



BREWIN DOLPHIN

PILLAR 3  
DISCLOSURES

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# **Brewin Dolphin Limited and Brewin Dolphin Holdings PLC (the “Group”)**

## **Pillar 3 Disclosures As at 28 September 2008**

### **1. Introduction**

This is the first Pillar 3 disclosure made in accordance with the UK Financial Services Authority (“FSA”) Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”) which is required to be made on an annual basis.

Information required under Pillar 3 can also be found in the following places in the Groups’ Annual Report and Accounts 2008.

- Operating and Financial Review
- Directors’ Report
- Corporate Governance Report
- Note 25 of the Notes to the Financial Statements

The Group is subject to consolidated supervision by the FSA.

Brewin Dolphin Limited (“BDL”) is the only regulated entity within the Group and is its principal operating company. All other companies within the Group are dormant save for one subsidiary (Brewin Dolphin MP) where the profit/(loss) is immaterial.

#### *Verification*

The disclosures are only subject to external verification to the extent that they have been made in the Groups Annual Report and Accounts for the 52 week period ended 28 September 2008, a copy of which is available on the Group’s website at [www.brewin.co.uk](http://www.brewin.co.uk).

#### *Consolidation group*

For both accounting purposes and prudential purposes the consolidation group contains the same companies. There is no material difference between the capital resources and capital requirements for the Group and the FSA regulated entity Brewin Dolphin Limited. All figures contained within this disclosure are for the 52 week financial reporting period ended 28 September 2008.

## 2. Risk Management Objectives and Policies <sup>1</sup>

### *Overview*

The Group has exposure to the following risks from its use of financial instruments:

- market risk;
- credit risk;
- liquidity risk; and
- operational risk.

This note presents information about the Group's exposure to each of the above risks, the Group's policy and processes for measuring and managing risk and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors have overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management considers the major areas of market risk, credit risk, liquidity risk and operational risk. The Board determines the risk appetite and is responsible for the implementation of a risk management framework that recognises the risks faced by the Group. Authority flows from the Board to the Risk Management Committee ("RMC") and from there to specific committees which are integral to the management of risk.

Brewin Dolphin's activities involve the measurement, evaluation, acceptance and management of some degree of risk, or combination of risks. The Board has set a low risk appetite whilst recognising the inevitable risk of being exposed to adverse movements in the stock market.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its role by Internal Audit. The Audit Committee's key role in risk management is the assessment of controls that are in place to mitigate risk and the review of the Risk Management Schedule bi-annually which is prepared by the RMC.

<sup>1</sup> Extract of Note 25 from the Notes to the Financial Statements of the Groups' Annual Report and Accounts 2008.

### 3. Capital resources

#### 3.1. Pillar 1 Capital

##### 3.1.1. Tier 1 Capital

The vast majority of Tier 1 capital comprises share capital which consists of ordinary shares which were issued at a premium. Shares to be issued are included in Tier 1 capital where the recording of the liability results in goodwill. Goodwill on the acquisition of businesses and teams has been deducted in arriving at Tier 1 capital.

Tier 1 capital is made up as follows:

	BDL £'000	Group £'000
Ordinary share capital	18,325	2,080
Share premium account	94,028	90,145
Retained earnings*	3,112	23,625
Merger reserve	-	4,562
Shares to be issued	25,179	25,179
Total tier 1 capital before deductions	140,644	145,591
Less: deductions from tier 1 capital		
Intangible assets - goodwill	(83,913)	(93,023)
<b>Total tier 1 capital</b>	<b>56,731</b>	<b>52,568</b>

\* includes adjustment for defined pension benefit liability in accordance with the FSA rules.

##### 3.1.2. Tier 2 Capital

Tier 2 capital comprises of the available-for-sale revaluation reserve which arises primarily from the investment held in Euroclear plc. A deduction is made from Tier 1 and Tier 2 capital in respect of the value of the holding in Euroclear plc which is treated as a material holding and its value limited to 10% of capital resources prior to the deduction of material holdings, the excess value is deducted as a material holding.

