Sucden Financial Limited

Capital Requirements Directive Pillar 3 Disclosure 2019

Contents

1 OVERVIEW

1.1 Background

The European Union Capital Requirements Directive came into effect on the 1st January 2007, introducing consistent adequate capital adequacy standards in the EU based on the Basel II rules. Implementation of the Directive in the UK was by way of rules introduced by the Financial Conduct Authority. Among them are disclosure requirements applicable to banks, building societies and investment firms, which are known as Pillar 3. These aim to complement the minimum capital requirements described under Pillar 1 of Basel II, as well as the supervisory review processes of Pillar 2. These Pillars of regulatory capital management can be summarised as follows:

- Pillar 1: minimum capital requirement as prescribed by the rules of the FCA.
- Pillar 2: is a supervisory assessment of the level of regulatory capital necessary to cover Pillar 1 risks and risks not included in Pillar 1. The company is required to carry out an Internal Capital Adequacy Assessment Process ('ICAAP') to assess the company's risks and how it intends to mitigate those risks and how much current and future capital is necessary having considered the mitigating factors.
- Pillar 3: is public disclosure of risk management framework and regulatory capital allocations.

1.2 Basis and Frequency of Disclosures

The Pillar 3 disclosures are produced at least annually. Unless otherwise stated, all figures are as at 31st December 2018, our financial year end. Future disclosures will be issued on an annual basis.

1.3 Location and Verification

These disclosures are published on the Company's corporate website. The Disclosures are not subject to external audit except where they are equivalent to those prepared under accounting requirements for inclusion in the Company's Financial Statements.

Sucden Financial

2 RISK MANAGEMENT OBJECTIVES AND POLICIES

The Board is responsible for setting and monitoring the Company's risk appetite and is responsible for oversight of the risk management function. The Company's objective is to have a comprehensive and timely control and disclosure of key risk measures and exposures with daily reports being made available to senior management. Senior management participates in the risk management process through a monthly Risk Committee and a weekly Credit Committee.

The Company employs a variety of risk management tools including a policy of limit control and exception reporting for both the proprietary and client positions.

There have been no significant changes in the objectives, policies and processes for managing risk since the previous year.

3 CAPITAL RESOURCES

The Company's objectives for managing capital are as follows:

- to comply with the capital requirements set by the financial market regulators to which the Company is subject;
- to ensure the Company is able to operate as a going concern and satisfy any minimum externally imposed capital requirements; and
- to ensure that the Company maintains a strong capital base to support the development of its business.

The Company's capital adequacy position is managed and monitored in accordance with the prudential requirements of the EU Capital Requirements Directive (CRD IV). The Company must at all times meet the relevant minimum capital requirements of the Directive. The Company is required to maintain a prescribed excess of total capital resources over its capital resources requirements. For this purpose the Company calculates capital charges for market risk on its portfolio. The Company has established processes and controls in place to monitor and manage its capital adequacy position. The Company maintains an ICAAP which is updated quarterly. There have been no changes in the capital management policy since the previous year.

The regulatory capital position in terms of CRD IV requirements at 31 December was as follows:

Capital resources		
	2019	**2018**
	£	**£**
Share capital	**16,500,000**	**16,500,000**
Audited reserves	**104,475,845**	**75,193,185**
Revaluation reserve	**1,550,000**	**3,447,855**
Less intangible assets	**(1,550,211)**	**(3,449,739)**
Subordinated loan	**16,580,811**	**17,243,322**
Less deferred tax asset	**(1,717,192)**	**(1,542,459)**
Total capital	**135,839,253**	**107,392,164**

4 CAPITAL ADEQUACY

The Company calculates its Capital Resource Requirement using the IFPRU rules. Capital resources are comprised of share capital and reserves less intangible assets and subordinated loans. Capital requirements are derived from credit risk, operational risk, counterparty risk and market risk.

