

Close Brothers Group plc

Pillar 3 disclosures for the year ended 31 July 2019

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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 2019 with comparative figures for 31 July 2018 and 1 August 2018 where relevant. Within this document are references to the Close Brothers Group plc's Annual Report which can be found at:

www.closebrothers.com/investor-relations/investor-information/results-reports-and-presentations.

Scope

The Prudential Regulation Authority ("PRA") supervises Close Brothers Group plc ("CBG" or "the group") on a consolidated basis and receives information on the capital adequacy of, and sets capital requirements for, the group as a whole. In addition, a number of subsidiaries are regulated for prudential purposes by either the PRA or the Financial Conduct Authority ("FCA"). The main subsidiary institutions which are subject to the CRR are Close Brothers Limited ("CBL"), Winterflood Securities Limited ("Winterflood") and Close Asset Management Limited. Details of the group's principal subsidiaries are included in note 31 of the group's Annual Report. There are no differences between the basis of consolidation of the group for accounting and regulatory purposes. Other than restrictions due to regulatory capital requirements for regulated entities, there are no current material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities when due between the group and its subsidiaries.

Pillar 3 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.

Individual 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 an individual consolidated basis. This individual consolidated group includes CBL and its major UK operating subsidiaries as at 31 July 2019.

Regulatory developments

The provisions of IFRS 9 financial instruments applied to the group from 1 August 2018. The group has elected to take advantage of the European Banking Authority's transitional arrangements, which allow the capital impact of IFRS 9 credit losses to be phased in over a five-year period. All disclosures in this document are stated after application of IFRS 9 transitional adjustments unless otherwise noted.

The group's capital ratios remain comfortably ahead of minimum regulatory requirements. This leaves the group well placed to absorb any foreseen regulatory changes, including the proposed capital adequacy reforms, commonly referred to as Basel 4.

2. Risk management objectives and policies

Risk and Control Framework

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 distinct, transparent and consistent lines of responsibility and effective processes to identify, manage, monitor and report the risks to which the group is, or may become, exposed. The board has a well defined risk appetite with risk appetite measures which are integrated into decision-making, monitoring and reporting processes. Early warning trigger levels are set to drive the required corrective action before overall tolerance levels are reached. The risk management and internal control framework, overseen by a number of committees including the Risk Committee and the Audit Committee, is the mechanism that ensures the board receives comprehensive risk and control information in a timely manner.

The group maintains a range of internal controls relating to financial management, reporting and control processes, which are designed to ensure the accuracy and reliability of its financial information and reporting. The main features of these controls include consistently applied accounting policies, clearly defined lines of responsibility and processes for the review and oversight of disclosures within the Annual Report. These internal controls are overseen by the Audit Committee.

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 organisation's risk committees, at both a group and business level. These continue to work efficiently and effectively.

The group's risk and control framework is designed to support 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, mitigated, so that the group is not subject to material unexpected loss.

The group closely monitors its risk profile to ensure that it continues to align with its strategic objectives as documented on page 16 of the group's Annual Report.

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 board considers that the group's current risk profile remains consistent with its strategic objectives.

Throughout the year the Risk Committee undertakes a robust assessment of the principal and emerging risks facing the group, and reviews reports from the risk function on the processes that support the management and mitigation of those risks. As part of this ongoing review process, a specific assessment of the principal risks and emerging risks facing the group was carried out by the board, including those risks that would threaten its business model, future performance, solvency or liquidity. A summary of the group's principal risks and emerging risks is provided on pages 18 to 22 of the group's Annual Report.

In addition throughout the year, the board, assisted by the Risk Committee and the Audit Committee, monitors the group's risk management and internal control systems and reviews their effectiveness. This covers all material controls, including financial, operational and compliance controls. The board reviews the effectiveness of both committees on an annual basis. Based on its assessment throughout the year, and its review of the committees' effectiveness, the board considers that, overall, the group has in place adequate systems and controls with regard to its profile and strategy.

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

2. Risk management objectives and policies continued

The key principles underlying risk management in the group are that:

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

Risk Management Framework

First line of defence	Second line of defence	Third line of defence
<p>The Businesses</p> <p>Group Risk and Compliance Committee (Reports to the Risk Committee)</p> <p>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.</p> <p>Business management has day-to-day ownership, responsibility and accountability for:</p> <ul style="list-style-type: none"> • identifying and assessing risks; • managing and controlling risks; • measuring risk (key risk indicators/early warning indicators); • mitigating risks; • reporting risks; and • committee structure and reporting. <p>Key Features</p> <ul style="list-style-type: none"> • Promotes a strong risk culture and focus on sustainable risk-adjusted returns. • Implements the risk framework. 	<p>Risk and Compliance</p> <p>Risk Committee (Reports to the board)</p> <p>Risk Committee delegates to the group chief risk officer day-to-day responsibility for oversight and challenge on risk-related issues.</p> <p>Risk functions (including compliance) provide support and independent challenge on:</p> <ul style="list-style-type: none"> • the design and operation of the risk framework; • risk assessment; • risk appetite and strategy; • performance management; • risk reporting; • adequacy of mitigation plans; • group risk profile; and • committee governance and challenge. <p>Key Features</p> <ul style="list-style-type: none"> • Overarching “risk oversight unit” takes an integrated view of risk (qualitative and quantitative). • Supports through developing and advising on risk strategies. • Facilitates constructive check and challenge – “critical friend”/“trusted adviser”. 	<p>Internal Audit</p> <p>Audit Committee (Reports to the board)</p> <p>Audit Committee mandates the head of group internal audit with day-to-day responsibility for independent assurance.</p> <p>Internal audit provides independent assurance on:</p> <ul style="list-style-type: none"> • first and second line of defence; • appropriateness/effectiveness of internal controls; and • effectiveness of policy implementation. <p>Key Features</p> <ul style="list-style-type: none"> • Draws on deep knowledge of the group and its businesses. • Provides independent assurance on the activities of the firm, including the risk management framework. • Assesses the appropriateness and effectiveness of internal controls. • Incorporates review of culture and conduct.

2. Risk management objectives and policies continued

First line of defence	Second line of defence	Third line of defence
<p>The Businesses continued</p> <ul style="list-style-type: none"> • 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 and control of risks. • Portfolio optimisation. • Self-assessment. 	<p>Risk and Compliance continued</p> <ul style="list-style-type: none"> • Oversight of business conduct. 	

Risk Committee roles and responsibilities

The Risk Committee's key roles and responsibilities are to:

- oversee the maintenance and development of a supportive culture in relation to the management of risk;
- review and set risk appetite, which is the level of risk the group is willing to take in pursuit of its strategic objectives;
- monitor the group's risk profile against the prescribed appetite;
- review the effectiveness of the risk management 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).

Membership and meetings

The Risk Committee comprises Peter Duffy, the group's newest independent director, Geoffrey Howe, the senior independent director, Oliver Corbett and Bridget Macaskill who chair the Audit and Remuneration Committees respectively, and Lesley Jones as chairman.

Six scheduled meetings were held during the year and full details of attendance by the non-executive directors at these meetings are set out on page 62 of the group's Annual Report.

In addition to the members of the Risk Committee, standing invitations are extended to the chairman of the board, the executive directors, the group chief risk officer, the group head of compliance and the group head of internal audit. All attend the Risk Committee meetings as a matter of course and have supported and informed the Risk Committee's discussions.

Other executives, subject matter experts, risk team members and external advisers are invited to attend the Risk Committee from time to time as required, to present and advise on reports commissioned.

The Risk Committee's chairman continues to meet frequently with the group chief risk officer and his risk team in a combination of formal and informal sessions, and with senior management across all divisions of the group, to discuss the business environment and to gather their views of emerging risks, business performance and the competitive environment.

As described in more detail on pages 65 and 66 of the group's Annual Report, an internal evaluation of the effectiveness of the board and its committees was undertaken during the year in line with the requirements of the UK Corporate Governance Code.

The Risk Committee considers that during the year it continued to have access to sufficient resources to enable it to carry out its duties and has continued to perform effectively.

2. Risk management objectives and policies continued

Risk Management

The group faces a number of risks in the normal course of business providing lending, deposit taking, wealth management services and securities trading.

As set out in the strategy section on page 16 of the group's Annual Report, the protection of our established business model is a key strategic objective. As a result, the management of the risks we face is central to everything we do. The key elements to the way we manage risk are as follows:

- adhering to our established and proven business model outlined on pages 14 and 15 of the group's Annual Report;
- implementing an integrated risk management approach based on the concept of "three lines of defence"; and
- setting and operating within clearly defined risk appetites, monitored with defined metrics and set limits.

Further details on the group's approach to risk management are set out on pages 66 and 67 of the group's Annual Report. Risk management is overseen by the Board Risk Committee and its key areas of focus over the last financial year are set out on pages 70 and 71 of the group's Annual Report. We believe the key risks facing the group include: the current economic uncertainty; the regulatory landscape and how it may impact some or all of our businesses; the competitive environment; and maintaining operational resilience in the face of growing cyber threats. The potential impact of the UK's anticipated departure from the EU and how it could impact our customers also continues to be closely monitored and managed through the firm's emerging risk framework.