Tier 2 capital is made up as follows:

	BDL £'000	Group £'000
Revaluation reserve	3,236	6,898
Deductions	-	-
	<u>3,236</u>	<u>6,898</u>
Tier 1 plus tier 2 capital resources	59,967	59,466
Deduction - material holdings	(4,003)	(4,053)
Total capital before deductions	55,964	55,413
Deductions from total capital	(618)	(618)
<b>Total capital resource after deductions</b>	<b>55,346</b>	<b>54,795</b>

#### 4. Pillar 2 Capital

A summary of the Group's approach to assessing the adequacy of its internal capital resources to support both its current and future activities is included in 5.1 below and referred to in the Operating and Financial Review, Directors' Report and the Corporate Governance Report in the Group's Annual Report and Accounts 2008.

	BDL £'000	Group £'000
Pillar 2 capital requirement	2,130	2,130

Following the most recent Internal Capital Adequacy Assessment, the Directors considered that additional capital of £2.1 million after tax should be retained in respect of Pillar 2 capital to cover the risk of abnormal losses, based on the largest loss within the last ten years and to guard against slow recovery of monies from insurers on significant claims.

## 5. Compliance with BIPRU 3, BIPRU 4, BIPRU 6, BIPRU 7, BIPRU 10

### 5.1. Capital management <sup>2</sup>

The Group has an Internal Capital Adequacy Assessment Process (“ICAAP”), as required by the Financial Services Authority (“FSA”) for establishing the amount of regulatory capital to be held by the Group; Brewin Dolphin Limited (“BDL”) is the only regulated entity within the Group.

The ICAAP draws on the Group’s Annual Corporate Risk Review which is based on bi-annual risk assessments. It gives consideration to both current and projected financial and capital positions. The ICAAP is updated throughout the year to take account of the bi-annual risk assessments and for any significant changes to business plans and any unexpected issues that may occur. The ICAAP is discussed and approved at a Brewin Dolphin Holdings Board meeting at least annually.

Capital adequacy is monitored daily by management. The Group uses the simplified approach to Credit Risk and the standardised approach for Operational Risk to calculate Pillar 1 requirements. The Group observed the FSA’s regulatory requirements throughout the period.

### 5.2. Standardised Credit Risk – BIPRU 3

The Group uses the simplified standardised method of calculating risk weighted exposure.

The Group’s Credit Risk Capital Requirement is as follows:

	BDL £’000	Group £’000
Credit risk capital requirement	6,293	6,584

All business is conducted in the UK and transactions are executed on a delivery versus payment (“DVP”) basis or current settlement basis, hence no residual maturity analysis is presented. The Group conducts its trading on a matched principal or an agency business basis for the great majority, and takes an insignificant level of principal exposure. Therefore, the Group’s Credit Risk Capital Requirement is largely based upon its cash and current debtor balances.

Credit risk refers to the risk that a client or other counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group’s exposure to credit risk arises principally from the settlement of client and market transactions and cash deposited at banks. The Group uses the simplified approach to calculate credit risk as defined by the FSA. The aim of the Group’s approach to credit risk management is to minimise the risk as far as possible.

<sup>2</sup> Extract of Note 25 from the Notes to the Financial Statements of the Groups’ Annual Report and Accounts 2008.

The Group undertakes traded options as part of its service to clients, this is an insignificant part of the Group's business. This business is transacted as principal as per the LIFFE rules, all such transactions are always on a matched basis, clients are required to pledge collateral if they hold option positions, which are monitored on a daily basis.

Maximum exposure

The maximum exposure to credit risk at the end of the reporting period is equal to the balance sheet figure.

Credit exposure

Credit exposure in relation to both client and market transactions is monitored daily. The Group's exposure to large trades is limited with an average bargain size of £35,000; there are additional controls for high value trades.

