

## Credo Capital Plc Pillar 3 Disclosure and Policy

### Introduction

#### Regulatory Context

The Pillar 3 disclosure of Credo Capital Plc (“the Firm”) is set out below as required by the FSA’s “Prudential Sourcebook for Banks, Building Societies and Investment Firms” (BIPRU) specifically [BIPRU 11.3.3 R](#). This follows the introduction of the Capital Requirements Directive (“CRD”) which represents the European Union’s application of the Basel Capital Accord. The regulatory aim of the disclosures is to improve market discipline.

#### Frequency

The Firm will be making Pillar 3 disclosures annually. The disclosures will be as at the Accounting Reference Date (“ARD”), which is 31 January.

#### Media and Location

The disclosure will be published on our website.

#### Verification

The information contained in this document has not been audited by the Firm’s external auditors and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Group.

#### Materiality

The Firm regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this Statement.

#### Confidentiality

The Firm regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm’s investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, we shall disclose that fact and explain the grounds why it has not been disclosed.

### Summary

The CRD requirements have three pillars. Pillar 1 deals with minimum capital requirements; Pillar 2 deals with Internal Capital Adequacy Assessment Process (“ICAAP”) undertaken by a firm and the Supervisory Review and Evaluation Process through which the firm and regulator satisfy themselves on the adequacy of capital held by the Firm in relation to the risks it faces and; Pillar 3 which deals with public disclosure of risk management policies, capital resources and capital requirements. The regulatory aim of the disclosure is to improve market discipline.

The Firm is an Investment Management Firm. It acts solely as agent. The Firm’s greatest risks have been identified as Operational risk, Credit Risk and Market Risk. The Firm is required to disclose its risk management objectives and policies for each separate category of risk which include the strategies and processes to manage those risks; the structure and organisation of the relevant risk management function or other appropriate arrangement; the scope and nature of risk reporting and measurement systems; and the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

The Firm has assessed its operational, credit and liquidity risks in its ICAAP and set out appropriate actions to manage them.

The Firm has an operational risk framework (described below) in place to mitigate operational risk. The Firm's main exposure to credit risk is the risk that management and stockbroking fees cannot be collected and therefore credit risk is low. The Firm holds all cash balances with banks assigned high credit ratings.

Market Risk exposure has been assessed by the Firm and is limited to the Firm's exposure to any cash amounts held by the Firm in a foreign currency. Most foreign currency is converted into GBP on a regular basis.

**Background to the Firm**

**Background**  
The Firm is incorporated in the UK and is authorised and regulated by the FSA as an Investment Management Firm. The Firm's activities give it the BIPRU categorisation of a "Limited Licence" and a "BIPRU €125K" firm.

The following entities are covered by the ICAAP:

- Credo Capital Plc
- Credo Corporate Finance Limited

The Firm is a Solo regulated entity and a member of a UK Consolidation Group with a Non-EEA parent.

**BIPRU 11.5.1 R**  
**Disclosure:** Risk Management Objectives and Policies

**Risk Management Objective**  
Our general risk management objective is to develop systems and controls to mitigate risk to a level that does not require the allocation of Pillar 2 capital.

**Governance Framework**  
The Credo Management Committee is the Governing Body of the Firm and has the daily management and oversight responsibility. It meets fortnightly and is composed of:

- Chief Executive Officer (RE)
- Finance Director and Chief Risk Officer (GJR)
- Chief Operating Officer (DC)
- Managing Director of the Firm (AN)
- Two additional directors of the Firm.

The Credo Risk Committee "Risk Committee" is responsible for the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, the Risk Committee decides the Firm's risk appetite or tolerance for risk and ensures that the Firm has implemented an effective, ongoing process to identify risks, to measure its potential impact and then to ensure that such risks are actively managed. Senior Management is accountable to the Risk Committee for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Firm.

**Risk Framework**  
Risk within the Firm is managed by use of the following:

- Risk Committee which is responsible for the day-to-day risk management activities of the Firm.
- The Firm has a conservative approach to risk;

- The Firm has identified its risks and recorded them in a Risk Policy document;
- The Risk Policy document is reviewed at an annual meeting of the management committee
- The Firm has undertaken scenario Analysis and Stress Tests on the most significant risks identified. This informs the Firm how risks are likely to behave and what, if any, impact there is likely to be to our balance sheet;
- The Firm has in place an internal control framework to govern its processes and procedures and to mitigate any risks;

Credo undertakes an assessment of all risks identified. It involves three stages.

