest and tax ("EBIT") adjusted, if necessary, to what are considered sustainable levels based on forecast indicators.

Movements in the year to 31 July 2008 were as follows:

	Equity shares	
	Available for sale £ million	Valued at fair value £ million
At 1 August 2007	28.9	16.6
Additions	15.9	6.3
Disposals	(0.6)	(6.9)
Currency translation differences	3.0	0.0
Increase/(decrease) in carrying value of:		
Financial instruments classified as available for sale	(14.2)	0.0
Listed equity shares held at fair value	0.0	(0.1)
Unlisted equity shares held at fair value	0.0	0.3
At 31 July 2008	**33.0**	**16.2**

9. 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 which, as a matter of policy, are not hedged. The group has a policy of broadly matching interest rate liabilities on its loans and advances to customers whereby variable rate financing is swapped into fixed rate financing to secure the margin on those loans and advances.

The sensitivities below are based upon reasonably possible changes in interest rate scenarios, including parallel shifts in the yield curve. At 31 July 2008 a 1.25% increase or decrease in interest rates compared to actual rates would increase/(decrease) the group's annual net interest income by the following amounts, prior to mitigation:

	2008 £ million
1.25% increase	1.7
1.25% decrease	(1.7)

The above analysis is calculated in sterling as, apart from currency investments in subsidiaries and associates where the policy decision has been taken not to hedge such exposures, the group's exposure to foreign exchange risk is not material.

10. Securitisation

The group has securitised £172 million of its loans and advances to customers with Cruise Limited ("Cruise") in return for non-refundable finance of £165 million.

For accounting purposes the securitisation is treated as a financing transaction, with the £172 million of loans and advances remaining on the group's balance sheet and the £165 million of non-refundable finance being shown as "Non-recourse borrowings". For regulatory purposes, £165 million of the securitised loans and advances are excluded from the calculation of risk weighted exposure amounts and the remainder are deducted from capital. For further information, please refer to note 30 of the group's annual report.