



BREWIN DOLPHIN
HOLDINGS PLC

PILLAR 3 DISCLOSURES 2011

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Brewin Dolphin Holdings PLC (the “Group”)

Pillar 3 Disclosures As at 30 September 2011

1. Introduction

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

The Group is subject to consolidated supervision by the FSA.

The Group has two regulated entities:

- Brewin Dolphin Limited (“BDL”) the Group’s principal operating company, regulated by the FSA. It is a BIPRU €125K Limited Licence Firm.
- Tilman Brewin Dolphin Limited, regulated by the Central Bank of Ireland

All other companies within the Group are dormant save for one subsidiary (Brewin Dolphin MP) where the profit/(loss) is immaterial.

The Group is a Limited Licence Group.

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 53 week period ended 30 September 2011, a copy of which is available on the Group’s website at www.brewin.co.uk¹.

Consolidation group

For both accounting purposes and prudential purposes the consolidation group contains the same companies.

All figures contained within this disclosure are for the 53 week financial reporting period ended 30 September 2011.

¹ The Group’s Annual Report and Accounts 2011 will be published by 31 December 2011.

2. Risk Management Objectives and Policies

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.

The Board of Directors have overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's Risk Management Committee 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.

The Groups' Annual Report and Accounts 2011² contains:

- a summary of major financial and non financial risks and key mitigators in the Business Review.
- Information on Internal Control and Risk Management in the Corporate Governance section.

² The Group's Annual Report and Accounts 2011 will be published by 31 December 2011.

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 a matching Intangible Asset.

Tier 1 capital is made up as follows:

	BDL £'000	Group £'000
Ordinary share capital	18,851	2,405
Share premium account	70,873	116,028
Own shares	-	(10,686)
Retained earnings	30,775	19,970
Merger reserve	-	22,950
Shares to be issued	25,064	29,381
Total tier 1 capital before deductions	145,563	180,048
Less:deductions from tier 1 capital		
Intangible assets	(71,016)	(115,805)
Total tier 1 capital	74,547	64,243

3.1.2. Tier 2 Capital

Tier 2 capital for the Group comprises of the available-for-sale revaluation reserve which arises from the investment held in Euroclear plc.

Tier 2 capital is made up as follows:

	BDL £'000	Group £'000
Revaluation reserve	-	4,118
Deductions	-	-
	<u>-</u>	<u>4,118</u>
Tier 1 plus tier 2 capital resources	74,547	68,361
Deductions from total capital	(284)	(284)
Total capital resource after deductions	74,263	68,077

4. Pillar 1 Requirement

As a BIPRU 125K Limited Licence Group, the variable capital requirement is:

the higher of (1) and (2):

- (1) the sum of:
 - (a) the Credit Risk Capital Requirement; and
 - (b) the Market Risk Capital Requirement; and
- (2) the Fixed Overheads Requirement ("FOR")

The requirement for the Group is the Fixed Overheads Requirement. For the year ended 30 September 2011 the amount required to be held by the Group was £34.1 million (BDL: £33.6m).

5. 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 6.1.

6. Compliance with BIPRU 3, BIPRU 4, BIPRU 7

6.1. Capital management ³

The capital structure of the Group and Company consists of issued share capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity⁴.

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; There are two regulated entities in the Group; Brewin Dolphin Limited (“BDL”) regulated by the FSA and Tilman Brewin Dolphin Limited regulated by the Central Bank of Ireland.

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 PLC Board meeting at least annually.

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

There were no changes in the Group’s approach for capital management during the period.

³ Extract of Note 26 from the Notes to the Financial Statements of the Groups’ Annual Report and Accounts 2011.

⁴The Group’s Annual Report and Accounts 2011 will be published by 31 December 2011.

6.2. 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:

	Group £'000
Credit Risk Capital Requirement	7,142

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 does not have any long term exposures. The Group conducts its trading on an agency business basis for the great majority. Therefore, the Group's Credit Risk Capital Requirement is largely based upon its cash and current debtor balances: See Appendix 1.

The Group uses the CCR mark to market method to measure counterparty credit risk exposure. The Counterparty Risk Capital Component requirement is included within the Credit Risk Capital Requirement above.

Analysis of credit risk capital requirement (£'000):

	Group £'000
Institutions	1,032
Other*	5,748
Total credit risk capital component	6,780
Counterparty risk capital component	363
Total credit risk capital requirement	7,142

**Other includes tangible fixed assets, prepayments and accrued income, deferred tax asset, loans to employees, available-for-sale investments and other debtors.*

Analysis of total exposures by exposure class:

	Group £'000
Institutions	64,469
Other*	71,851
Total exposure	136,320

Analysis of total exposure class by geographical distribution:

	UK £'000	Republic of Ireland £'000	Group £'000
Institutions	62,802	1,667	64,469
Other*	70,795	1,056	71,851
Total exposure	133,597	2,723	136,320

Credit risk⁵

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.

