Close Brothers Group plc

Pillar 3 disclosures for the half year ended 31 January 2025

Executive Summary

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 Capital Requirements Regulation as implemented in the PRA Rulebook CRR Instrument and the PRA Rulebook CRR Firms: Leverage Instrument (collectively known as "CRR"), and are based on data at 31 January 2025 with comparative figures for 31 July 2024 and 31 January 2024 where relevant.

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"). Close Brothers Limited ("CBL") is regulated under CRR. Close Asset Management Limited and Winterflood Securities Limited are regulated under the FCA's Prudential sourcebook for Investment Firms.

Presentation of information

The group's Pillar 3 disclosure for the half year ended 31 January 2025 provides an update on the capital position disclosed in the group's Pillar 3 disclosure for the year ended 31 July 2024. The information has been prepared in accordance with the Disclosure Part of the CRR. Full disclosures are issued as a minimum on an annual basis, with key metrics disclosed on a semi-annual basis, as the group meets the requirements of CRR article 433c and article 447.

The liquidity coverage ratio ("LCR") is reported as a 12-month average to 31 January 2025 whilst the net stable funding ratio ("NSFR") is reported as a four quarter average to 31 January 2025.

Summary of Key Metrics

Capital and leverage

Over the first half of the 2025 financial year, the common equity tier 1 ("CET1") capital ratio reduced from 12.8% to 12.2%, driven primarily by the £159.6 million provision (net of tax) in relation to motor finance commissions (c.155bps) offset by profits in the period excluding the provision (c.50bps). There was also an AT1 coupon payment (c.10bps) and a decrease in IFRS 9 transitional arrangements (c.5bps). This was partly offset by a reduction in risk-weighted assets ("RWAs") (c.45bps) and a decrease in intangible assets deducted from capital (c.10bps).

CET1 capital decreased 9% to £1,257.3 million (31 July 2024: £1,374.8 million), driven by the statutory loss in the first half (£111.8 million), which was primarily driven by the £159.6 million provision (net of tax) in relation to motor finance commissions offset by profits in the period of £47.8 million. There was also an AT1 coupon payment of £11.1 million and a decrease in the transitional IFRS 9 add-back to capital of £5.8 million. This was partly offset by a reduction in intangible assets deducted from capital of £11.5 million.

Tier 1 and total capital both decreased 7% to £1,457.3 million and £1,657.3 million respectively (31 July 2024: £1,574.8 million and £1,774.8 million respectively), largely reflecting the provision taken in relation to motor finance commissions.

RWAs decreased 3% to £10.3 billion (31 July 2024: £10.7 billion), primarily driven by a reduction in loan book RWAs (£241.6 million), as well as a reduction in securitisation RWAs following a change to implement Securitisation Standardised Approach for Motor Finance Ireland (£55.1 million).

At 31 January 2025, CET1, tier 1 and total capital ratios were 12.2% (31 July 2024: 12.8%), 14.1% (31 July 2024: 14.7%) and 16.0% (31 July 2024: 16.6%), respectively.

The applicable CET1, tier 1 and total capital ratio requirements, including Capital Requirements Directive ("CRD") buffers but excluding any applicable PRA buffer, were 9.7%, 11.4% and 13.7%, respectively, at 31 January 2025. Accordingly, we continue to have headroom significantly above the requirements of c.250bps in the CET1 capital ratio, c.270bps in the tier 1 capital ratio and c.230bps in the total capital ratio.

The leverage ratio, which is a transparent measure of capital strength not affected by risk weightings, decreased to 11.7% (31 July 2024: 12.7%), largely reflecting the provision taken in relation to motor finance commissions.

The group applies IFRS 9 regulatory transitional arrangements which allow banks to add back to their capital base a proportion of the IFRS 9 impairment charges during the transitional period. Our capital and leverage ratios are presented on a transitional basis after the application of these arrangements. On a fully loaded basis, without their application, the CET1, tier 1 and total capital ratios would be 12.1%, 14.0% and 16.0%, respectively and the leverage ratio would be 11.7%.

As outlined at the Full Year 2024 results, following our initial application to the PRA (in December 2020) to transition to the Internal Ratings Based ("IRB") approach, the application has successfully moved to Phase 2 of the process and engagement with the regulator continues. Our Motor Finance, Property Finance and Energy portfolios, where the use of models is most mature, were submitted with our initial application.