Risks and uncertainties


The following pages set out 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. While we constantly monitor our portfolio for emerging risks, the group's activities, business model and strategy remain unchanged. As a result, the principal risks and uncertainties which the group faces and our approach to mitigating them remain broadly consistent with prior years. This consistency in approach has underpinned the group's track record of trading successfully and supporting our clients over many years.

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


Key: No change Risk decreased Risk increased







Risk	Mitigation	Change
<p>Credit Risk</p> <p>As a lender to businesses and individuals, the bank is exposed to credit losses if customers are unable to repay loans and outstanding interest and fees. At 31 July 2019 the group had loans and advances to customers amounting to £7.6 billion.</p> <p>The group also has exposure to counterparties with which it places deposits or trades, and also has</p>	<p>We seek to minimise our exposure to credit losses from our lending by:</p> <ul style="list-style-type: none"> • applying strict lending criteria when testing the credit quality and covenant of the borrower; • maintaining consistent and conservative loan to value ratios with low average loan size and short-term tenors; • lending on a predominantly secured basis against 	<p style="text-align: center;"></p> <p>Credit losses have again remained low during the year to 31 July 2019 while other counterparty exposures are broadly unchanged with the majority of our liquidity requirements and surplus funding placed with the Bank of England.</p>


2. Risk management objectives and policies continued

Risk	Mitigation	Change
<p>Credit Risk continued</p> <p>in place a small number of derivative contracts to hedge interest rate and foreign exchange exposures.</p>	<p>identifiable and accessible assets;</p> <ul style="list-style-type: none"> • maintaining rigorous and timely collections and arrears management processes; and • operating strong control and governance both within our lending businesses and with oversight by a central credit risk team. <p>Our exposures to counterparties are mitigated by:</p> <ul style="list-style-type: none"> • excess liquidity of £1.1 billion placed with the Bank of England; • continuous monitoring of the credit quality of our counterparties within approved set limits; and • Winterflood's trading relating to exchange traded cash securities being settled on a delivery versus payment basis. Counterparty exposure and settlement failure monitoring controls are also in place. 	<p>We continue to monitor closely the uncertainty over Brexit and the UK economic outlook combined with rising consumer debt levels. These factors could increase the risk of higher credit losses in the future.</p> <p>Further commentary on the credit quality of our loan book is outlined on pages 30 to 33 of the group's Annual Report. Further details on loans and advances to customers and debt securities held are in notes 11 and 12 on pages 125 to 128 of the group's Annual Report.</p> <p>Our approach to credit risk management and monitoring is outlined in more detail in note 28 on page 148 of the group's Annual Report.</p>
<p>Economic environment</p> <p>Any downturn in economic conditions may impact the group's performance through:</p> <ul style="list-style-type: none"> • lower demand for the group's products and services; • lower investor risk appetite as a result of financial markets instability; • higher credit losses as a result of the inability of our customers to service debt and lower asset values on which loans are secured; and • increased volatility in funding markets. 	<p>The group's business model aims to ensure that we are able to trade successfully and support our clients in all economic conditions. By maintaining a strong financial position we aim to be able to absorb short-term economic downturns, continuing to lend when competitors pull back and in so doing building long-term relationships by supporting our clients when it really matters.</p> <p>We test the robustness of our financial position by carrying out regular stress testing on our performance and financial position in the event of adverse economic conditions.</p>	<p> Although UK economic performance has remained largely resilient to date, economic uncertainty and risk to the macroeconomic outlook remains elevated due to Brexit and wider global events. While a broadly stable macroeconomic backdrop is anticipated in our current base case scenario, stress testing and contingency planning continue to be employed to support preparedness for a range of possible scenarios. The potential economic impacts of the UK's planned departure from the EU continue to be closely monitored through the firm's emerging risk framework.</p> <p>Further commentary on the</p>



2. Risk management objectives and policies continued

Risk	Mitigation	Change
<p>Economic environment continued</p>		<p>attributes and resilience of the group's diversified business model is shown on pages 14 and 15 of the group's Annual Report.</p>
<p>Legal and regulatory Failure to comply with existing legal, regulatory or tax requirements, or to react to changes to these requirements, may have negative consequences for the group.</p> <p>Failing to treat customers fairly, to safeguard client assets or to provide advice and products which are in clients' best interests has the potential to damage our reputation and may lead to legal or regulatory sanctions, litigation or customer redress. This applies to current, past and future business.</p> <p>Similarly, changes to regulation and taxation can impact our financial performance, capital and liquidity and the markets in which we operate.</p>	<p>The group seeks to manage these risks by:</p> <ul style="list-style-type: none"> • the implementation of appropriate policies, standards and procedures and the use of risk-based monitoring programmes to test adherence; • the provision of clear advice on legal and regulatory requirements, including in relation to the scope of regulatory permissions; • responding in an appropriate, risk-based and proportionate manner to any changes to the legal and regulatory environment and those driven by any strategic initiatives; • investing in training for all staff including anti-money laundering, bribery and corruption, conduct risk, data protection and information security. Additional tailored training for relevant employees is provided in key areas such as complaint handling; • maintaining constructive and positive relationships and dialogue with regulatory bodies and tax authorities; • providing straightforward and transparent products and services to our clients; • reviewing and approving new products and services through a clear governance and approval process; • maintaining a prudent capital position with headroom above minimum capital requirements. 	<p></p> <p>Financial services businesses remain the subject of significant regulatory scrutiny. Minimum capital requirements are increasing as regulatory buffers are phased in and remain subject to change by regulators. In addition to the regulatory uncertainties associated with Brexit, there has been growing regulatory focus on consumer borrowing, particularly within motor finance, and on the customer experience within the asset management industry. For example, we continue to monitor the potential for regulatory change in the motor finance market following publication of the FCA's final report in March 2019.</p>
<p>Operational Risk The group is exposed to various operational risks through its day-to-day operations, all of which have the potential to result in financial loss or adverse impact.</p>	<p>The group seeks to maintain its operational resilience through:</p> <ul style="list-style-type: none"> • sustaining robust operational risk management processes, governance and management information; 	<p></p> <p>Market and regulatory expectations continue to increase in relation to operational risk management and resilience. In line with this environment, the</p>


2. Risk management objectives and policies continued

Risk	Mitigation	Change
<p>Operational Risk continued</p> <p>Losses typically crystallise as a result of inadequate or failed internal processes, people and systems, or as a result of external factors.</p> <p>Adverse impacts to the business, customers, third parties and the markets in which we operate are considered within a developing focus on resilient end-to-end delivery of critical business services.</p>	<ul style="list-style-type: none"> • identifying key systems, third party relationships, processes and staff, to enable effective investment decisions; • investing in technology to provide reliable and contemporary customer service offerings; • investing in cyber security including expertise, tools and staff engagement; • maintaining focus on data protection; • adopting fraud prevention and detection capabilities aligned with our risk profile; and • testing recovery capabilities and planning communications approaches for possible scenarios. 	<p>group continues to develop and evolve its capacity to reliably deliver key services,</p> <p>We continue to invest in and upgrade our IT infrastructure, third party management framework, operational processes and cyber security capability to keep abreast of these risks.</p> <p>For further information on our approach to operational resilience and also our response to cyber threats, see page 71 of the group's Annual Report.</p>
<p>Competition</p> <p>The group operates in competitive markets and experiences competition from traditional and new players, varying in both nature and extent, across its divisions.</p> <p>Currently we are experiencing particularly high levels of competition within the Motor Finance business and the intermediated part of the Asset Finance market.</p> <p>Elevated levels of competition may impact the group's ability to write loans at its desired risk and return criteria, resulting in lower new business volumes and loss of market share.</p>	<p>The group's long track record of successful trading is supported by a consistent and disciplined approach to pricing and credit quality, even in competitive markets. This allows us to lend profitably and continue to support our customers at all stages in the financial cycle.</p> <p>We build long-term relationships with our clients and intermediaries based on:</p> <ul style="list-style-type: none"> • the speed and flexibility of services; • our local presence and personal approach; • the experience of our people and subject matter experts; and • our offering of tailored and client-driven product solutions. <p>This differentiated approach and the consistency of our lending results in strong customer relationships and high levels of repeat business.</p> <p>We are further protected by the diversity of our loan book and</p>	<p> Despite high levels of competition across each of our businesses, our approach remains unchanged as we focus on supporting our clients, maintaining underwriting standards and investing in our business.</p> <p>Further commentary on the market environment of the Banking division is outlined on page 30 of the group's Annual Report. Our business model is set out on pages 14 and 15 of the group's Annual Report.</p>