Exposure to credit risk is 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. The Group has no significant concentration of credit risk with the exception of cash where the majority is spread across three major banks (see credit quality).

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.

Credit exposure⁵

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 in the current period of £13,500; there are additional controls for high value trades.

Impaired assets⁵

The total gross amount of individually impaired assets in relation to trade receivables at the period end was £1,132,000 (2010: £908,000). Collateral valued at fair value by the Group in relation to these impaired assets was £112,000 (2010: £137,000). This collateral is stock held in the clients' account which per our client terms and conditions can be sold to meet any unpaid liabilities falling due. The net difference has been provided as a doubtful debt (see note 20 of the Notes to the Financial Statements to the Groups' Annual Report and Accounts 2011).

⁵ Extract of Note 26 from the Notes to the Financial Statements of the Groups' Annual Report and Accounts 2011.

Past due items⁶

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.

Ageing of past due but not impaired trade debtors	£'000
Not past due	190,793
Up to 15 days past due	2,153
16 to 30 days past due	247
31 to 45 days past due	663
More than 45 days past due	946
	<u>194,802</u>
Individually impaired trade debtors	
Individually impaired trade debtors	1,133
Provision for doubtful debts	<u>(1,021)</u>
	<u>112</u>
Trade debtors	<u>194,914</u>
Movements in provision for doubtful debts	
At start of period	771
Net addition to the income statement	<u>250</u>
At end of period	<u>1,021</u>

Credit quality⁷

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 20 of the Notes to the Financial Statements to the Groups' Annual Report and Accounts 2011).

The credit risk on liquid funds, cash and cash equivalents is limited due to deposits being held at three major banks with minimum credit ratings 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.

⁶ Extract of Note 20 from the Notes to the Financial Statements of the Groups' Annual Report and Accounts 2011.

⁷ Extract of Note 26 from the Notes to the Financial Statements of the Groups' Annual Report and Accounts 2011.

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. Collateral is marked to market on a daily basis.

6.3. Market risk⁸ – BIPRU 7

Market risk is the risk that changes in market prices, such as 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 and Republic of Ireland; all trades are matched in the market.

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 a creditor of £13,000.

The Group does not hold any derivatives.

At the period end Tilman Brewin Dolphin Limited had net assets of £3.4m denominated in their local currency (Euros).

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.

6.3.1. 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: -

	Group £'000
Foreign exchange PRR	50

⁸ Extract of Note 26 from the Notes to the Financial Statements of the Groups' Annual Report and Accounts 2011.

6.4. Other information⁹

6.4.1. Interest rate risk in the non-trading book

The Group is exposed to interest rate risk in respect of the Group's cash and in respect of client deposits. The latter arises because the interest rate paid to its clients on their deposits is linked to the base rate. The Group holds client deposits on demand (variable interest rate) and in 95 day notice accounts (interest rate marked to market monthly). At the end of the period a 1% increase in base rate would increase profitability by £328,000 (2010: £314,000).

6.4.2. Non-trading book exposures in equities

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.

	Listed Investments £'000	Unlisted Investments £'000
Balance sheet and fair value	87	6,000
Unrealised (losses)/gains	(522)	4,062
Impairment recognised in the income statement in the period.	27	-

6.4.3. 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 30 September 2011, the Group had access to an overdraft facility of £15 million (2010: £15 million).

The Group has a Liquidity Policy which is reviewed by the Board annually. 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.

⁹ Extract of Note 26 from the Notes to the Financial Statements of the Groups' Annual Report and Accounts 2011.

6.4.4. Operational risk

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 results of its annual risk management and control review process for risk management and Pillar 2 purposes.

7. Remuneration code (“Code”)

The Brewin Dolphin Holdings Group (the “Group”/”BDH”) and Brewin Dolphin Limited (“BDL”) have the following policies and practices for those staff whose professional activities have a material impact on the Group’s risk profile (Code Staff). The Code Staff of BDH and BDL are considered to be the same and are all employees of BDL, BDH has no employees. The Group is categorised as Tier 4 under the Remuneration Code.

7.1. Decision making process for determining remuneration policy, link between pay and performance.

The Remuneration Committee (“RC”) determines the remuneration policy for Code Staff. The RC is governed by formal terms of reference agreed by the Board of BDH. The terms of reference were reviewed during 2011 to ensure they continued to accurately reflect the remit of the committee. The terms of reference of the RC can be viewed on the Company’s website, together with Committee membership. The RC is mindful of its duties to all stakeholders.

The RC consists solely of Independent Non-Executive Directors.

During 2011, the RC met five times and a number of issues were considered and discussed, including but not limited to salary level review of the BDH Executive Directors, profit share payable for the 2011 period and the parameters for determining future executive remuneration. As part of this process the remuneration of all Code Staff was reviewed.