Liquidity and funding

The group continues to adopt a conservative stance on liquidity, ensuring it is comfortably above both internal risk appetite and regulatory requirements.

We regularly assess and stress test the group’s liquidity requirements and continue to meet the LCR regulatory requirements, with a 12-month average LCR to 31 January 2025 of 952.6% (2024: 1,034.0%). In addition to internal measures, we monitor funding risk based on the CRR rules for the NSFR. The four quarter average NSFR to 31 January 2025 was 140.1% (31 July 2024: 134.4%).

Close Brothers Limited

For liquidity and funding, the PRA supervises CBL on an individual basis, excluding all subsidiary undertakings. For capital and leverage, the PRA supervises CBL on an individual consolidation basis as permitted under CRR article 9. The individual consolidation group does not include all subsidiary undertakings and therefore differs to the accounting consolidation group under IFRS. Differences between the group and individual consolidations relate primarily to reserves held by entities that sit outside of the scope of individual consolidation but are included in the group consolidation, and the impact from the RWAs of these entities.

At 31 January 2025, CBL's CET1 capital ratio was 12.6% (31 July 2024: 13.2%). CET1 capital decreased to £1,233.9 million (31 July 2024: £1,326.4 million) largely reflecting the provision taken in relation to motor finance commissions, partly offset by profits in the year. RWAs decreased to £9,758.3 million (31 July 2024: £10,033.9 million) driven by a reduction in loan book RWAs.

Regulatory Developments

The PRA Policy Statement PS 9/24 Implementation of the Basel 3.1 standards near-final part 2 was published on 12 September 2024, with the majority of rules applicable to the group remaining unchanged, including the proposed removal of the small and medium-sized enterprises (“SME”) supporting factor, new conversion factor for cancellable facilities and new market and operational risk rules. Following a PRA announcement in January 2025, the implementation of the final regulations has been further postponed to 1 January 2027. We continue to expect implementation to result in an increase of up to c.10% in the group’s RWAs calculated under the standardised approach. However, the PRA has proposed to apply an SME lending adjustment as part of Pillar 2a, to ensure that the removal of the SME support factor does not result in an increase in overall capital requirements for SME lending. Whilst this adjustment is subject to PRA confirmation and a resulting restatement of the group’s total capital requirements, we would reasonably expect the UK implementation of Basel 3.1 to have a less significant impact on the group’s capital headroom position than initially anticipated.

There are no planned increases in the UK or Ireland countercyclical buffer ("CCyB") rates at this time, and the rates remain at 2% and 1.5%, respectively. As such, the group’s countercyclical buffer remains at 1.9%.

Post balance-sheet events

On 28 February 2025, following the announcement on 19 September 2024 and the subsequent receipt of required regulatory approvals, the group successfully completed the sale of Close Brothers Asset Management to Oaktree Capital Management, L.P. The sale is expected to increase the group's CET1 capital ratio by approximately 120bps as at 31 January 2025 on a pro forma basis.

Pillar 3 Policy and approval

These disclosures have been prepared, verified and approved under the group's Pillar 3 and regulatory reporting standards, which set out the internal processes and controls to verify that the disclosures are appropriate and in compliance with the requirements set out in CRR.

Full disclosures are issued as a minimum on an annual basis, with key metrics disclosed on a semi-annual basis, as the group meets the requirements of CRR article 433c and article 447. The group's interim Pillar 3 disclosures are published on the group’s website and are unaudited. The disclosures have been subject to senior first line and second line review, prior to review and endorsement by the Capital Adequacy Committee and the Group Asset and Liability Committee as appropriate. Approval was given by the CBG board on 17 March 2025.

"I attest that, to the best of my knowledge, these disclosures have been prepared in accordance with the group's formal policies and internal processes, systems and controls".

Fiona McCarthy, Group Chief Finance Officer

Annex I: Key metrics and overview of risk-weighted exposure amounts

UK KM1 – Key metrics

The table below provides a summary of the main prudential regulation ratios and measures for the group and for CBL on an individual basis.