2. Risk management objectives and policies continued

Risk	Mitigation	Change
<p>Competition continued</p>	<p>product portfolio, which provides resilience against competitive pressure in any one part of our markets.</p>	
<p>Employees The quality and expertise of our 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.</p>	<p>The group seeks to attract, retain and develop staff by:</p> <ul style="list-style-type: none"> • operating remuneration and benefits structures which are competitive and recognise and reward performance; • creating an inclusive environment that embraces diversity; • listening to employee feedback through engagement surveys and developing action plans; • implementing succession planning for key roles; • improving our talent pipeline via our graduate and school leavers programmes and our sales training academy in Asset Finance; • investing in training and development for all staff; and • delivering leadership development programmes that identify current and future leaders for the group. 	<p> Our highly skilled people are likely to be targeted by competitors, but we are confident in our ability to retain key employees.</p> <p>Further detail on the employee survey and our investment in our people is outlined in the Sustainability Report on pages 42 to 51 of the group's Annual Report.</p>
<p>Funding and liquidity The Banking division's access to funding remains key to support our lending activities and the liquidity requirements of the group.</p>	<p>Our funding approach is based on the principle of "borrow long, lend short". The average maturity of funding allocated to the loan book was 20 months at 31 July 2019. This compares to our weighted average loan maturity of 14 months.</p> <p>Our funding is diversified both by source and channel, and by type and tenor. Liquidity in our Banking division is assessed on a daily basis to ensure adequate liquidity is held and remains readily accessible in stressed conditions.</p> <p>At 31 July 2019 the group's funding position was strong with total available funding equal to 129% of the loan book. This</p>	<p> While economic uncertainty always has the potential to impact funding markets, the group remains conservatively funded and continues to have access to a wide range of funding sources and products. Our new customer deposit platform will further increase our funding resilience with access to a wider range of deposit and savings products, and an online distribution capability.</p> <p>This diversity of funding, combined with relatively long tenor when compared to the average duration of our lending, means we are well placed to meet any future market challenges or constraints.</p>

2. Risk management objectives and policies continued

Risk	Mitigation	Change
Funding and liquidity continued	<p>provides a prudent level of liquidity to support our lending activities.</p>	<p>Further commentary on funding and liquidity is provided on pages 28 and 29 of the group's Annual Report. Further financial analysis of our funding is shown in note 19 on page 135 of the group's Annual Report.</p>
Market risk Market volatility impacting equity and fixed income exposures, and/or changes in interest and exchange rates, have the potential to impact the group's performance.	<p>Our policy is to minimise interest rate risk by matching fixed and variable interest rate assets and liabilities, and using swaps where appropriate. The capital and reserves of the group do not have interest rate liabilities and as such are not hedged.</p> <p>Foreign exchange exposures are generally hedged using foreign exchange forwards or currency swaps with exposures monitored daily against approved limits.</p> <p>Winterflood is a market maker providing liquidity to its clients in equity and fixed income instruments. Our trading is predominantly short-term, with most transactions settling within two days. Trading positions are monitored on a real time basis.</p>	<p> The group's approach and the underlying risks are unchanged. Further detail on the group's exposure to market risk is outlined in note 28 on pages 154 to 155 of the group's Annual Report.</p> <p>The sensitivity analysis on interest rate exposures shown in note 28 on page 154 of the group's Annual Report demonstrates the limited level of exposure to interest rate and foreign exchange movements.</p>

Emerging risks

The group utilises an established framework to monitor its portfolio for emerging risks, supporting organisational readiness for external volatility.

This incorporates input and insight from both a top-down and bottom-up perspective:

- **Top-down:** Emerging risks identified by directors and executives at a group level via the Group Risk and Compliance Committee and the board.
- **Bottom-up:** Emerging risks identified at a business level and escalated, where appropriate, via risk updates into the Group Risk and Compliance Committee and the board.

Group-level emerging risks are monitored by the Group Risk and Compliance Committee and the Risk Committee on an ongoing basis, with agreed actions tracked to ensure the group's preparedness should an emerging risk crystallise.

2. Risk management objectives and policies continued

Current group-level emerging risks are detailed below:

Emerging Risk	Mitigating Actions
1. Risk of economic and political uncertainty as a result of the UK's exit from the EU	Brexit Forum established in 2016 to track ongoing developments and develop appropriate contingency plans. Appropriate preparations made for a potential "no deal" exit, including the establishment of a new Irish subsidiary and subsequent approval of a Money Lender licence in the Republic of Ireland to support continuation of our continental Retail and SME Premium Finance business.
2. Risk of financial loss resulting from the physical or transitional impacts of climate change	Climate Risk Working Group established in 2019 with responsibility for developing an appropriate and regulatory-compliant firm-wide climate risk framework. Senior management responsibility has been assigned to the group chief risk officer while the Risk Committee has assumed responsibility for overseeing and challenging the developing framework.

Information on number of directorships

Information on the number of directorships held by members of the management body, and on the recruitment and diversity policy with regards to selection of members of the management body are shown in pages 52, 53 and 60 of the group's Annual Report.

In addition, Mike Biggs is a director of UK Insurance Limited and Churchill Insurance Company Limited. Geoffrey Howe is a director of Gateway Electronic Components Limited. Peter Duffy is a director of Nortonduff Ltd.

3. Key regulatory metrics

The table below summarises the key regulatory metrics on a transitional basis¹ as at 31 July 2019:

Key Metrics	31 July 2019 £ million	1 August 2018 £ million	31 July 2018 £ million
Regulatory capital			
Common equity tier 1 ("CET1") capital	1,169.2	1,082.2	1,084.4
Tier 1 capital	1,169.2	1,082.2	1,084.4
Total capital	1,364.6	1,280.1	1,282.3
Total risk weighted assets ("RWAs")	8,967.4	8,542.6	8,547.5
Regulatory capital as a percentage of RWAs²			
CET1 capital ratio	13.0%	12.7%	12.7%
Tier 1 capital ratio	13.0%	12.7%	12.7%
Total capital ratio	15.2%	15.0%	15.0%
Leverage ratio²	11.0%	10.6%	10.6%
Liquidity coverage ratio ("LCR")³	823%	1,038%	1,038%

1 Shown after applying IFRS9 transitional arrangements and CRR transitional and qualifying own funds arrangements.

2 At 31 July 2019, the fully loaded CET1 capital ratio is 12.6%, total capital ratio is 14.5% and leverage ratio is 10.7%. Further disclosures on transitional arrangements are provided in Appendices 3 and 4.

3 12 month average.

4. Capital resources

The table below summarises the composition of regulatory capital. 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 2019 and 31 July 2018.

	31 July 2019 £ million	1 August 2018 £ million	31 July 2018 £ million
CET1 capital			
Called up share capital	38.0	38.0	38.0
Retained earnings	1,392.5	1,282.8	1,327.7
Other reserves recognised for CET1 capital	19.0	21.3	21.3
Regulatory adjustments to CET1 capital			
Intangible assets, net of associated deferred tax liabilities	(216.1)	(198.1)	(198.1)
Foreseeable dividend ¹	(65.7)	(62.7)	(62.7)
Investment in own shares	(37.7)	(37.6)	(37.6)
Pension asset, net of associated deferred tax liabilities	(5.3)	(4.0)	(4.0)
Prudent valuation adjustment	(0.1)	(0.2)	(0.2)
IFRS 9 transitional arrangements ²	44.6	42.7	-
CET1 capital	1,169.2	1,082.2	1,084.4
Tier 2 capital – subordinated debt³	195.4	197.9	197.9
Total regulatory capital⁴	1,364.6	1,280.1	1,282.3

- 1 Under the Regulatory Technical Standards on own funds, a deduction has been recognised at 31 July 2019 and 31 July 2018 for a foreseeable dividend being the proposed final dividend as set out in note 9 of the group's Annual Report.
- 2 The group has elected to apply IFRS 9 transitional arrangements for 31 July 2019, which allow the capital impact of expected credit losses to be phased in over a five-year period.
- 3 Shown after applying the CRR transitional and qualifying own funds arrangements. Further detail is provided in Appendix 2.
- 4 Total capital is shown on a transitional basis (see Section 3 "Key regulatory metrics").

The following table shows a reconciliation between equity and CET1 capital after deductions:

	31 July 2019 £ million	1 August 2018 £ million	31 July 2018 £ million
Equity	1,406.4	1,303.8	1,348.7
Regulatory deductions to CET1 capital:			
Intangible assets, net of associated deferred tax liabilities	(216.1)	(198.1)	(198.1)
Foreseeable dividend ¹	(65.7)	(62.7)	(62.7)
IFRS9 transitional arrangements	44.6	42.7	-
Pension asset, net of associated deferred tax liabilities	(5.3)	(4.0)	(4.0)
Prudent valuation adjustment	(0.1)	(0.2)	(0.2)
Other reserves not recognised for CET1 capital:			
Cash flow hedging reserve	4.4	(0.1)	(0.1)
Non-controlling interests	1.0	0.8	0.8
CET1 capital	1,169.2	1,082.2	1,084.4

- 1 Under the Regulatory Technical Standards on own funds, a deduction has been recognised at 31 July 2019 and 31 July 2018 for a foreseeable dividend being the proposed final dividend as set out in note 9 of the group's Annual Report.

4. Capital resources continued

The following table shows the movement in CET1 capital during the year:

	31 July 2019 £ million
CET1 capital at 31 July 2018	1,084.4
Profit in the period attributable to shareholders	201.6
Dividends paid and foreseen	(98.5)
Reduction in shareholders' equity from IFRS9	(44.9)
IFRS9 transitional arrangements	44.6
Increase in intangible assets, net of associated deferred tax liabilities	(18.0)
Other movements in reserves recognised for CET1 capital	
Other movements in retained reserves	4.4
Decrease in share-based payments reserve	(2.3)
Increase in fair value through other comprehensive income reserves	(0.8)
Other movements in deductions from CET1 capital	
Increase in pension assets, net of associated deferred tax liabilities	(1.3)
Investment in own shares	(0.1)
Prudent valuation adjustment	0.1
CET1 capital at 31 July 2019	1,169.2

A reconciliation of regulatory capital to the balance sheet is shown in Appendices 1 and 4.