1. Determining the probability and impact of a risk before considering the effect of any controls which is known as an 'inherent risk assessment'. It is important to ensure that a realistic scenario is generated; otherwise each inherent risk assessment will indicate a catastrophic impact, whereas realistically, for most risks, other mechanisms will restrict the impact.
2. Departments must assess the effectiveness of the controls in mitigating the risks identified. This is known as 'residual risk assessment'. This enables the department to understand the key risk exposures and where there are weaknesses in the areas of control. By reviewing the inherent and residual risk assessments, departments will be able to ascertain those risks which are not adequately controlled. In these instances, departments must prepare action plans. The action plans must:
  - Clearly articulate the risk that requires management;
  - Assign achievable timescales to mitigate the risk;
  - Clearly detail the proposed solution, including resources required (where appropriate);
  - Ensure that a risk owner is assigned with responsibility for managing the action plan.
 Action Plans will be reviewed by the Risk Committee for adequacy and monitored to ensure successful implementation. The Risk Committee must ensure that prioritisation for action planning is performed using the residual risk assessment.
3. The final stage is to determine the likelihood and impact of the risk given the effectiveness of the control.

### **Risk Monitoring**

It is essential that key controls and the overall risk environment are subject to constant, ongoing monitoring to assess unacceptable levels of risk. This can be achieved by:

- Identifying and monitoring appropriate triggers and thresholds;
- Identifying and monitoring external risks;
- Identifying and monitoring internal risks;
- Assessing non financial impacts;
- Having annual risk and control self assessments;
- Implementing action planning.

Each department within the Firm monitors its own risk using the self-assessment process. The Boards believe that the self-assessment process is a valuable tool for building a better risk management culture as it facilitates accountability and transparency from the bottom to the top of the Firm.

Each department's risk owner is required to make an annual attestation that all potential risks, including any new emerging risks, have been identified and are recorded. All controls must be reviewed for effectiveness and updated and action plans prepared, where appropriate.

### **Risk Management**

Credo controls its risks through the avoidance, transfer, prevention or reduction of the likelihood of the occurrence and/or the reduction of the potential impact of a risk exposure. This includes:

- Embedding a risk culture throughout the Firm;
- Ensuring robust internal processes, controls and systems are maintained;
- Utilising outsourcing arrangements, where appropriate;
- Accepting risks within the stated risk tolerance level;
- Providing for potential losses.

To ensure that appropriate controls are in place and being adhered to, the Risk Committee will review the controls on an annual basis. A list of the controls for the identified risks will be presented and then assessed. Where controls are not sufficient, the Risk Committee will work with the department to develop and deliver new or enhance existing controls in accordance with an action plan, to ensure the department is actively managing its own risks.

When the Risk Management process is undertaken, it must be supported or 'championed' at the highest levels of management.

#### **BIPRU 11.5.4 R**

**Disclosure:** Compliance with BIPRU 3, BIPRU 4, BIPRU 6, BIPRU 7, BIPRU 10 and the Overall Pillar 2 Rule

#### **BIPRU 3**

For its Pillar 1 regulatory capital calculation of Credit Risk, under the credit risk capital component the Firm has adopted the Standardised approach ([BIPRU 3.4](#)) and the Simplified method of calculating risk weights ([BIPRU 3.5](#)).

#### **Credit Risk calculation**

##### **Credit Risk Capital Requirement**

	<b>Rule</b>	<b>Capital Component</b>
Credit risk capital component	BIPRU 3.2	£153,000
Counterparty risk capital component	BIPRU 13 & 14	£0
Concentration risk capital component	BIPRU 10	£0
<b>Total</b>		<b>£153,000</b>

	<b>Rule</b>	<b>Exposure</b>	<b>Risk Weight</b>	<b>Risk weighted exposure amount</b>
Banks etc short-term	BIPRU 3.4.39	£2,387,000	20%	£477,400
Exposure to Corporates/Debtors	BIPRU 3.4.52	£932,000	100%	£932,000
Fixed assets	BIPRU 3.4.127	£507,000	100%	£507,000
<b>Total</b>		<b>£3,826,000</b>		<b>£1,916,400</b>
<b>Credit Risk Capital Component</b>	8% of risk weighted exposure			<b>£153,000</b>

#### **BIPRU 4**

The Firm does not adopt the Internal Ratings Based approach and hence this is not applicable.

#### **BIPRU 6**

The Firm, being a Limited Licence Firm is not subject to the Pillar 1 Operational Risk Requirement and, therefore, this is not applicable.

#### **BIPRU 7**

The Firm has Non-Trading Book potential exposure only ([BIPRU 7.5](#)).