Impaired assets

The total gross amount of individually impaired assets in relation to trade receivables at the period end was £1,169,500 (2007:£1,202,000). Collateral valued at fair value by the Group in relation to these impaired assets was £34,500 (2007:£2,000). The net difference has been provided as a doubtful debt (see note 19 of the Notes to the Financial Statements to the Groups' Annual Report and Accounts 2008.).

Past due items

Trade debtors relate to either market or client transactions and are considered to be past due once the date for settlement has passed. The date for settlement is determined when the trade is booked. It is expected that some transactions may become past due in the normal course of business. Fees owed by clients are considered to be past due when they remain unpaid after 30 days after the relevant billing date. The maximum exposure to credit risk is the carrying value as above.

Ageing of past due but not impaired trade debtors	£'000
Not past due	239,299
Up to 15 days past due	8,016
16 to 30 days past due	746
31 to 45 days past due	685
More than 45 days past due	853
	<u>249,599</u>

Credit quality

Financial assets that are neither past due nor impaired in respect of trade receivables relate mainly to bonds, equity and gilt trades quoted on a recognised exchange, are matched in the market, and are either traded on a cash against documents basis or against a client's portfolio in respect of which any one trade would normally be a small percentage of the client's collateral held in the Group nominee. At the period end no financial assets that would otherwise be past due or impaired had been renegotiated.

Loans to employees are repayable over 5 to 10 years and are secured against the employees' shareholdings in the Company (see note 19 of the Notes to the Financial Statements to the Groups' Annual Report and Accounts 2008.).

The credit risk on liquid funds, cash and cash equivalents is limited due to deposits being held at three major banks with minimum credit rating of "A", assigned by international credit rating agencies. Deposits are managed by the Treasury Department and are reviewed regularly by the Management Committee.

The Group carries out at least an annual review of all its banks' and custodians' credit ratings.

There has been no change to the Group's exposure to credit risk or the manner in which it manages and measures the risk during the period.

Under the terms and conditions for the Group's retail clients, the Group reserves the right to sell or realise any investment which it holds (or is entitled to receive) on behalf of the client in order to meet any liabilities which the client may have incurred with the Group.

### 5.3. Operational risk – BIPRU 6

Operational risk is the risk of loss resulting from inadequate or failed internal processes whether due to internal, people and systems risks or from external events, including legal and financial crime risk but does not include strategic, reputation and business risk.

The objective of the Group's approach to operational risk management is to both control and manage the risk in a cost effective manner consistent with the Group's risk appetite. Operational risk is monitored and reported via specific committees that report into the Risk Management Committee.

The Group uses the standardised approach for the calculation of the Operational Risk Capital Requirement ("ORCR") which is considered to be the most suitable for the business as there are several distinct income streams. The ORCR is calculated by mapping the Group's three year average net income into the following business lines Investment Management which can be divided into retail brokerage and asset management and Investment Banking which can be divided into corporate finance and trading and sales.

Based on this approach the Group's Operational Risk Capital Requirement based on average net income for the three year period to September 2007 and applicable until November 2008 was:

	BDL £'m	Group £'m
Operational risk capital requirement	23.1	23.1

From December 2008, the Operational Risk Capital Requirement based on average net income for the three year period to September 2008 and applicable from then is £ 25.7 million.

### 5.4. Market risk – BIPRU 7

Market risk is the risk that changes in market prices, including foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of the Group's market risk management is to both control and manage our exposure within the Group's risk appetite whilst accepting the inherent risk of market fluctuations.

The Group acts as an Investment Manager and agency stockbroker within the UK; all trades are matched in the market.