5. 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 Total Capital Requirement ("TCR") and additional Capital Requirements Directive buffers at all times.

Our total Pillar 2 add-on remains at 1.9%, of which 56% or 1.1% needs to be met with CET1 capital. As a result, the group maintains capital adequacy ratios above minimum regulatory requirements, which are currently set at a minimum CET1 capital ratio of 9.0% and a minimum total capital ratio of 13.4%.

The minimum requirements are both inclusive of TCR, the capital conservation buffer ("CCB", currently 2.5% for both CET1 capital and total capital) and the countercyclical capital buffer ("CCyB"). In November 2018 the UK CCyB rate increased from 0.5% to 1% and in July 2019 the Ireland CCyB rate increased from 0% to 1%. This results in an effective weighted buffer of 0.96% for the group funded entirely from CET1 capital. Further details of the group's CCyB rate are provided in section 6 "Regulatory capital buffers".

Internal capital adequacy assessment process ("ICAAP")

The group undertakes a group-wide internal capital adequacy assessment annually which is an integral part of the group's risk management processes. The main output from the process is an assessment of all material risks faced by the group, determination of the level of capital required to be held against each major source of risk and an analysis of a number of severe stress tests over a three-year time horizon, which is the group's standard business planning timescale. Management at all levels within the group are involved in carrying out risk assessments for their business units, having input into stress testing and scenario analysis and where necessary approving inputs into the process. The ICAAP is subject to detailed review and challenge by both the GRCC and by the Risk Committee, before approval by the board.

5. Capital adequacy continued

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 RWAs for each of the following standardised exposure classes.

	2019 £ million	2018 £ million
Credit risk - standardised approach		
Central governments or central banks	10.0	9.6
Regional governments or local authorities	0.1	0.1
Public sector entities	0.1	0.1
Institutions	8.2	6.8
Corporates	150.6	133.3
Retail	206.6	200.4
Secured by mortgages on immovable property	18.6	15.6
Exposures in default	10.6	11.7
Items associated with particularly high risk	192.6	195.0
Equity	0.1	-
Other items	34.6	32.7
	632.1	605.3
Operational risk - standardised approach^{1,2}	70.8	67.7
Counterparty credit risk	2.3	3.1
Market risk - trading book²		
Interest rate PRR ³	0.3	1.0
Equity PRR ³	3.3	4.9
Collective investment undertakings PRR ^{3,4}	6.5	-
Market risk - non-trading book²		
Foreign currency PRR ³	2.1	1.8
Total Pillar 1 capital requirement	717.4	683.8

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

2 Further details on operational and market risk can be found in section 2 'Risk Management Objectives and Policies'.

3 Position Risk Requirement.

4 Reclassification of investment trusts which were previously treated as equity.

The increase of £33.6 million in the capital requirements during the year was driven by growth in credit risk associated with the loan book. Capital requirements for operational risk increased reflecting increased revenues and loan book growth over recent years.

6. Regulatory capital buffers

The following regulatory capital buffers apply to CBG:

Capital conservation buffer

The CCB applies to banks and has been developed to ensure capital buffers are available which can be drawn upon during periods of stress if required. As of 31 July 2019, the buffer was 2.5% of RWAs.

Countercyclical capital buffer

The countercyclical buffer is intended to protect the banking sector against losses that could be caused by cyclical systemic risks. In each jurisdiction the relevant authority (the Bank of England in the UK) sets an individual CCyB rate based on their assessment of systemic risks in that jurisdiction. Accordingly, each institution calculates its specific CCyB based on a weighted average of the CCyB rates for each jurisdiction in which it has an exposure. In November 2018 the UK CCyB rate increased from 0.5% to 1.0% and in July 2019 the Irish CCyB rate was raised to 1.0%.

The table below shows the geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer as at 31 July 2019¹:

Breakdown by country ²	General credit exposures <i>Exposure value</i> £ million	Trading book exposures <i>Sum of long and short trading book positions</i> £ million	Own funds requirements			Own funds requirement weighting	CCyB rate %
			<i>Of which: General credit exposures</i> £ million	<i>Of which: Trading book exposures</i> £ million	<i>Total</i> £ million		
United Kingdom	7,054.6	41.5	564.4	3.3	567.7	0.86	1.0%
Ireland	808.6	0.1	64.7	-	64.7	0.10	1.0%
Jersey	121.1	0.3	9.7	-	9.7	0.02	0.0%
Germany	77.9	-	6.2	-	6.2	0.01	0.0%
Isle of Man	50.7	0.1	4.1	-	4.1	0.01	0.0%
Guernsey	32.0	0.8	2.5	0.1	2.6	0.00	0.0%
Malta	17.7	-	1.4	-	1.4	0.00	0.0%
Monaco	14.4	-	1.2	-	1.2	0.00	0.0%
British Virgin Islands	7.9	-	0.6	-	0.6	0.00	0.0%
Cyprus	3.2	-	0.3	-	0.3	0.00	0.0%
Cayman Islands	2.8	-	0.2	-	0.2	0.00	0.0%
Poland	2.8	-	0.2	-	0.2	0.00	0.0%
Gibraltar	2.1	-	0.2	-	0.2	0.00	0.0%
Others ³	0.3	0.2	-	-	-	0.00	0.0%
Total	8,196.1	43.0	655.7	3.4	659.1	1.00	

The table below shows the amount of institution-specific CCyB as at 31 July 2019¹:

	2019 £ million
Total risk exposure amount ⁴	8,967.4
Institution-specific CCyB rate (%)	0.96%
Institution-specific CCyB requirement	86.1

1 The two tables above follow the templates set out in the relevant EU Delegated Act, except certain columns have been omitted that are not relevant. In accordance with the Delegated Act and CRR requirements, exposures to central governments or central banks, regional governments or local authorities, public sector entities and institutions are excluded.

2 Exposures are classified by the domicile of the counterparty.

3 Included in 'others' are immaterial exposures to France, to which 0.25% CCyB applies.

4 'Total Risk Exposure Amount' is equivalent to RWAs (see Section 3 "Key Regulatory Metrics").

7. Counterparty credit risk

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

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

Derivative exposures are first measured using the mark-to-market method and subsequently risk weighted under the standardised approach.

The table in Section 5 "Capital adequacy" shows that counterparty credit risk amounts to less than 1% (2018: less than 1%) of the overall capital requirement. Consequently, on the grounds of materiality no further detail is provided on this risk in accordance with EBA's EBA/GL/2014/14 guidance.

8. 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 as they fall due. Credit risk across the group arises mainly through the lending and treasury activities of the Banking division. The following tables analyse regulatory credit risk exposures:

	2019	2018	Average exposure in 2019
	£ million	£ million	£ million
Central governments or central banks	1,204.7	1,233.1	987.7
Regional governments or local authorities	5.8	4.7	5.9
Public sector entities	6.7	7.9	7.1
Institutions	349.7	390.7	420.7
Corporates	2,009.6	1,803.6	1,947.1
Retail	3,799.8	3,687.0	3,682.6
Secured by mortgages on immovable property	241.1	201.5	211.5
Exposures in default	107.2	102.1	132.6
Items associated with particularly high risk	1,604.9	1,625.0	1,596.4
Equity	0.9	-	0.2
Other items	432.6	408.8	441.7
	9,763.0	9,464.4	9,433.5

The exposures are before applying risk weightings and include undrawn commitments after the application of the applicable credit conversion factors. The retail exposure class consists of loans to individuals and small and medium sized entities ("SMEs") with similar characteristics.

As at 31 July 2019, the group's exposure to SMEs is £4,829 million (including undrawn commitments) (2018: £4,647 million).

8. Credit risk continued

Geographic distribution of exposures¹ by regulatory exposure asset class at 31 July 2019:

	United Kingdom ² £ million	Europe £ million	Rest of world £ million	Total £ million
Central governments or central banks	1,154.6	50.1	-	1,204.7
Regional governments or local authorities	5.8	-	-	5.8
Public sector entities	6.7	-	-	6.7
Institutions	217.7	87.5	44.5	349.7
Corporates	1,754.9	248.3	6.4	2,009.6
Retail	3,134.5	665.3	-	3,799.8
Secured by mortgages on immovable property	237.1	2.8	1.2	241.1
Exposure in default	99.3	7.5	0.4	107.2
Items associated with particularly high risk	1,599.9	2.1	2.9	1,604.9
Equity	0.9	-	-	0.9
Other items	431.8	0.8	-	432.6
Total	8,643.2	1,064.4	55.4	9,763.0

1 Exposures are classified by the domicile of the counterparty.

2 Includes Crown dependencies.

Residual maturity breakdown by regulatory exposure asset class on a contractual basis¹ at 31 July 2019:

	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	1,108.5	12.2	32.7	51.3	1,204.7
Regional governments or local authorities	-	0.2	4.7	0.9	5.8
Public sector entities	-	1.3	5.4	-	6.7
Institutions	129.1	220.6	-	-	349.7
Corporates	751.2	242.1	838.7	177.6	2,009.6
Retail	170.4	1,076.3	2,472.2	80.9	3,799.8
Secured by mortgages on immovable property	48.0	66.7	126.4	-	241.1
Items associated with particularly high risk	635.0	753.6	216.3	-	1,604.9
Other items	232.5	49.5	130.2	20.4	432.6
Total	3,074.7	2,422.5	3,826.6	331.1	9,654.9
Exposures in default					107.2
Equity					0.9
					9,763.0

1 Exposures repaid in instalments have been allocated in the maturity bucket corresponding to the last instalment.

Impairment of financial assets

For accounting purposes, expected credit losses are recognised for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at fair value through other comprehensive income, loan commitments and financial guarantee contracts.