Summary of Regulatory capital 2019		
	2019	2018
	£ 000's	£ 000's
Capital Resources	141,377,184	122,661,798
Capital Requirements	90,600,315	46,117,621
Capital Surplus	50,776,869	76,544,177

The requirements are broken down as follows:		
	2019	2018
	£ 000's	£ 000's
Credit risk	15,102,190	19,574,320
Market risk	17,606,847	19,222,101
Operational risk	8,763,549	7,321,200
Pillar 2A	49,127,729	0
Total	90,600,315	46,117,621

The Company's capital adequacy position is managed and monitored in accordance with the prudential requirements of the Financial Conduct Authority "FCA", the UK regulator. The Company must at all times meet the relevant minimum capital requirements of the FCA.

Under the FCA's minimum capital standards, the Company is required to maintain a prescribed excess of total capital resources over its capital resources requirements. For this purpose the Company calculates capital charges for market risk on its portfolio as required by the FCA. The Company has established processes and controls in place to monitor and manage its capital adequacy position and no breaches were reported to the FCA during the year. The Company maintains an ICAAP which is updated annually unless there is a significant change.

5 CREDIT RISK

5.1 Cash

Cash balances are held with investment grade banks and limits are placed on the total holdings with these institutions. The Company regularly assesses the creditworthiness of these institutions to ensure there are no indicators that would challenge the credit worthiness.

5.2 Trading assets

Counterparty exposure is managed by a formal credit management policy, limit setting (both volume and credit limits for all accounts), exposure monitoring and exception reporting.

5.3 Credit risk mitigation

The Company uses industry standard documentation with netting clauses as appropriate. Where the Company has the requisite legal opinions on enforceability it nets exposures between individual contracts and collateral as appropriate.

Collateral in the form of liquid assets or bank guarantees are accepted by the Company as credit risk mitigates. The Company assesses each form of collateral and applies a haircut as appropriate. The main forms of collateral taken are FTSE 250 shares, bank guarantees or LME deliverable warrants.

Total collateral held as at 31 December:		
	2019	**2018**
	£	**£**
Liquid assets	**62,213,384**	**56,197,174**
Illiquid assets	**15,262,285**	**15,871,150**
Bank guarantees	**6,335,906**	**6,716,953**

All collateral is held by the Company in its original form until the debt has been repaid. The Company holds collateral and is permitted to sell in the event of default by the owner.

Exposures analysed below are gross of any collateral held.

5.4 Internal credit rating

The Company assigns internal credit ratings to each of its counterparties. These are set by the Company's Credit Committee which makes its assessment by looking at a combination of quantitative data based on three years' financial statements and qualitative factors including such things as ownership structure and management. Within each risk grade there are up to three sub-bands, representing the relative strength within the overall letter grade, with 1 being the strongest.

The table below shows an analysis of financial assets by internal credit grade, with a description of each grade, as at 31 December:

Risk Grade A		
Investment grade counterparties whose rating would be external rating agency (investment grade rating)		
A1	**544,868,523**	**471,363,442**
Risk Grade B		
Non-investment grade counterparties with strong ownership structures / management teams and a record of manageable leverage and financial debt.		
B1	**-**	**-**
B2	**405,431**	**29**
B3	**9,008,369**	**17,123,553**
Risk Grade C		
Non-investment grade counterparties, where there is no proven record or the industry is subject to volatile year on year trends.		
C1	**1,458,487**	**2,964,199**
C2	**1,175,943**	**1,286,716**
Risk Grade D		
Non-investment grade counterparties which operate in jurisdictions where audited accounts are not obligatory, or a subsidiary of a larger group that does not release its accounts.		
D	**5,334,844**	**12,978,163**
Risk Grade E		
A private individual or a company whose sole purpose is to act as an investment vehicle for a private individual.		
E	**7,597,009**	**5,095,786**
Total	**569,848,606**	**510,811,888**

5.5 Industry distribution of credit exposures

Analysis of financial assets by industry distribution as at 31 December:		
	2019	2018
	£	£
Banks	163,339,166	165,228,988
Investments	44,433,987	30,625,417
Clearing Houses	223,278,143	139,836,073
Regulated Brokers	121,576,428	150,590,170
Trading Companies	17,220,796	24,530,870
Other debtors	86	370
Total	569,848,606	510,811,888

5.6 Geographic distribution of credit exposures

Geographical analysis of financial assets as at 31 December:		
	2019	2018
	£	£
Europe	461,208,870	404,173,626
Asia	5,747,180	12,295,784
N America	88,499,698	88,735,691
S America	10,189,803	2,501,165
Africa	3,195,315	1,866,717
Middle East	1,007,740	1,238,905
Total	569,848,606	510,811,888

The above is based on the jurisdiction where the counterparty is physically located.