Advice was sought from external consultants Hewitt New Bridge Street (“consultants”). The consultants selected are independent and have no other connection with the Company. The advice was taken to ensure that the Board’s remuneration complied with the FSA Remuneration Code and the mix of remuneration between fixed and variable elements was competitive.

7.2. Policy on Remuneration of Executive Code Staff

The remuneration of all but four Executive Code staff has been to date by reference to the performance of the Group and the Code Staffs’ contribution to enhancing future growth. As a result of a review commissioned by the Group and undertaken by external consultants it was determined that, while the overall remuneration of the Group was comparable with its peers, the split between fixed remuneration and variable remuneration was out of line, which could make future recruitment difficult, and in the case of the Head of Regulation and Risk was not in the spirit of the Remuneration Code though allowed under proportionality rules. This rebalancing was done on the basis that overall remuneration would not be increased from 2010 levels if profits remained at those levels. In addition, individual targets have been introduced for each Executive Director of BDH for 2012 against which they will be judged.

These provisions do not apply to four Code Staff who are paid on the results of their own profit centres on a strict formula in line with other investment managers within the Group. These staff will continue to be rewarded on this basis. It should be noted that Individual team profitability is largely dependant on quarterly fee income generated from the value of client portfolios and not on one off transactions.

To enforce the long term element of remuneration, in common with all other employees of the Group, under the Deferred Profit Share Plan (DPSP), one third of Code Staffs’ profit share, above £50,000, had to be paid in deferred shares. The compulsory one third element of the deferred scheme is subject to forfeiture on a “bad leaver” basis for a three year period.

7.3. Policy on Non-Executive Code Staff Remuneration

All Non-Executive Directors serve under three year letters of appointment and either party can terminate on one month's written notice or in accordance with the Articles of Association. Their remuneration is determined by the BDH Board within the limits set by the Articles of Association and is based on information on fees paid by similar companies and the skills and expected time commitment of the individual concerned. The Non-Executive Directors do not have any right to compensation on the early termination of their appointment. In addition to the basic fees, fees for additional committee chairmanship duties, and to the Senior Independent Director, are paid, to reflect the extra responsibilities attached to these roles. The Non-Executive Directors do not participate in any of the Group's incentive scheme or share schemes. Nor do they receive any other benefits.

7.4. Other

No Code Staff received options in 2011 other than under the DPSP. There are no risk adjustments made to Code Staff profit share as the Group does not trade on its own account and individual fund managers profit share is based largely on fee income dependant on the value of clients portfolios.

The Group qualifies under tier 4 to take advantage of the proportionality provisions of the Code.

7.5. Required statistics under the Code

The aggregate remuneration for the Group was as follows:

	Investment Management	Corporate Advisory and Broking	Group
	£'000	£'000	£'000
Salaries	90,676	6,022	96,698
Profit share	35,780	246	36,026
Total	<u>126,456</u>	<u>6,268</u>	<u>132,724</u>

There were 22 Code Staff all of whom served through out the year. Code Staff were considered by the BDH Board to be limited to current Directors of BDH and BDL, in the year to 30 September 2011, their remuneration was as follows:

	£'000	£'000
Fixed remuneration		2,844
Variable remuneration paid in cash or pension	2,558	
Variable remuneration paid under the DPSP	<u>886</u>	
		<u>3,444</u>
		<u>6,288</u>

The variable remuneration paid in notional shares under the DPSP will vest in December 2014. No deferred remuneration vested during the year.

No deferred remuneration paid during the year was paid out or reduced through performance adjustments, neither were there sign on fees or severance payments paid out to Code Staff.

Issued 30 December 2011

Appendix 1

Group	Balance sheet	Excluded from Credit Risk	Credit risk exposures	Analysis of credit risk exposures by risk weighting		
				20%	100%	Total
Reconciliation of Report and accounts to credit risk exposures (£'000):						
Intangible assets	115,805	(115,805)	0			0
Property, plant and equipment	15,869		15,869		15,869	15,869
Available-for-sale investments	6,087		6,087		6,087	6,087
Trading investments	744		744		744	744
Trade debtors	194,914	(194,635)	279		279	279
Other receivables	2,377		2,377		2,377	2,377
Other debtors	2,501		2,501		2,501	2,501
Deferred tax asset	559		559		559	559
Prepayments and accrued income	45,077	(1,642)	43,435		43,435	43,435
Client settlement cash	21,233	(21,233)	0		0	0
Firm's cash	64,469		64,469	64,469		64,469
Total assets	469,635	(333,315)	136,320	64,469	71,851	136,320
Total risk-weighted assets				12,894	71,851	84,745
Total credit risk capital requirement (at 8%)				1,032	5,748	6,780