8. Credit risk continued

Under IFRS 9, financial assets are allocated to one of three stages based on the level of credit risk associated with the asset. At initial recognition, a provision is recognised for 12 months of expected credit losses. These financial assets are considered to be in Stage 1. If a significant increase in credit risk since initial recognition occurs, with a 30-days past due back stop, a provision is made for the lifetime expected credit losses. These financial assets are considered to be in Stage 2. A financial asset will remain classified as Stage 2 until the credit risk has improved such that it no longer represents a significant increase since origination and will be returned to Stage 1.

When objective evidence exists that a financial asset is credit impaired, such as a credit default event has occurred or an unlikeliness to pay indicator has been identified, with a 90-days past due back stop, the financial asset is considered to be in Stage 3.

Loans and advances to customers are written off against the related provisions when there are no reasonable expectations of further recovery. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement.

The calculation of expected credit losses for loans and advances to customers, either on 12-month or lifetime basis, is based on the probability of default ("PD"), adjusted to reflect a range of forward-looking macroeconomic scenarios, the estimated exposure at default ("EAD") and the estimated loss given default ("LGD"). EAD and LGD are adjusted to account for the impact of discounting using the effective interest. Some Stage 3 assets are subject to individual rather than collective assessment.

The PD represents the likelihood of a borrower defaulting on its financial obligation either over the next 12-months or over the remaining lifetime of the obligation. EAD is based on the amounts we expect to be owed at the time of default. LGD represents our expectation of the extent of loss on a defaulted exposure after taking into account cash recoveries including the value of collateral held. For further details see page 113 of the group's Annual Report.

Definition of past due

A financial asset is treated as past due when a counterparty has failed to make a payment when contractually due. As described above, where payment on a financial asset is more than thirty days past due the financial asset would be considered Stage 2, and likewise Stage 3 where it is more than ninety days past due.

Definition of default

For accounting purposes, loans and advances to customers are considered defaulted when the borrower is in breach of contract, is bankrupt, or experiences other significant financial difficulties which are expected to have a detrimental impact on their ability to pay interest or principal on the loan. This includes events such as administration, insolvency, repossession of assets and voluntary termination or surrender. As a backstop, all financial assets that are 90 days past due are considered as defaulted.

For regulatory purposes, a financial asset is treated as in default when a payment is 90 days past the contractual due date or the counterparty is considered unlikely to pay its credit obligations in full. The regulatory definition of default captures all financial assets classified within Stage 3.

Impairment provisions

For regulatory purposes, provisions are classified as either general or specific as per the definitions in Article 110 of the CRR. The group does not have any general provisions, and all provisions are therefore captured as specific credit risk adjustments.

8. Credit risk continued

Analysis of loans and impairments

The tables below analyse loans and impairment balances as at 31 July 2019.

Exposure type analysis of defaulted and non-defaulted exposures alongside associated credit risk adjustments. The analysis below covers loans and advances to customers as per note 11 of the group's Annual Report and includes undrawn commitments after the application of the applicable credit conversion factors at 31 July 2019:

	A Gross carrying values of		C	D	E
	Defaulted exposures ¹	Non-defaulted exposures	Specific credit risk adjustment	Net values (A+B-C)	Credit risk adjustment charges in the period
	Stage 3 £ million	Stages 1 & 2 £ million	All stages £ million	£ million	£ million
Regional governments or local authorities	-	5.9	0.1	5.8	-
Public sector entities	-	6.7	-	6.7	-
Corporates	-	2,016.4	6.8	2,009.6	1.0
Retail	-	3,819.8	20.0	3,799.8	3.8
Secured by mortgages on immovable property	-	241.3	0.2	241.1	0.1
Exposures in default	132.1	-	24.9	107.2	34.5
Items associated with particularly high risk	54.1	1,559.3	8.5	1,604.9	2.2
Total loans and advances to customers	186.2	7,649.4	60.5	7,775.1	41.6
Other credit risk exposures ²				1,987.9	
Total				9,763.0	

1 Stage 3 exposures are all categorised as exposures in default except where they are high risk.

2 Includes central governments, central banks, institutions, equity and other assets.

Counterparty type analysis of defaulted and non-defaulted exposures alongside associated credit risk adjustments. The analysis below covers loans and advances to customers as per note 11 of the group's Annual Report and includes undrawn commitments after the application of the applicable credit conversion factors at 31 July 2019:

	A Gross carrying value of		C	D	E
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Net values (A+B-C)	Credit risk adjustment charges in the period
	Stage 3 £ million	Stages 1 & 2 £ million	All stages £ million	£ million	£ million
Regional governments or local authorities	-	5.9	0.1	5.8	-
Public sector entities	-	6.7	-	6.7	-
Financial corporations	2.6	69.2	0.5	71.3	1.8
Non-financial corporations	142.8	5,010.3	37.6	5,115.5	21.1
Households	40.8	2,557.3	22.3	2,575.8	18.7
Total loans and advances to customers	186.2	7,649.4	60.5	7,775.1	41.6
Other credit risk exposures ¹				1,987.9	
Total				9,763.0	

1 Includes central governments, central banks, institutions, equity and other assets.

8. Credit risk continued

Geographical analysis of defaulted and non-defaulted exposures alongside associated credit risk adjustments. The analysis below covers loans and advances to customers as per note 11 of the group Annual Report and includes undrawn commitments after the application of the applicable credit conversion factors at 31 July 2019:

	A Gross carrying value of		B	C	D	E
	Defaulted exposures Stage 3 £ million	Non-defaulted exposures Stages 1 & 2 £ million	Specific credit risk adjustment All stages £ million	Net values (A+B-C) £ million	Credit risk adjustment charges in the period £ million	
United Kingdom ¹	176.6	6,746.5	57.7	6,865.4	35.2	
Europe	9.2	892.5	2.8	898.9	6.4	
Rest of the world	0.4	10.4	-	10.8	-	
Total loans and advances to customers	186.2	7,649.4	60.5	7,775.1	41.6	
Other credit risk exposures ²				1,987.9		
Total				9,763.0		

1 Includes Crown dependencies.

2 Includes central governments, central banks, institutions, equity and other assets.

The below two tables show the movement in specific credit risk adjustments relating to loans and advances to customers, and the charge to the income statement from impairment losses in the period. For further details see note 11 of the group's Annual Report.

	£ million
At 31 July 2018	39.1
IFRS 9 transition	58.2
At 1 August 2018	97.3
Charge to the income statement	41.6
Write offs	(34.6)
As 31 July 2019 under IFRS 9 rules	104.3
Derecognised under IFRS 9 transitional arrangements	(43.8)
As 31 July 2019 under CRR rules	60.5

	£ million
Impairment losses relating to loans and advances to customers	
Charge to income statement arising from movement in impairment provisions	41.6
Amount written off directly to income statement, net of recoveries and other costs	5.8
	47.4
Impairment losses relating to other financial assets	1.1
Impairment losses on financial assets	48.5

9. 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.

The tables below show the exposure amounts associated with the credit quality steps for any rated exposures and the relevant risk weightings as at 31 July 2019 (only credit quality steps with exposures are shown):

Institutions

Credit quality step	Moody's rating	Risk weight	Exposure £ million
1	Aaa to Aa3	20%	230.1
2	A1 to A3	50% / 20% ¹	118.3
Total rated exposures			348.4

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

Corporates

Credit quality step	Moody's rating	Risk weight	Exposure £ million
3	Baa1 to Baa3	100%	0.1
5	B1 to B3	150%	33.7
Total rated exposures			33.8

10. 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 £12.4 million of exposures within the institutions exposure class.

As explained in section 2 "Risk management objectives and policies" and in note 28 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 RWAs under the standardised approach to credit risk. The group does not make use of on-balance sheet netting.

11. Non-trading book exposures in equities

At 31 July 2019, the group had £1.0 million of equity investments, all of which are unlisted. Under IFRS 9, which applied from 1 August 2018, all non-trading book equity shares were classified as fair value through profit or loss (“FVTPL”). Prior to the application of IFRS 9 these shares had been classified as available for sale.

For regulatory purposes £0.9 million of equity investments are classified as equity and £0.1 million are classified as high risk. The capital requirement amounted to £0.1 million. Cumulative realised gains from sales in the period were nil and unrealised gains recognised were £0.6 million.

The accounting policies under IFRS 9 for classifying and valuing financial assets under FVTPL are outlined below.