Financial assets that are past due but not impaired.

As at 31 December 2019 and 2018, there were no balances that were past due but not impaired in any class of the financial assets.

5.7 Impaired financial assets

As at 31 December 2019 and 2018, there were no balances that were impaired in any class of the financial assets except for trading assets.

Trading assets		
	2019	**2018**
	£	**£**
Balance past due as at 31 December (credit grade D)	**12,282,315**	**12,978,163**
Impairment loss (bad debt provision) (credit grade D)	**(9,965,911)**	**(10,665,856)**
	2,316,404	**2,312,307**

The Company is taking action to recover the debts outstanding and believes the debtors remain going concerns with sufficient resources to repay the debt, which are considered to be impaired as they are past their due date.

6 MARKET RISK

Market risk is the risk that changes in market prices will affect the company's income.
The company has the following types of market risks and uses a method in the FCA rules to calculate the capital charge:

- Commodity Position Risk Requirement - this forms the main element of the Company's market risk and is calculated using the extended maturity method.

- Interest rate position risk requirement and foreign currency position rate risk - the capital charge from these methods are always a small percentage of the requirement of the commodity position requirement.

7 LIQUIDITY RISK

The Company deems liquidity risk as the failure to have sufficient financial resources to meet its day to day capital and cash flow requirements.

To manage this risk the Company seeks to maintain sufficient liquid assets to meet its liabilities as they fall due. The majority of assets are both current and highly liquid and are represented by trading book positions valued at market price, counterparty balances and cash. The Company has contingency plans for short or long-term funding should the need arise.

In respect of client balances the company holds matched positions so liquidity risk is mitigated since the liability positions unwind at the same time as the asset positions.

8 OPERATIONAL RISK

The Company has adopted the basic indicator approach to operational risk. Operational risk represents the risk of loss arising from inadequate or failed internal processes, people and systems or from external events.

Sucden has a very low tolerance for operational risk. This assessment is based on the following criteria:

- Corporate Governance. The directors control the operation of the firm by holding frequent committee/senior management meetings (Executive Management Committee, Credit Committee, Risk Audit & Compliance Committee, Information Systems Steering Committee, Strategy Group and Back Office Managers meetings). All committees meet at least monthly.

- Management Information. Directors receive extensive management information including monthly management accounts packs, daily credit, market and liquidity risk and error reports.

- People. Due to the small size of the organisation, trends or abnormalities in the resource profile are immediately apparent. In addition, there is an employee appraisal process, which enables management to monitor performance against pre-set objectives. Sucden also operates a management development programme and all positions have documented job descriptions.

- Processes. All manual procedures are documented in risk based procedures.

- Change. Any new business type/product is submitted to Risk Committee for approval. Potential system changes and requirements are identified by the IS Steering Committee and/or the Strategy group.

- Business Continuity. Sucden has a detailed business continuity plan.

- Risk Mitigation. Sucden has insurance policies covering:

    - Material Damage, Business Interruption and Money
    - Public and Products Liability and Employers Liability
    - Computer
    - Terrorism
    - Personal Accident and Travel
    - Motor
    - Directors and Officers Liability
    - Pension Trustee

9 REMUNERATION DISCLOSURE

The total remuneration for 2019 is analysed below between fixed and variable remuneration.

Fixed Remuneration includes Salary, National Insurance and Pension.

	2019	2018
	£	£
Fixed Remuneration	**17,375,992**	**16,103,333**
Variable remuneration	**14,177,323**	**14,014,355**
Other staff costs	**967,295**	**932,141**
Total	**32,520,610**	**31,049,829**