		Group			Individual[1]		
		a[2]	c	e	a[2]	c	e
£m		**31 Jan 2025**	31 Jul 2024	31 Jan 2024	**31 Jan 2025**	31 Jul 2024	31 Jan 2024
	Available own funds (amounts)						
1	Common equity tier 1 ("CET1") capital	**1,257.3**	1,374.8	1,353.0	**1,233.9**	1,326.4	1,213.7
2	Tier 1 capital	**1,457.3**	1,574.8	1,553.0	**1,433.9**	1,526.4	1,413.7
3	Total capital	**1,657.3**	1,774.8	1,753.0	**1,633.9**	1,726.4	1,613.7
	Risk-weighted exposure amounts						
4	Total risk-weighted exposure amount	**10,340.8**	10,701.2	10,380.2	**9,758.3**	10,033.9	9,678.4
	Capital ratios (as a percentage of risk-weighted exposure amount)						
5	Common equity tier 1 ratio (%)	**12.2**	12.8	13.0	**12.6**	13.2	12.5
6	Tier 1 ratio (%)	**14.1**	14.7	15.0	**14.7**	15.2	14.6
7	Total capital ratio (%)	**16.0**	16.6	16.9	**16.7**	17.2	16.7
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)[3]						
UK 7a	Additional CET1 SREP requirements (%)	**0.7**	0.7	0.6	**1.0**	1.0	0.8
UK 7b	Additional AT1 SREP requirements (%)	**0.2**	0.2	0.2	**0.3**	0.3	0.3
UK 7c	Additional T2 SREP requirements (%)	**0.3**	0.3	0.3	**0.4**	0.4	0.3
UK 7d	Total SREP own funds requirements (%)	**9.3**	9.3	9.0	**9.8**	9.8	9.4
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)						
8	Capital conservation buffer (%)	**2.5**	2.5	2.5	**2.5**	2.5	2.5
9	Institution specific countercyclical capital buffer (%)	**1.9**	1.9	1.9	**1.9**	1.9	1.9
11	Combined buffer requirement (%)	**4.4**	4.4	4.4	**4.4**	4.4	4.4
UK 11a	Overall capital requirements (%)	**13.7**	13.7	13.4	**14.2**	14.2	13.8
12	CET1 available after meeting total SREP own funds requirements (%)	**6.8**	7.3	7.9	**7.0**	7.4	7.3
	Leverage ratio[4]						
13	Total exposure measure excluding claims on central banks	**12,407.8**	12,354.5	12,249.7	**10,994.9**	11,399.2	11,116.5
14	Leverage ratio excluding claims on central banks (%)	**11.7**	12.7	12.7	**13.0**	13.4	12.7

		Group			Individual[1]		
		a[2]	c	e	a[2]	c	e
	£m	**31 Jan 2025**	31 Jul 2024	31 Jan 2024	**31 Jan 2025**	31 Jul 2024	31 Jan 2024
	Liquidity coverage ratio[5]						
15	Total high-quality liquid assets ("HQLA") (Weighted value - average)	**2,253.9**	2,196.0	2,120.9	**2,266.7**	2,197.8	2,120.9
UK 16a	Cash outflows - Total weighted value	**946.4**	849.5	777.7	**957.1**	945.2	881.7
UK 16b	Cash inflows - Total weighted value	**1,273.8**	1,356.8	1,327.6	**2,085.4**	2,206.1	2,197.6
16	Total net cash outflows (adjusted value)	**236.6**	212.4	194.4	**239.3**	236.3	220.4
17	Liquidity coverage ratio (%)	**952.6**	1,034.0	1,090.8	**947.3**	930.1	962.2
	Net stable funding ratio[6]						
18	Total available stable funding	**10,915.1**	10,622.8	10,110.9	**10,404.9**	10,139.2	9,709.0
19	Total required stable funding	**7,788.4**	7,903.6	7,726.6	**6,648.1**	6,839.1	6,726.5
20	Net stable funding ratio (%)	**140.1**	134.4	130.8	**156.5**	148.3	144.3

1 For capital and leverage, the PRA supervises CBL on an individual consolidation basis as permitted under CRR article 9. For liquidity and funding, the PRA supervises CBL on an individual basis, excluding all subsidiary undertakings.
2 Columns b and d have been removed as the group is only required to disclose information on a semi-annual basis.
3 SREP requirements presented are as at the period end.
4 Rows 14a-14e have been removed as only LREQ firms are required to disclose this information.
5 Figures presented are for the 12 month average to the period end.
6 Figures presented are for the four quarter average to the period end.

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