Financial assets classification and measurement

Financial assets are classified at initial recognition on the basis of the business model within which they are managed and their contractual cash flow characteristics. The classification categories are amortised cost, fair value through other comprehensive income and fair value through profit or loss.

Financial assets are classified at fair value through profit or loss where they do not meet the criteria to be measured at amortised cost or fair value through other comprehensive income or where they are designated at fair value through profit or loss to reduce an accounting mismatch. Financial assets at fair value through profit or loss are recognised at fair value. Transaction costs are not added to or deducted from the initial fair value, they are immediately recognised in profit or loss on initial recognition. Gains and losses that subsequently arise on changes in fair value are recognised in the income statement.

Movements in equity shares in the year to 31 July 2019 were as follows:

	FVTPL £ million
At 31 July 2018	0.5
Disposals	(0.2)
Equity shares classified as FVTPL	0.7
At 31 July 2019	1.0

12. Interest rate risk in the non-trading book

The group’s exposure to interest rate risk arises in the Banking division and the remainder of this section relates to the Banking division accordingly. Interest rate risk in the group’s other divisions is considered to be immaterial.

The group has a simple and transparent balance sheet and a low appetite for interest rate risk which is limited to that required to operate efficiently. The group’s policy is to match repricing characteristics of assets and liabilities naturally where possible or by using interest rate swaps to secure the margin on its loans and advances to customers. These interest rate swaps are disclosed in note 14 of the group’s Annual Report.

The Asset and Liability Committee (“ALCO”) monitors the interest rate risk exposure across the balance sheet monthly. There are three main sources of interest rate risk recognised, which could adversely impact future income or the value of the balance sheet:

- repricing risk occurs when assets and liabilities reprice at different times;
- embedded optionality risk occurs as a result of special conditions attached to contract terms embedded in some loans; and
- basis risk occurs where there is a mismatch in the interest rate reference rate for assets and liabilities.

12. Interest rate risk in the non-trading book continued

Interest rate risk in the Banking division is measured by applying key behavioural and modelling assumptions including but not limited to fixed rate loans subject to prepayment risk, behaviour of non-maturity assets and liabilities, treatment of own equity in economic value measures, and the expectation of interest rate options. This is performed under the six prescribed rate interest rate shocks and four additional internal stress tests.

The table below sets out the assessed impact on our base case earnings at risk (“EaR”) due to a parallel shift in interest rates as at 31 July 2019:

	2019 £ million
0.5% increase	(4.0)
0.5% decrease	5.1

The average impact in 2019 on our base case EaR measure due to a parallel 0.5% increase or decrease in interest rates was a £4.3 million decrease and £5.2 million increase respectively.

The table below sets out the assessed impact on our base case economic value of equity due to a shift in interest rates as at 31 July 2019:

	2019 £ million
0.5% increase	-
0.5% decrease	-

The above analysis is calculated in sterling as the group’s exposure to foreign exchange risk is immaterial. More information on the group’s foreign currency risk is disclosed in note 28 of the group’s Annual Report.

13. Leverage

The leverage ratio is a transparent, comparable measure not affected by risk weightings. It is calculated as tier 1 capital divided by adjusted balance sheet exposure. The level of leverage is actively monitored and regularly assessed alongside capital and capital ratios, as described in Section 5 “Capital adequacy”. The following three tables follow the formats that are prescribed by the European Banking Authority (“EBA”).

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures:

	CRR leverage ratio exposure 2019 £ million
Total assets as per published financial statements	10,561.3
Adjustments for derivative financial instruments	23.8
Adjustments for securities financing transactions (“SFTs”)	10.9
Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	172.0
Other adjustments	(184.0)
Total leverage exposure	10,584.0

13. Leverage continued

Table LRCom: Leverage ratio common disclosure¹:

	CRR leverage ratio exposure 2019 £ million
On-balance sheet exposures (excluding derivatives and SFTs):	
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	10,531.2
Asset amounts deducted in determining Tier 1 capital ²	(184.0)
Total on-balance sheet exposures (excluding derivatives and SFTs)	10,347.2
Derivative exposures:	
Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	35.1
Add-on amounts for potential future exposure associated with all derivatives transactions (mark-to-market method)	18.8
Total derivative exposures	53.9
Securities financing transaction exposures:	
Counterparty credit risk exposure for SFT assets	10.9
Total securities financing transaction exposures	10.9
Other off-balance sheet exposures:	
Off-balance sheet exposures at gross notional amount	1,104.7
Adjustments for conversion to credit equivalent amounts	(932.7)
Other off-balance sheet exposures	172.0
Capital and total exposures:	
Tier 1 capital	1,169.2
Total leverage ratio exposure	10,584.0
Leverage ratio³	11.0%

¹ The table above follows the template set out in the relevant EU guidance, except certain irrelevant rows have been omitted.

² Includes intangible assets and IFRS 9 transitional arrangements.

³ The leverage ratio is calculated on a transitional basis. The fully loaded leverage ratio is 10.7%.

13. Leverage continued

Table LRSpl: Split of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures):

	CRR Leverage Ratio Exposure 2019 £ million
Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	10,347.2
Trading book exposures	666.1
Banking book exposures, of which:	9,681.1
Exposures treated as sovereigns	1,204.7
Exposures to regional governments, local authorities and public sector entities not treated as sovereigns	12.5
Institutions	349.7
Secured by mortgages of immovable property	240.4
Retail exposures	3,759.1
Corporates	1,981.0
Exposures in default	107.2
Exposures associated with a particularly high risk	1,593.0
Other exposures (e.g. equity, securitisation, and other non-credit obligation assets)	433.5

Leverage is monitored on a monthly basis and historically moves in line with the group's CET1 ratio. Over the year, the leverage ratio has increased from 10.6% to 11.0% reflecting continued profitability.

14. Funding and liquidity

The group's Treasury function manages the funding and liquidity required to support our business. We maintain a conservative approach, with diverse funding sources and a prudent maturity profile. Our funding remains diverse with a wide range of retail and corporate deposits, wholesale facilities, senior unsecured debt and subordinated debt issuances. As explained in section 15 "Securitisation", we have secured funding facilities including securitising our insurance premium and motor loan receivables. This diversity increases resilience by reducing reliance on any individual source of funding.

The group maintains a strong liquidity position, ensuring it is consistently ahead of both internal risk appetite and regulatory requirements. The majority of our liquidity requirements and surplus funding are held in the form of high quality liquid assets ("HQLA"). We regularly assess and stress test our liquidity requirements and continue to meet the liquidity coverage ratio requirements under the CRR. For further details see pages 28 and 29 of the group's Annual Report.

The table below shows the group's liquidity buffer, total net cash outflows and the LCR, averaged over a 12 month period to 31 July 2019.

	12 month average 2019 £ million
Liquidity buffer ¹	875.3
Total net cash outflows ²	106.3
Liquidity coverage ratio (%)	823%

¹ The liquidity buffer consists of HQLA after applying regulatory defined weightings.

² Weighted cash outflows net of weighted cash inflows capped at 75% of outflows.

15. Securitisation

The group has securitised without recourse and restrictions £1,299.0 million (31 July 2018: £1,499.3 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £949.8 million (31 July 2018: £983.3 million). This includes £35.4 million (31 July 2018: £118.1 million) asset-backed securities in issue retained for liquidity purposes. 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. As a result, CRR Article 243 does not apply when calculating risk weighted assets on the securitised loans, and no further disclosures are required.

16. Asset encumbrance

Asset encumbrance is the process by which assets are pledged in order to secure, collateralise or credit-enhance a financial transaction from which they cannot be freely withdrawn.

The Pillar 3 asset encumbrance disclosure templates, shown below, have been compiled in accordance with EBA regulatory reporting requirements. As such the values disclosed are presented as a median calculation rather than point in time and will therefore differ from the disclosures contained in the group's Annual Report.

Template A: Encumbered and unencumbered assets (median value¹):

	Carrying amount: encumbered assets of which HQLA ²		Carrying amount: unencumbered assets of which HQLA	
	2019 £ million	2019 £ million	2019 £ million	2019 £ million
Assets of the reporting institution	2,156	39	7,914	807
Equity instruments ³	3	1	27	1
Debt securities ³	10	10	381	51
of which: issued by general governments	10	10	56	51
of which: issued by financial corporations	-	-	323	-
of which: issued by non-financial corporations	-	-	1	-
Other assets	2,142	30	7,508	756

1 Calculated based on the last reporting date of each calendar quarter.

2 Notionally eligible HQLA.

3 Fair value of equity instruments and debt securities is equal to the carrying amount of encumbered and unencumbered assets.

Template B: Collateral received (median value¹):

	Fair value of encumbered collateral received		Unencumbered Fair value of collateral received available for encumbrance	
	2019 £ million	2019 £ million	2019 £ million	2019 £ million
Collateral received by the reporting institution	82	72	40	20
Equity instruments	25	17	2	1
Debt securities	55	54	20	19
of which: issued by general governments	55	54	20	19
Other collateral received	-	-	14	-
Total assets, collateral received and own debt securities issued	2,249	115		

1 Calculated on the last reporting date of each calendar quarter.

2 Notionally eligible HQLA.

16. Asset encumbrance continued

Template C: Encumbered Assets, Collateral Received and Associated Liabilities (median value¹):

	Matching liabilities, contingent liabilities or securities lent 2019 £ million	Encumbered assets and collateral received 2019 £ million
Carrying amount of selected financial liabilities	1,367	2,166

¹ Calculated based on the last reporting date of each calendar quarter.