**BIPRU 10**

The Firm closely monitors and assesses its Non-Trading Book limits in line with ([BIPRU 10.5.2 R](#) to [BIPRU 10.5.10 R](#)). No single exposure has exceeded 25% of the Firm’s capital resources. Also, the Firm monitors its position to ensure the sum of its exposures of more than 10% do not exceed 800% of its Regulatory Capital Resources.

**Overall Pillar 2 Rule**

The Firm has adopted the [“Pillar 1 plus”] or [“Structured”] approach to the calculation of its ICAAP Capital Resources Requirement as outlined in the Committee of European Banking Supervisors Paper, 25 January 2006.

The ICAAP assessment is reviewed by the Risk Committee and amended where necessary, on an annual basis or when a material change to the business occurs. The Risk Committee presents the ICAAP document to the Management Committee of the Firm which reviews and endorses the risk management objective annually or when a material change to the business occurs and the Board of the Firm will at the same time review and sign off the ICAAP document.

**BIPRU 11.5.8 R**

**Disclosure:** Credit Risk and Dilution Risk

The Firm is primarily exposed to Credit Risk from the risk of non-collection of stockbroking and management fees. It holds all cash balances with Banks assigned high credit ratings. Consequently risk of past due or impaired exposures is minimal. A financial asset is past due when a counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset or goodwill below its carrying amount.

**BIPRU 11.5.12 R**

**Disclosure:** Market Risk

The Firm has Non Trading Book potential exposure only ([BIPRU 7.5](#)).

**Market Risk calculation**

	Rule	Position	Risk Weight	
<b>PRR</b>				
Foreign currency positional risk requirement	BIPRU 7.5	£103,000	8%	£8,240
<b>Total</b>		<b>£103,000</b>		<b>£8,240</b>

**BIPRU 11.5.2 R**

**Disclosure:** Scope of application of directive requirements

The Firm is subject to the disclosures under the [Banking Consolidation Directive](#). It is a member of a UK Consolidation Group and consequently, does report on a consolidated basis for accounting and prudential purposes.

**BIPRU 11.5.3 R**

**Disclosure:** Capital Resources

The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under ([GENPRU 2 Annex 4](#)). Tier I Capital comprises of /Shares/Share Premium Accounts/Subordinated Debt and Audited Reserves/Losses.

Tier I Capital	£1,969,000
Deductions	£0

Tier 2 Capital	£125,000
Deductions	£0
Capital Resources	£2,094,000
Tier 3 Capital	£0
Deductions	£0
<b>Total Capital</b>	<b><u>£2,094,000</u></b>

**BIPRU 11.5.5 R**

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by [BIPRU 11.5.4R \(3\)](#).

**BIPRU 11.5.6 R**

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by [BIPRU 11.5.4R \(3\)](#).

**BIPRU 11.5.7 R**

This disclosure is not required as the Firm does not have a Trading Book.

**BIPRU 11.5.9 R**

This disclosure is not required as the Firm does not make Value Adjustments and Provisions for Impaired exposures that need to be disclosed under [BIPRU 11.5.8R \(9\)](#).

**BIPRU 11.5.10 R**

**Disclosure:** Firms calculating Risk Weighted Exposure Amounts in accordance with the Standardised Approach

This disclosure is not required as the Firm uses the Simplified method of calculating Risk Weights ([BIPRU 3.5](#)).

**BIPRU 11.5.11 R**

**Disclosure:** Firms calculating Risk Weighted Exposure amounts using the IRB Approach

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit and therefore is not affected by [BIPRU 11.5.4R \(3\)](#).

**BIPRU 11.5.13 R**

**Disclosure:** Use of VaR model for calculation of Market Risk Capital Requirement

This disclosure is not required as the Firm does not use a VaR model for calculation of Market Risk Capital Requirement.

**BIPRU 11.5.14 R**

**Disclosure:** Operational Risk

The Firm's Fixed Overhead Requirement (FOR) is disclosed as a proxy for the Pillar I Operational Risk Capital calculation. The Firm's Pillar I Capital Resources Requirement is the FOR which is the higher of FOR or the sum of Market Risk and Credit Risk Requirement.

Fixed Overhead Requirement

GENPRU 2.1.53

£927,000

**BIPRU 11.5.15** **R****Disclosure:** Non-Trading Book Exposures in Equities

This disclosure is not required as the Firm does not have a Non-Trading Book Exposure to Equities.

**BIPRU 11.5.16** **R****Disclosures:** Exposures to Interest Rate Risk in the Non-Trading Book

Although the Firm has substantial cash balances on its Balance Sheet, there is currently no significant exposure to Interest Rate fluctuations.

**BIPRU 11.5.17** **R** **Disclosures:** Securitisation

This disclosure is not required as the Firm does not Securitise its assets.