The Group undertakes only limited principal trading on its own behalf; a maximum gross position of £2 million has been set as a limit by the Board. No single trade or accumulative position in any one stock can be in excess of £0.5 million. A hurdle stop loss price is operated in which the stop loss is set at a fixed percentage below the market price. This sets a limit on the maximum possible loss, as the stop loss will be triggered if the market price drops below the level set, resulting in the stock being sold. Conversely, where the market

price rises the stop loss price will rise proportionately, to set a new stop loss price, thus protecting any profits. The stop loss position is monitored on average three times a day and is recalculated when necessary. Principal trading positions are monitored daily by the Risk Management Department and closing positions are reported to management. Any breaches of limits are notified immediately to management, as are stop losses, which are enforced. The Group deals in foreign currencies on a matched basis on behalf of clients, limiting foreign exchange exposure. The total net foreign exchange exposure at the year end was £342,000 (2007: £273,000).

The Group does not hold any derivatives.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk during the period.

#### 5.4.1. Equity Position Risk Requirement ("PRR")

The Group is subject to the following minimum capital requirement in respect of its trading-book business.

The Group uses the simplified equity method for the calculation of equity PRR with the net position in any single equity multiplied by appropriate PRA (Position Risk Adjustment) which is generally 12%.

Based on this approach the Group's equity PRR is as follows:

	BDL £'000	Group £'000
Equity PRR	67	67

#### 5.4.2. Foreign exchange PRR

The Group is subject to the following minimum capital requirement in respect of all its business activities.

The foreign exchange position risk requirement is calculated by calculating the net open position in each currency and converting the net position into the Groups base currency at current spot rates and calculating the total of all short net positions and the total of all long net positions, selecting the larger total (i.e. short or long) and multiplying by 8%.

Based on this approach the Group's foreign exchange PRR is as follows:

	BDL £'000	Group £'000
Foreign exchange PRR	30	30

#### 5.5. Concentration risk – BIPRU 10

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and clients and with collateral held, in the main, in Group nominee companies which helps to mitigate credit risk. The collateral held consists of equity and gilts quoted on recognised exchanges plus cash.

## 5.6. Other information

### 5.6.1. Interest rate risk in the non-trading book

The Group is exposed to interest rate risk; this arises because the interest rate paid to its clients on their deposits is linked to the base rate. The Group holds client deposits on both fixed rate short term deposit and on demand. At the period end, £250 million was held on 45 day terms, with the balance of client monies held on demand or repayable within 15 days. At the end of the period a 1% increase in base rate would increase profitability by £200,000 (2007: decrease profitability by £500,000).

### 5.6.2. Equity price risk

The Group is exposed to equity risk arising from its available-for-sale investments and those held-for-trading. Equity investments designated as available-for-sale are held for strategic purposes rather than trading purposes and the Group does not actively trade in these investments.

#### *Equity price sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date.

If equity prices had been 5% higher/lower:

- profit for the 52 week period ended 28 September 2008 would have been £37,000/£52,000 higher/lower (2007: £33,000 higher/lower) due to change in the value of held-for-trading investments and available-for-sale investments; and
- other equity reserves as at 28 September 2008 would increase by £531,000 / decrease by £516,000 (2007: increase/decrease by £576,000) for the Group as a result of the changes in fair value of available-for-sale investments.

The Group's sensitivity to equity prices has not changed significantly from the prior period.

### 5.6.3. Liquidity risk

Liquidity risk refers to risk that the Group will be unable to meet its financial obligations as they fall due. The group maintains adequate cash resources to meet its financial obligations at all times. All client cash deposits are repayable on demand. At 28 September 2008, the Group had access to an overdraft facility of £15 million (2007: £25 million).

As the Group normally deals with the market on cash against document basis, liquidity risk is monitored by daily exception reports of unmatched items past settlement date and managed by the Treasury Department and Credit Control Department, reports are reviewed regularly by the Management Committee.

There has been no change to the Group's exposure to liquidity risk or the manner in which it manages and measures the risk during the period.

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Brewin Dolphin Limited is a member of the London Stock Exchange, authorised and regulated by the Financial Services Authority No. 124444. Registered Office: 12 Smithfield Street, London EC1A 9BD. Registered in England and Wales No. 2135876.

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