Information on importance of encumbrance

As an integral aspect of its business, the group engages in activities that result in certain assets being encumbered. The main activity relates to securitisation which is explained in section 15 “Securitisation” above, which includes comparatives, and from accessing the Bank of England’s Term Funding Scheme (of which more information is set out in note 28 of the group’s Annual Report). The group also pledges assets for repurchase agreements and securities borrowing agreements, mainly in our Securities division.

ALCO monitors the level of encumbrance to ensure it remains within approved risk appetite limits which are based on loan book and balance sheet encumbrance levels. Further information on asset encumbrance can be found in note 28 of the group’s Annual Report under the section “Assets pledged and received as collateral” and “Financial assets: loans and advances to customers”.

17. Remuneration

Approach to Remuneration

In accordance with the Remuneration Code, a firm must establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management. Policies and procedures must be comprehensive and proportionate to the nature, scale and complexity of the firm’s activities. The group ensures its approach to remuneration, and in particular variable pay, is aligned with clear risk principles which aim to drive sustainable growth, with no reward for inappropriate risk taking.

The code and European regulatory technical standards require the group to identify material risk takers (“MRTs”), being those staff whose activities have a material impact on the firm’s risk profile. The group employed a total of 89 individuals who were identified as MRTs for the year ended 31 July 2019.

Remuneration Committee (“RemCo”) Membership

The membership of the RemCo is comprised of four non-executive directors. They are Bridget Macaskill, Oliver Corbett, Geoffrey Howe and Lesley Jones. The Committee met five times during the year.

17. Remuneration continued

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 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 chief risk officer 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 Deloitte, the chairman of the board, the chief executive, the group head of human resources ("HR"), the group head of reward and HR operations, the group chief risk officer and the group company secretary. Where the committee seeks advice from employees, such as anyone in a control function, this never relates to their own remuneration.

Remuneration Philosophy

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;
- align the interests of employees with those of all key stakeholders in particular our shareholders, clients and regulators; and
- support effective risk management, not encourage risk-taking that exceeds the level of tolerated risk of each division of the group and promote a positive client conduct culture.

Our Approach to Remuneration

The cultural attributes which unite our work force are prudence, integrity, teamwork, service, expertise and relationships. Together these define our culture and the positive behaviours that underpin the high service levels we deliver to our customers. In order to attract the calibre of employees who 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 levels of deferral of the annual bonus and a long term incentive plan ("LTIP") subject to performance measures applicable over a three year period.

All our businesses have a "pay for performance" model. 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 is detailed below.

17. Remuneration continued

Employees have individual performance objectives against which their personal performance is rated. These objectives cover both financial and non financial measures, including a risk and compliance objective appropriate to their role. Every employee is required to have a risk and compliance objective as part of their annual objectives. Assessment is based on current key performance indicators as well as long term actions where appropriate. We operate a rating approach to performance and employees are rated on a scale of exceptional to action required. We review distribution of performance ratings against a bell curve to encourage differentiation.

These ratings then feed the remuneration recommendations for all employees. There is a challenge process, which includes input from senior management and divisional HR, risk and compliance. There is then a further challenge process conducted by group HR and the group executives, with input from group risk, compliance and internal audit.

Employees in control function roles have within their total remuneration a greater proportion of fixed pay than those in the front office. Their variable compensation is determined independently from the business unit's performance they control. Group heads of the control functions provide oversight of compensation decisions within their functions, and all MRTs' compensation is reviewed and approved by the RemCo.

The group chief risk officer reports independently to the RemCo to ensure that risk and control considerations are accounted for when recommending the overall discretionary bonus proposals and individual bonuses. This process is based on: a top-down approach which considers risk at a portfolio level across the group and its businesses, by comparing the risk profile against risk appetite and a bottom-up approach which considers individuals performance against their risk related objectives and contribution to the risk and control environment and associated culture.

The Committee believes the remuneration policies balance the requirements of all key stakeholders, including clients, shareholders, regulators and employees. The main metrics used to ensure an appropriate balance between shareholders and employees are (a) dividends as a % of total compensation which has remained within the narrow band of 31% - 34% over the last 3 years, and (b) the ratio of total compensation to adjusted operating income, which has decreased from 38% to 36% over the last 3 years.

The Committee believes that the group's good 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. 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.

17. Remuneration continued

A portion of any discretionary bonus above certain thresholds and for certain individuals is deferred. The group chief executive and group finance director have 60% of their award deferred and the group head of legal and regulatory affairs has 40% deferred. Deferral is generally made into Close Brothers Group plc shares but in certain areas, where it is appropriate for the business based on the risk profile of that business, this may be deferred in cash. The deferred awards for code staff are subject to forfeiture and malus provisions. The malus provisions mean that the awards may be subject to forfeiture or may be reduced after grant in certain adverse circumstances. The deferred awards for executive directors are also subject to clawback provisions which means that the awards already paid out may be subject to repayment in certain circumstances. The aggregate level of bonuses is determined by reference to group and divisional metrics, including financial and non-financial metrics, such as risk, compliance and conduct.

Long term incentive plan 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 350% of base salary for the group chief executive and 175% for the group finance director. Group Executive Committee members are generally eligible to receive an award of between 100% - 200% of base salary and other senior employees an award of up to 100% 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 2019 awards:

- 35% of the award is subject to average Return on Equity ("RoE");
- 35% of the award is subject to adjusted earnings per share ("EPS") growth; and
- 30% of the award is subject to risk management objectives.

Targets for the LTIP awards for 2019 are:

Average RoE over three years	Vesting % of RoE element
20% p.a. or greater	100%
Between 20% p.a. and 12% p.a.	Straight-line between these points
12% p.a.	25%
Less than 12% p.a.	0%

Adjusted EPS growth over three years	Vesting % of EPS element
30% or greater	100%
Between 10% and 30%	Straight-line between these points
10%	25%
Less than 10%	0%

For Group Executive Committee members there is an additional two year holding period after vesting, therefore the overall restricted period is five years. The LTIP awards are subject to forfeiture and malus provisions. In addition, LTIP awards for executive directors are subject to clawback provisions.

Risk Management Objectives

There are two objectives, with equal weighting of each:

- capital and balance sheet management; and
- risk, compliance and controls.

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 appetite (collectively and individually). The RemCo approves changes to compensation structures for groups of individuals and mandates the involvement of group risk in determining new structures to ensure that they are appropriately aligned to the risk profile of the business in which they operate.

17. Remuneration continued

The group chief risk officer, group head of compliance, group head of 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. Discretionary bonuses can be adjusted for positive and negative risk and compliance assessments at both an overall spend level (top-down) and individual level (bottom-up), on an ex-ante and ex-post basis. Further details of how the risk adjustments are assessed are as follows:

Top-down review

- Considers risk at a portfolio level across the group and its businesses by comparing the risk profile against risk appetite.
- Includes a review of audit reports, risk assurance work and outputs of Audit, Risk and Compliance Committee papers, which would identify areas of concern and areas of achievement. It also considers the concept of 'tone from the top'.

Bottom-up review

- Considers individual performance against stated risk related objectives, wider compliance and contributions to the risk and control environment. Includes individual performance reviews and ratings (including behavioural), input from compliance and group internal audit on their observations throughout the period, and a review of all relevant data capture systems which record risk events.

Ex-ante review

- Ex-ante risk-adjustment refers to adjustments made to take account of intrinsic risks that are inherent in the group's business activities. For example, this could be based on the potential for unexpected losses or weak systems and controls that could result in a risk of undetected conduct failings. The group chief risk officer provides a written paper to the RemCo identifying any potential ex-ante risk.

Ex-post review

- The adjustment of variable remuneration to take account of specific crystallised risk or an adverse performance outcome including those related to misconduct. Ex-post adjustments may include reducing current year awards and the application of malus, and claw-back, particularly in line with regulatory expectations that ex-post adjustments are made where there has been a material adverse impact on the firm's stakeholders, including customers and shareholders. The group chief risk officer provides a written paper to the RemCo identifying any potential ex-post risk.

Recovery and Withholding

As outlined in the sections above, variable remuneration for code staff is subject to malus, and variable remuneration for executive directors is subject to both malus and clawback.

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

The deferred bonuses for code staff and executive directors are subject to malus prior to vesting. In addition, the deferred bonuses for executive directors are subject to clawback for the period of three years from the date of grant.

The LTIP for code staff and executive directors is subject to malus for the three year period to the point of vesting. In addition, LTIP for executive directors is subject to clawback for four years from the date of grant.

The invested share matching plan ("SMP") shares for code staff and executive directors are subject to malus until vesting and in addition, invested SMP shares for executive directors are subject to clawback for three years from the date of grant. The matched SMP shares are subject to malus until vesting and, for executive directors, to clawback for four years from the date of grant.

17. Remuneration continued

The events which may trigger malus are as follows:

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

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

The events which may trigger clawback for executive directors are as follows:

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

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

Link between reward and performance - financial year 2019

The group's financial results have been solid this year notwithstanding the challenging financial market conditions. Adjusted operating profit decreased 3% in 2019 to £270.5 million, however it has grown 16% or 5% per annum compounded over the last three financial years. Return on equity has remained strong at 15.7% this year (2018: 17.0%).

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

2019 Aggregate Remuneration¹ in respect of Code Staff by business

Banking £ million	Securities £ million	Asset Management £ million	Group £ million
11.9	8.9	10.3	9.2

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

2019 Aggregate Remuneration in respect of code staff split into fixed and variable remuneration

	Senior Management	Other code staff
Number of code staff	40	49
Fixed remuneration (£ million) ¹	9.9	8.7
Variable remuneration (£ million) ²	15.5	6.1

¹ Fixed remuneration consists of base salary, company pension contributions and any other fixed allowances.

² Variable remuneration consists of the discretionary annual bonus and 60% of the face value of the LTIP award (60% being a reasonable estimate based on historic and expected future levels of vesting as this award is subject to performance conditions).

Appendix 1: EBA regulatory capital balance sheet reconciliation

	Balance sheet extract 31 July 2019 £ million	Components used in regulatory capital 31 July 2019 £ million	Ref ²
Assets			
Intangible assets	219.4		
of which: deduction from common equity tier 1 capital		219.4	A
Deferred tax asset	52.2		
of which: deferred tax liability - intangible assets		(3.3)	B
of which: deferred tax liability - pension related		(1.4)	C
Prepayments, accrued income and other assets	190.4		
of which: defined-benefit pension fund assets		6.7	D
Total assets	10,561.3		
Liabilities			
Subordinated loan capital	221.6		
of which: Tier 2 capital issued by Close Brothers Group plc		175.0	E
of which: Tier 2 capital issued by Close Brothers Limited		20.4	F
Total liabilities	9,154.9		
Equity			
Called up share capital	38.0		
of which: amount eligible for common equity tier 1 capital		38.0	G
Retained earnings	1,392.5	1,392.5	H
Exchange movements reserve	(1.2)	(1.2)	I
Cash flow hedging reserve	(4.4)	(4.4)	J
Fair value through other comprehensive income	0.7	0.7	K
Share-based payments reserve ¹	(18.2)	19.5	L
of which: holdings of own capital instruments		(37.7)	M
Non-controlling interest	(1.0)	-	
Total equity	1,406.4		
Total liabilities and equity	10,561.3		
Non balance sheet items			
Foreseeable dividend		(65.7)	N
Prudent valuation adjustment		(0.1)	O

1 Consists of £37.7 million relating to holdings of own capital instruments, which is shown separately in Section 4 "Capital Resources" and Appendix 4, and £19.5 million relating to a share based payments reserve as described in note 25 of the group's Annual Report.

2 The letters in the "Ref" column in the table above are referenced to the capital table in Appendix 4 to show how the group's regulatory capital is derived from the group's balance sheet.

Appendix 2: EBA capital instruments' key features

Capital Instruments main features template

1	Issuer	CBL	CBL	CBG ¹	CBG
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	None	None	XS1548943221	GB0007668071
3	Governing law(s) of the instrument	English	English	English	English
Regulatory treatment					
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Common Equity Tier 1
5	Post-transitional CRR rules	Ineligible	Ineligible	Tier 2	Common Equity Tier 1
6	Eligible at individual/(sub-) consolidated/ individual&(sub-) consolidated	Individual and consolidated	Individual and consolidated	Consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt	Subordinated debt	Subordinated debt	Ordinary Shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	£6.1 million	£14.3 million	£175 million	£38 million
9	Nominal amount of instrument	£15 million	£30 million	£175 million	£38 million
9a	Issue price	Par	Par	Par	Par
9b	Redemption price	Par	Par	Par	Par
10	Accounting classification	Liability - Amortised cost	Liability - Amortised cost	Liability – Amortised cost	Equity
11	Original date of issuance	02/03/01	01/03/01	24/01/17	Various
12	Perpetual or dated	Dated	Dated	Dated	Perpetual
13	Original maturity date	02/03/26	01/03/26	24/01/27	N/A
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	N/A
15	Optional call date, contingent call dates and redemption amount	02/03/21 Tax event call	01/03/21 Tax event call	24/01/22 Tax event or capital disqualification event	N/A
16	Subsequent call dates, if applicable	At any time	At any time	N/A	N/A
Coupons / dividends					
17	Fixed or floating dividend/coupon	Fixed to floating	Fixed to floating	Fixed to floating	N/A
18	Coupon rate and any related index	7.42%	7.62%	4.25%	N/A
19	Existence of a dividend stopper	No	No	No	N/A
20a	Fully discretionary, partially discretionary or mandatory	Mandatory	Mandatory	Mandatory	Fully discretionary

Appendix 2: EBA capital instruments' key features continued

20a	Fully discretionary, partially discretionary or mandatory	Mandatory	Mandatory	Mandatory	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	Yes	Yes	No	N/A
22	Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A
30	Write-down features	N/A	N/A	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior unsecured	Senior unsecured	Senior unsecured	Tier 2
36	Non-compliant transitioned features	Yes	Yes	No	N/A
37	If yes, specify non-compliant features	Step up reset rate	Step up reset rate	N/A	N/A

1 In parallel to the £175 million subordinated debt issue by CBG, CBL entered into a £175 million subordinated debt agreement with CBG on a like-for-like basis, with identical terms and conditions.

2 Full terms and conditions for the marketed debt securities detailed above are available on the group website (www.closebrothers.com/fixed-income-investors).

Appendix 3: EBA IFRS 9 transitional arrangements disclosure

IFRS9 transitional arrangements template ¹		31 July 2019 £ million
Available capital		
1	CET1 capital	1,169.2
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied	1,124.6
3	Tier 1 capital	1,169.2
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	1,124.6
5	Total capital	1,364.6
6	Total capital as if IFRS 9 transitional arrangements had not been applied ²	1,320.0
Risk-weighted assets		
7	Total risk-weighted assets	8,967.4
8	Total risk-weighted assets as if IFRS 9 transitional arrangements had not been applied	8,942.2
Capital ratios		
9	CET1 ratio	13.0%
10	CET1 ratio as if IFRS 9 transitional arrangements had not been applied	12.6%
11	Tier 1 ratio	13.0%
12	Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied	12.6%
13	Total capital ratio	15.2%
14	Total capital ratio as if IFRS 9 transitional arrangements had not been applied ²	14.8%
Leverage ratio		
15	Leverage ratio total exposure measure	10,584.0
15a	Leverage ratio total exposure measure as if IFRS 9 transitional arrangements had not been applied	10,546.7
16	Leverage ratio	11.0%
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied	10.7%

1 The table above follows the template set out in the EU guidelines on uniform disclosures except for inclusion of line 15a for leverage ratio total exposure measure as if IFRS 9 transitional arrangements had not been applied.

2 After application of CRR qualifying own funds arrangements.

Appendix 4: EBA transitional own funds disclosure

Transitional Own Funds Disclosure template ¹		31 July 2019 £ million	Ref ²
CET1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	38.0	G
	of which: ordinary shares	38.0	
2	Retained earnings	1,392.5	H
3	Accumulated other comprehensive income and other reserves	14.6	I+J+K+L
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	(65.7)	N
6	CET1 capital before regulatory adjustments	1,379.4	
CET1 capital: regulatory adjustments			
7	Additional value adjustments	(0.1)	O
8	Intangible assets (net of related tax liability)	(216.1)	A+B
11	Fair value reserves related to gains or losses on cash flow hedges	4.4	J
15	Defined-benefit pension fund assets	(5.3)	C+D
16	Direct and indirect holdings of own CET 1 capital instruments	(37.7)	M
	IFRS9 transitional arrangements	44.6	
28	Total regulatory adjustments to common equity tier 1 capital	(210.2)	
29	CET1 capital	1,169.2	
45	Tier 1 capital	1,169.2	
Tier 2 capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	175.0	E
48	Qualifying own funds instruments included in consolidated tier 2 capital issued by subsidiaries and held by third parties	20.4	F
49	of which: instruments issued by subsidiaries subject to phase out	20.4	
51	Tier 2 capital before regulatory adjustments	195.4	
58	Tier 2 capital	195.4	
59	Total capital	1,364.6	
60	Total RWAs	8,967.4	
Capital ratios and buffers			
61	CET1 ratio	13.0%	
62	Tier 1 ratio	13.0%	
63	Total capital ratio	15.2%	
64	Institution specific buffer requirement	3.5%	
65	of which: capital conservation buffer requirement	2.5%	
66	of which: countercyclical buffer requirement	1.0%	
68	CET1 available to meet buffers	5.3%	
Amounts below the thresholds for deduction (before risk weighting)			
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	57.6	
Capital instruments subject to phase-out arrangements			
84	Current cap on tier 2 capital instruments subject to phase out arrangements	22.5	
85	Amount excluded from tier 2 capital due to cap (excess over cap after redemptions and maturities)	22.5	

1 The table above follows the template set out in the relevant EU Delegated Act, except certain rows have been omitted that are not relevant.

2 References identify balance sheet components in Appendix 1 used in the calculation of regulatory capital.



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